

BARBADOS PUBLIC WORKERS' CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Non-consolidated Financial Statements

For the year ended March 31, 2019

(Expressed in Barbados dollars)

24. Financial Risk Management, continued

Credit risk, continued

Financial investments, continued

Assessment of Sovereign debt securities, continued

As a consequence, a derecognition assessment was carried out as at October 1 2018 on the principal and capitalized interest of the underlying investments. The Central Bank of Barbados yield curve for these securities was compared with that of the Institute of Chartered Accountants of Barbados (ICAB) to arrive at the risk free rate used in the performance of this calculation. The Net Present Value (NPV) was calculated on each strip and was deducted from the carrying value to arrive at the loss on derecognition.

An ECL assessment was performed at March 31 2019 as required by IFRS 9. This assessment on the Credit Union's debt securities measured at amortized utilized the following methodology as outlined below:

- Due to the lack of published statistical data and the lack of an active market for securities, Moody's Investor's Report dated April 8 2019 on Sovereign default and recovery rates, 1983 to 2018 were used to provide the cumulative default rates (CDR) for categories of bonds similar to Barbados'. This gave the cumulative probability of defaults over a 10 year period.
- A recovery rate of 55% for the treasury notes issued by the Government of Barbados and Barbados Agricultural Management Co. Ltd. was utilized. This represents the recovery rate for the defaulted foreign currency bonds. Therefore 45% was the loss given default (LGD).
- A recovery rate of 80% for the Barbados Port Inc. bonds was used since these securities were not part of the debt exchange and had a higher likelihood of repayment due to the corporate independence, financial stability and profitability of the Barbados Port Inc. The loss given default (LGD) was therefore 20%.
- The discount rate applied was the yield curve supplied by the Institute of Chartered Accountants of Barbados (ICAB).