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INDEPENDENT AUDITORS' REPORT

To the Registrar of Co-operative Societies
B.J. Staff Co-operative Credit Union Limited
(A Society registered under the Co-operative Societies Act)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of B.J. Staff Co-operative Credit Union Limited ("the Co-operative"), set out on pages 4 to 56, which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Co-operative as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Co-operative Societies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Co-operative in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Registrar of Co-operative Societies
B.J. Staff Co-operative Credit Union Limited
(A Society registered under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (cont'd)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Co-operative Societies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Co-operative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Co-operative's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.

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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Registrar of Co-operative and Friendly Societies
B.J. Staff Co-operative Credit Union Limited
(A Society registered under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on additional matters as required by the Co-operatives Societies Act

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, are correct, duly vouched and in accordance with the provisions of the Co-operative Societies Act.

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Chartered Accountants
Kingston, Jamaica

March 29, 2019

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Statement of Financial Position
December 31, 2018

	Notes	2018 $	2017 $
ASSETS			
Earning assets:			
Loans to members	6	428,738,239	348,390,377
Less allowance for loan loss	7	(3,898,257)	(1,842,637)
	6	424,839,982	346,547,740
Liquid assets	8(a)	25,227,974	68,607,002
Financial investments	9	101,955,197	51,754,174
Total earning assets		552,023,153	466,908,916
Non-earning assets:			
Liquid assets	8(b)	72,490,761	20,151,589
Other assets	10	2,476,505	3,060,900
Property, plant and equipment	11	816,425	792,684
Intangible assets	12	2,521,692	-
Employee benefits asset	13(a)	6,536,000	8,448,000
Total non-earning assets		84,841,383	32,453,173
TOTAL ASSETS		636,864,536	499,362,089
LIABILITIES			
Interest-bearing:			
Members' share deposits	14	242,847,745	219,842,846
Savings deposits	15	275,269,662	171,101,752
Total interest-bearing liabilities		518,117,407	390,944,598
Non-interest-bearing:			
Accounts payable and accrued charges	16	11,480,164	5,366,150
TOTAL LIABILITIES		529,597,571	396,310,748
EQUITY			
Non-institutional capital		9,034,709	9,957,783
Institutional capital	17(a)	77,991,525	71,038,827
Milestone reserve	17(b)	1,743,850	1,743,850
Permanent shares	18(a)	2,814,000	2,722,000
Redemption reserve fund	18(b)	246,000	240,000
Loan loss reserve	19	8,900,881	8,900,881
Employee benefits reserve	20	6,536,000	8,448,000
TOTAL EQUITY		107,266,965	103,051,341
TOTAL LIABILITIES AND EQUITY		636,864,536	499,362,089

The financial statements on pages 4 to 56 were approved for issue by the Board of Directors on March 29, 2019 and signed on its behalf by:

Lascelle Powell, Director

Dennis Hutchinson, Director

The accompanying notes form an integral part of the financial statements.

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2018

	Notes	2018 $	2017 $
Interest income, calculated using the effective interest method:			
Loans to members		58,051,406	50,643,334
Investments and deposits		3,416,791	5,558,922
		61,468,197	56,202,256
Interest expense:			
Savings deposits		(9,978,903)	(9,791,687)
Members' share deposits		(1,882,922)	(2,581,925)
		(11,861,825)	(12,373,612)
Net interest income		49,606,372	43,828,644
Impairment losses on loans, net	7	(989,431)	431,868
Net interest income after allowance for loan loss		48,616,941	44,260,512
Non-interest income:			
Grant income		763,557	-
Dividends		376,959	524,654
Other		972,660	538,106
Surplus before operating expenses		50,730,117	45,323,272
Less: Operating expenses	21	(42,503,464)	(34,248,809)
Surplus		8,226,653	11,074,463
Less: Honoraria	22	(600,000)	(605,000)
Donations		(213,140)	(145,500)
Surplus for the year		7,413,513	10,323,963
Other comprehensive loss:			
Item that may not be reclassified to surplus or deficit:			
Remeasurement loss on employee benefits asset, being total other comprehensive loss	13(e)	(2,234,000)	(133,000)
Total comprehensive income for the year		5,179,513	10,190,963

The accompanying notes form an integral part of the financial statements.

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Statement of Changes in Equity
Year ended December 31, 2018

	Non-institutional capital	Institutional capital Note 17(a)	Milestone reserve Note 17(b)	Permanent shares Note 18(a)	Redemption reserve fund Note 18(b)	Loan loss reserve Note 19	Employee benefits reserve Note 20	Total
	$	$	$	$	$	$	$	$
Balances at December 31, 2016	7,964,612	63,168,835	1,743,850	2,608,000	252,000	8,900,881	8,115,000	92,753,178
Total comprehensive income for the year								
Surplus for the year	10,323,963	-	-	-	-	-	-	10,323,963
Other comprehensive income:								
Remeasurement of employee benefits asset	(133,000)	-	-	-	-	-	-	(133,000)
Total comprehensive income	10,190,963	-	-	-	-	-	-	10,190,963
Transactions with members recorded directly in equity								
Contributions by and distributions to members								
Entrance fees	-	5,200	-	-	-	-	-	5,200
Permanent share subscription	-	-	-	114,000	-	-	-	114,000
Movements in reserves								
Transfer to employee benefits reserve	(333,000)	-	-	-	-	-	333,000	-
Transfer to statutory and legal reserve	(5,564,792)	5,564,792	-	-	-	-	-	-
Redemption of shares	-	-	-	-	(12,000)	-	-	(12,000)
Transfer to education reserve	(500,000)	500,000	-	-	-	-	-	-
Transfer to general reserve	(1,800,000)	1,800,000	-	-	-	-	-	-
	(8,197,792)	7,869,992	-	114,000	(12,000)	-	333,000	107,200
Balances at December 31, 2017	9,957,783	71,038,827	1,743,850	2,722,000	240,000	8,900,881	8,448,000	103,051,341

The accompanying notes form an integral part of the financial statements.

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Statement of Changes in Equity (Continued)
Year ended December 31, 2018

	Non-institutional capital	Institutional capital Note 17(a)	Milestone reserve Note 17(b)	Permanent shares Note 18(a)	Redemption reserve fund Note 18(b)	Loan loss reserve Note 19	Employee benefits reserve Note 20	Total
	$	$	$	$	$	$	$	$
Balances at December 31, 2017	9,957,783	71,038,827	1,743,850	2,722,000	240,000	8,900,881	8,448,000	103,051,341
Adjustment on initial application of IFRS 9 (note 3)	(1,066,189)	-	-	-	-	-	-	(1,066,189)
Restated balances at January 1, 2018	8,891,594	71,038,827	1,743,850	2,722,000	240,000	8,900,881	8,448,000	101,985,152
Total comprehensive income for the year								
Surplus for the year	7,413,513	-	-	-	-	-	-	7,413,513
Other comprehensive income:								
Remeasurement of employee benefits asset	-	-	-	-	-	-	(2,234,000)	(2,234,000)
Total comprehensive income	7,413,513	-	-	-	-	-	(2,234,000)	5,179,513
Transactions with members recorded directly in equity								
Contributions by and distributions to members								
Entrance fees	-	4,300	-	-	-	-	-	4,300
Permanent share subscription	-	-	-	92,000	-	-	-	92,000
Movements in reserves								
Transfer to employee benefits reserve	(322,000)	-	-	-	-	-	322,000	-
Transfer to statutory and legal reserve	(5,448,398)	5,448,398	-	-	-	-	-	-
Transfer to education reserve	(500,000)	500,000	-	-	-	-	-	-
Transfer to general reserve	(1,000,000)	1,000,000	-	-	-	-	-	-
Addition of shares	-	-	-	-	6,000	-	-	6,000
	(7,270,398)	6,952,698	-	92,000	6,000	-	322,000	102,300
Balances at December 31, 2018	9,034,709	77,991,525	1,743,850	2,814,000	246,000	8,900,881	6,536,000	107,266,965

The accompanying notes form an integral part of the financial statements.

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Statement of Cash Flows
Year ended December 31, 2018

	Notes	2018 $	2017 $
Surplus for year		7,413,513	10,323,963
Adjustments to reconcile surplus for the year to net cash used by operating activities			
Interest income		(61,468,197)	(56,202,256)
Interest expense		11,861,825	12,373,612
Depreciation	11	282,704	178,598
Employee benefits asset		(322,000)	(466,000)
Impairment losses on loans, net	7	989,431	(431,868)
		(41,242,724)	(34,223,951)
Other assets		418,682	(357,112)
Accounts payable and accrued charges		6,214,884	(813,744)
Net cash used by operating activities		(34,609,158)	(35,394,807)
Interest received		61,633,910	56,519,454
Interest paid		(11,962,695)	(12,375,035)
Net cash provided by operating activities		15,062,057	8,749,612
Cash flows from investing activities			
Loans granted, net of repayments		(80,347,862)	(51,955,763)
Financial investments		(50,201,023)	(6,563,195)
Purchase of property, plant and equipment	11	(306,445)	(621,338)
Additions of intangible assets		(2,521,692)	-
Net cash used by investing activities		(133,377,022)	(59,140,296)
Cash flows from financing activities			
Permanent shares (net)	18(a)	92,000	114,000
Issue/(redemption) of shares		6,000	(12,000)
Members' share deposits		23,004,899	14,155,355
Savings deposits		104,167,910	25,827,616
Entrance fees		4,300	5,200
Net cash provided by financing activities		127,275,109	40,090,171
Increase/(decrease) in liquid assets		8,960,144	(10,300,513)
Liquid assets at start of year		88,758,591	99,059,104
Liquid assets at end of year		97,718,735	88,758,591
Comprising:			
Liquid assets - interest bearing		25,227,974	68,607,002
- non-interest bearing		72,490,761	20,151,589
		97,718,735	88,758,591

The accompanying notes form an integral part of the financial statement.

1. Identification

B.J. Staff Co-operative Credit Union Limited (the Co-operative) is registered under the Co-operative Societies Act and is domiciled in Jamaica. The registered office and principal place of business is located at Nethersole Place, Kingston.

The main activities of the Co-operative comprise receiving money from its members for the purchase of shares or as deposits, and providing loans to its members.

The Co-operative is exempt from Income Tax under Section 59(1) of the Co-operative Societies Act and Section 12 of the Income Tax Act.

The Co-operative is a member of and is supervised by the Jamaica Co-operative Credit Union League (JCCUL).

2. Basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

New and amended standards that became effective during the year

This is the first set of the Co-operative's annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 3.

New and amended standards that have been issued but not yet effective

Certain new and amended standards which have been issued are not yet effective at the reporting date and the Co-operative has not early-adopted them. The Co-operative has assessed the relevance of all such new and amended standards with respect to its operations and has determined that the following may be relevant:

- Amendments to IFRS 9, *Financial Instruments,* effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

  (i) Prepayment features with negative compensation

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

  (ii) Modifications to financial liabilities

  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2. Basis of preparation (continued)

(a) Statement of compliance (continued):

New and amended standards that have been issued but not yet effective (continued)

- Amendment to IAS 19, *Employee Benefits* is effective for annual periods beginning on or after January 1, 2019, and specifies how an entity should determine pension expenses when there are changes to a defined benefit pension plan.

  The amendment requires an entity to use updated actuarial assumptions to determine its current service cost and net interest for the remaining period when there is an amendment, curtailment or settlement of a defined benefit plan. The effect of the net asset ceiling is disregarded when calculating the gain or loss on the settlement of the defined benefit plan and is dealt with separately in other comprehensive income.

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

  The main change relates to how and when assets and liabilities are recognised and derecognised in the financial statements.

  - New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
  - A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
  - A new control-based approach to derecognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

- Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Co-operative is assessing the impact that these new and amended standards will have on its financial statements when they are adopted.

2. Basis of preparation (continued)

(b) Basis of measurement:

The financial statements are prepared on the historical cost basis, as modified for the inclusion of employee benefits asset which is recognised at the fair value of plan assets, less the present value of the defined-benefit obligation.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars, which is the functional currency of the Co-operative.

(d) Critical accounting estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the revenue and expenses for the year then ended. Actual amounts could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next financial year are discussed below:

(1) Key assumptions concerning the future and other sources of estimation uncertainty:

(i) Pension benefits:

Applicable for 2017 and 2018

The amounts recognised in the statements of financial position and profit or loss and other comprehensive income for pension benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets and the discount rate used to determine the present value of estimated future cash flows required to settle the pension.

The expected return on plan assets is assumed considering the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Co-operative's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market.

Any changes in these assumptions may impact the amounts recorded in the financial statements for those obligations.

2. Basis of preparation (continued)

(d) Critical accounting estimates and judgements (continued):

(1) Key assumptions concerning the future and other sources of estimation uncertainty (continued):

(ii) Impairment losses on loans to members:

Applicable from January 1, 2018

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimates the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainty inherent in such estimates.

Applicable before January 1, 2018

In determining amounts recorded for impairment of loan losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant loans and loans portfolio with similar characteristics, such as credit risks.

(2) Judgements:

Applicable to 2018 only

(i) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding requires management to make certain judgements about its business operations.

(ii) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

3. Changes in accounting policies

The Co-operative has initially adopted IFRS 9, *Financial Instruments* and IFRS 15 from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Co-operative's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not been restated to reflect the requirements of the standard. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening accumulated surplus and accumulated other comprehensive income on January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The adoption of IFRS 15 did not impact the timing or amount of fee income from contracts with customers and the related assets and liabilities recognised by the Co-operative. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets and;
- additional disclosures related to IFRS 9 [see notes 4 and 5].

Except for the changes below, the Co-operative has consistently applied the accounting policies as set out in note 4 to all periods presented in these financial statements.

IFRS 9, *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Co-operative has adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which require separate presentation in the statement of surplus or deficit and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Co-operative has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures,* which are applied to disclosures about 2018, but have not been applied to the comparative information.

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Notes to the Financial Statements (Continued)
December 31, 2018

3. Changes in accounting policies (continued)

IFRS 9, *Financial Instruments* (continued)

The key changes to the Co-operative's accounting policies and the full impact resulting from its adoption of IFRS 9 are summarised below.

The impact of transition to IFRS 9 on the opening accumulated surplus is as follows:

	$
Closing balance under IAS 39 (December 31, 2017)	9,957,783
Recognition of expected credit losses under IFRS 9:	
Loans to members	(1,066,189)
Opening balance under IFRS 9 (January 1, 2018)	8,891,594

(i) Classification and measurement of financial assets and financial liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The new classification requirements have not had a material impact on its accounting for its debt and equity securities.

The adoption of IFRS 9 has not had a significant impact on the Co-operative's accounting policies related to financial liabilities as the standard largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation on how the Co-operative classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 4(i).

B.J. STAFF CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act)

Notes to the Financial Statements (Continued)
December 31, 2018

3. Changes in accounting policies (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued):

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Co-operative's financial assets as at January 1, 2018.

	Notes	**Original classification under IAS 39**	**New classification under IFRS 9**	**IAS 39 carrying amount at December 31, 2017**	**Re-measurement**	**IFRS 9 carrying amount at January 1, 2018**
				$	**$**	**$**
Financial assets						
Loans to members		Loans and receivables	Amortised cost	346,547,740	(1,066,819)	345,480,921
					-	
Liquid assets-earning		Loans and receivables	Amortised cost	68,607,002	-	68,607,002
Liquid assets-non-earning		Loans and receivables	Amortised cost	20,151,589	-	20,151,589
Financial investments:						
Jamaica Co-operative Credit Union League (JCCUL) shares and permanent capital		Available-for-sale	FVOCI	2,499,297	-	2,499,297
Ouality Network Co-operative Limited (QNET) shares	3(i)(a)	Available-for-sale	FVOCI	70,161	-	70,161
Jamaica Co-operative Insurance Agency Limited shares	3(i)(a)	Available-for-sale	FVOCI	500,000	-	500,000
Credit Union Fund Management Limited (CUFMC) shares	3(i)(a)	Available-for-sale	FVOCI	10,500,000	-	10,500,000
Government of Jamaica:					-	
Benchmark Investment Notes		Loans and receivables	Amortised cost	7,070,000	-	7,070,000
JCCUL Credit Union Premium		Loans and receivables	Amortised cost	31,114,716	-	31,114,716
				487,060,505	(1,066,819)	485,993,686

(a) Investment securities including securities acquired which are not quoted in an active market, were categorised under IAS 39 as available-for-sale. As permitted by IFRS 9, the Co-operative has designated these investments at the date of initial application as measured at fair value through other comprehensive income (FVOCI).

3. Changes in accounting policies (continued)

(ii) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Co-operative applies the impairment requirements of IFRS 9, see note 4 (i)(vi).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Co-operative has determined that the application of IFRS 9's impairment requirements at January 1, 2018 results in an additional allowance for impairment as follows:

	$
Loss allowance at December 31, 2017 under IAS 39	1,842,637
Additional impairment recognised at January 1, 2018 on:	
Loans	1,066,189
Loss allowance at January 1, 2018 under IFRS 9	2,908,826

(iii) Transition:

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Co-operative has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as asset changes. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in accumulated surplus and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

4. Significant accounting policies

(a) Property, plant and equipment and computer software:

(i) Measurement:

Property, plant and equipment are measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part flow to the Co-operative and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss.

4. Significant accounting policies (continued)

(a) Property, plant and equipment and computer software (continued):

(iii) Depreciation:

Depreciation is provided on the straight-line basis at rates estimated to write-down the relevant assets to their residual values over their expected useful lives. The rates used are as follows:

Computer equipment	33⅓% per annum
Furniture and fixtures	10% per annum
Equipment	10% per annum

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iv) Computer software is deemed to have a finite useful life of 10 years and is measured at cost, less accumulated amortisation and impairment losses if any.

(b) Accounts payable and accrued charges:

Accounts payable and accrued charges are measured at amortised cost.

(c) Impairment of non-financial assets:

The carrying amounts of the Co-operative's assets, other than loans to members are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in surplus or deficit.

(i) Calculation of recoverable amount:

The recoverable amount of such other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

In respect of those other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. Significant accounting policies (continued)

(d) Members' shares:

(i) Permanent shares:

Permanent shares are classified as equity and are available for withdrawal when membership is being terminated. Dividend on permanent shares is treated as an appropriation of surplus and payable when declared.

(ii) Voluntary shares:

Members' voluntary shares represent deposit holdings of the Co-operative's members, to satisfy membership requirements and to facilitate eligibility for loans and other benefits. These shares are classified as financial liabilities. Dividends payable on these shares are determined at the discretion of the Co-operative and reported as interest in surplus or deficit in the period in which they are approved.

(e) Revenue recognition:

(i) Interest income:

Policy applicable from January 1, 2018

Effective interest rate

Interest income is recognised in surplus or deficit using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to its gross carrying amount.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Co-operative estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

4. Significant accounting policies (continued)

(e) Revenue recognition (continued):

(i) Interest income (continued):

Policy applicable from January 1, 2018 (continued)

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost, and interest on debt instruments measured at FVOCI.

4. Significant accounting policies (continued)

(e) Revenue recognition (continued):

(i) Interest income (continued):

Policy applicable before January 1, 2018

Interest income is recognised in surplus or deficit for all interest-bearing instruments on the accrual basis, using the effective interest method. Interest income includes coupons earned on fixed income investments.

Where collection of interest income is considered doubtful, the related financial instruments are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount..

(ii) Grant income:

This amount represents a grant to the Co-operative from JCCUL for expenses for professional fees for the implementation of IFRS 9 ECL Model. The amount is recognised as income when the funds are utilised.

(iii) Dividends:

Dividend income from equity financial investments is recognised when the Co-operative's right to receive payment has been established.

(f) Interest expenses:

Policy applicable from January 1, 2018

Interest expense is recognised in surplus or deficit using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the amortised cost of the financial liability.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial liability.

The 'amortised cost' of a financial liability is the amount at which the financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The effective interest rate of a financial liability is calculated on initial recognition of the financial liability. In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

4. Significant accounting policies (continued)

(f) Interest expenses (continued):

Policy applicable before January 1, 2018

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to its carrying amount. The effective interest rate is established on initial recognition of the financial liability and not revised subsequently.

(g) Employee benefits:

The employees of the Co-operative participate in a defined-benefit, multi-employer pension plan operated by JCCUL.

In respect of defined-benefit arrangements, employee benefits comprising pension assets and obligations included in the financial statements are determined by a qualified independent actuary, appointed by JCCUL. The actuarial valuations are conducted in accordance with IAS 19, using the projected unit credit method. When the calculation results in a potential asset for the Co-operative, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The Co-operative's net obligation in respect of the defined-benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted.

Remeasurements of the net defined benefit asset, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. The Co-operative determines the net interest expense (income) on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit asset at the beginning of the annual period to the then-net defined benefit asset, taking into account any changes in the net defined benefit asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses on post-retirement obligation is recognised in surplus or deficit.

When the benefits of a plan are changed, or when the plan is curtailed, the resulting change in benefit that relating to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Co-operative recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The plan was curtailed effective December 31, 2016. Effective December 31, 2016, the defined-benefit plan was closed to new members. New members to the plan participate in a defined-contribution multi-employer pension plan operated by JCCUL.

4. Significant accounting policies (continued)

(h) League fees and stabilisation dues:

JCCUL has determined the rate for calculating league fees at 0.25% (2017: 0.25%) of total assets. Stabilisation dues are computed at a rate of 0.15% (2017: 0.15%), of savings fund.

(i) Financial instruments- classification, recognition and derecognition, measurement and impairment:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include loans to members, liquid assets, financial investments and other assets. Financial liabilities include members' share deposits, savings deposits, and accounts payable and accrued charges.

(i) Recognition and initial measurement:

The Co-operative initially recognises assets on the trade date at which the Co-operative becomes a party to the contractual provisions of the instrument.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

The Co-operative recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Co-operative initially recognises loans and deposits on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date, which is the date on which the Co-operative becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL; transaction costs that are directly attributable to its acquisition or issue. A receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement:

Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt and equity investments; or fair value through profit or loss (FVTPL).

4. Significant accounting policies (continued)

(i) Financial instruments - classification, recognition and derecognition, measurement and impairment (continued):

(ii) Classification and subsequent measurement:

Policy applicable from January 1, 2018

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Co-operative may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Co-operative may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessments:

The Co-operative makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Assessment of whether contractual cash flows are solely payments of principal and interest.

4. Significant accounting policies (continued)

(i) Financial instruments - classification, recognition and derecognition, measurement and impairment (continued):

(ii) Classification and subsequent measurement (continued):

Business model assessments (continued):

Policy applicable from January 1, 2018 (continued)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Co-operative's objective is achieved by both collecting contractual cash flows and selling financial assets.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Co-operative considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Co-operative changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

Financial liabilities:

The Co-operative classifies financial liabilities as measured at amortised cost.

4. Significant accounting policies (continued)

(i) Financial instruments - classification, recognition and derecognition, measurement and impairment (continued):

(ii) Classification and subsequent measurement (continued):

Policy applicable before January 1, 2018

Loans and receivables: Non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, were classified as loans and receivables. They arose principally through the provision of services to customers (e.g. loan), but also incorporated other types of contractual monetary assets. The Co-operative's financial instruments included in this classification were resale agreements, loans, other assets and cash and bank balances.

Available-for-sale: Financial assets that were intended to be held for an undetermined period of time, which could be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that were not classified as loans and receivables. They were included in financial financial investments in the statement of financial position.

Financial liabilities: Items classified as financial liabilities were members' deposits, members' voluntary shares, external credits and other liabilities.

(iii) Derecognition:

Financial assets

The Co-operative derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or if it neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control over the transferred financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From January 1, 2018 any cumulative gain or losses recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Co-operative is recognised as a separate asset or liability.

Financial liabilities

The Co-operative derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

4. Significant accounting policies (continued)

(i) Financial instruments - classification, recognition and derecognition, measurement and impairment (continued):

(iii) Measurement and gains and losses:

Policy applicable from January 1, 2018

Financial assets at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Policy applicable before January 1, 2018

Loans and receivables: On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less provision for impairment. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Available-for-sale: On initial recognition, they are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in surplus or deficit, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.

4. Significant accounting policies (continued)

(i) Financial instruments - Classification, recognition and derecognition, measurement and impairment (continued):

(iii) Measurement and gains and losses (continued):

Policy applicable before January 1, 2018 (continued)

Available-for-sale (continued)

- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified from fair value reserve to surplus or deficit.

(iv) Offsetting:

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Co-operative has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Policy applicable from January 1, 2018

The Co-operative recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Co-operative measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Co-operative considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Co-operative does not apply the low credit risk exemption to any other financial instruments.

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

4. Significant accounting policies (continued)

(i) Financial instruments - Classification, recognition and derecognition, measurement and impairment (continued):

(vi) Identification and measurement of impairment (continued):

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Co-operative expects to receive); and

ECLs are a probability-weighted estimate of credit losses. They are measured as follows (continued):

- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Co-operative assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

4. Significant accounting policies (continued)

(i) Financial instruments - Classification, recognition and derecognition, measurement and impairment (continued):

(vi) Identification and measurement of impairment (continued):

Policy applicable from January 1, 2018 (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Co-operative on terms that the Co-operative would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Co-operative considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets.

4. Significant accounting policies (continued)

(i) Financial instruments-Classification, recognition and derecognition, measurement and impairment (continued):

(vi) Identification and measurement of impairment (continued):

Policy applicable from January 1, 2018 (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off:

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Co-operative determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Co-operative's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

An allowance for loan loss is established if there is objective evidence that the Co-operative will not be able to collect all amounts due according to the original contractual terms. An allowance for loan loss is also made where there is objective evidence that a portfolio of similar loans is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount.

Impairment losses are recognised in surplus or deficit. Any cumulative loss in respect of an available-for-sale investment recognised previously in other comprehensive income is transferred to surplus or deficit.

(i) Calculation of recoverable amount:

The recoverable amount of the Co-operative's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount in respect of an available-for-sale investment is its current fair value. Receivables with a short duration are not discounted.

4. Significant accounting policies (continued)

(i) Financial instruments-Classification, recognition and derecognition, measurement and impairment (continued):

(vi) Identification and measurement of impairment (continued):

Policy applicable before January 1, 2018 (continued)

(ii) Reversals of impairment:

In respect of loans and receivables, and receivables, the impairment loss is reversed, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reversals are recognised in surplus or deficit, except for available-for-sale equity financial asset, that are recognised in other comprehensive income.

Policy applicable to 2018 and 2017

The guidelines stipulated by the Jamaica Co-operative Credit Union League ("JCCUL"), according to the PEARLS standard, require the allowance for loan losses be stipulated percentages of total delinquent loans, the percentages varying with the period of delinquency, without considering securities held against such loans.

The allowance for loan losses required by PERLS, that is in excess of the requirements of IFRS is treated as an appropriation of accumulated surplus and included in a non-distributable loan loss reserve (note 19).

5. Financial risk management

(a) Introduction and overview:

The Co-operative has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Co-operative's risk management framework. The Co-operative's risk management policies are established to identify and analyse the risks faced by the Co-operative, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Board through its various committees is responsible for monitoring compliance with the Co-operative's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Co-operative.

5. Financial risk management (continued)

(b) Credit risk:

Credit risk is the risk of financial loss to the Co-operative if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Co-operative's loans to members, deposits with other institutions and investment securities.

Credit review process:

The management of credit risk in respect of loans to members is delegated to the Credit Committee. The Committee is responsible for oversight of the Co-operative's credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

(i) Loans to members:

Management risk:

The Co-operative assesses the probability of default of individual borrowers using internal ratings. The Co-operative assesses each borrower on four critical factors. These factors are the member's credit history, ability to pay linked to the industry benchmarked debt service ratio of 75%, character profile and the member's economic stability, based on employment and place of abode.

Borrowers are segmented into two rating classes: performing and non-performing.

The credit quality review process allows the Co-operative to assess the potential loss as a result of the risk to which it is exposed and take corrective action. Exposure to credit risk is managed, in part, by obtaining collateral and personal guarantees.

Credit quality:

The following table sets out information about the credit quality of loans.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	$	$	$	$	$
Performing	415,273,931	-	-	415,273,931	339,197,638
Non-performing	-	5,539,905	7,924,403	13,464,308	9,192,739
	415,273,931	5,539,905	7,924,403	428,738,239	348,390,377
Loss allowance	(892,071)	(31,786)	(2,974,400)	(3,898,257)	(1,842,637)
Carrying amount	414,381,860	5,508,119	4,950,003	424,839,982	346,547,740

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(ii) Financial investments*:*

Management of risk:

The Co-operative limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality.

The Co-operative has documented policies which facilitate the management of credit risk on investment securities and reverse repurchase agreements. The Co-operative's exposure and credit ratings of its counterparties are continually monitored.

The Co-operative limits its exposure to credit risk by investing only in liquid assets and only with counterparties that have a high credit quality and Government of Jamaica securities. Therefore, management does not expect any counterparty to fail to meet its obligations.

Credit quality:

The Co-operative identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Co-operative supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

(iii) Liquid assets:

Liquid assets are held in financial institutions which management regards as strong and there is no significant concentration. The strength of these financial institutions is constantly reviewed by the Finance Committee.

Impairment has been measured at 12- month expected loss basis and reflects the short maturities of the exposures. The Co-operative considers that liquid assets have low credit risk. No impairment allowances were recognised on initial adoption of IFRS 9 for liquid assets as the amounts were not considered material for adjustment. There was no change during the period.

(iv) Credit limits:

The Co-operative manages concentrations of credit risk by placing limits on the amount of risk accepted in relation to a single borrower or groups of related borrowers, and to product segments. Borrowing limits are established by the use of the system described above. Limits on the level of credit risk by product categories, and for investment categories, are reviewed and approved bi-annually by the Board of Directors.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued)

(v) Collateral held and other credit enhancements:

The most widely used practice for mitigating credit risk is the taking of security in the form of physical assets, netting agreements and guarantees. The amount and type of collateral required depend on an assessment of the credit risk of the borrower and guidelines are implemented regarding the acceptability of different types of collateral. The principal collateral types provided for loans and advances are charges over members' balances, real property and motor vehicles.

Estimates of fair values are based on value of collateral assessed at the time of borrowing and are generally not updated except when a loan (or other financial asset) is individually assessed as impaired. Collateral is not generally held against deposits and investment securities, except when the securities are held as part of resale agreements.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The table below shows the collateral and other security enhancements held against loans to borrowers.

Collateral held for loans

	2018 $	2017 $
Against past due but not impaired financial assets		
Properties	21,040,180	22,166,482
Shares and deposits	6,369,829	12,201,219
Liens on motor vehicle	16,857,875	11,663,562
Subtotal	44,267,884	46,031,263
Impaired financial assets		
Properties	4,594,092	3,681,855
Shares and deposits	4,228,879	1,368,077
Liens on motor vehicle	3,636,000	6,352,877
Subtotal	12,458,971	11,402,809
Total	56,726,855	57,434,072

5. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment:

Applicable from January 1, 2018

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 4(i)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Co-operative considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Co-operative's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Co-operative uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- the 30 days past due backstop indicator.

Credit risk grades

The Co-operative allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The Co-operative uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(vi) Impairment (continued):

Applicable from January 1, 2018 (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Credit risk grades (continued)

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has been increased significantly

The Co-operative assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security decreased from grade 1 to grade 3 and the risk grade of loans has moved from grade 1 (standards) to grade 3 (sub-standard).

As a backstop, the Co-operative considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(vi) Impairment (continued):

Applicable from January 1, 2018 (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has been increased significantly (continued)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Co-operative determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Co-operative monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Co-operative considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Co-operative in full, without recourse by the Co-operative to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Co-operative; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(vi) Impairment (continued):

Applicable from January 1, 2018 (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

In assessing whether a borrower is in default, the Co-operative considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Co-operative; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Co-operative incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Co-operative uses a forward looking scorecard model to estimate the potential impact of future economic conditions. It formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, assigned a 20% and 30% probability of occurring respectively. Each scenario considers the expected impact of inflation, interest rates, unemployment rates and gross domestic product (GDP). The base case is aligned with information used by the Co-operative for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Jamaica, supranational organisations and selected private-sector and academic forecasters.

The economic scenarios used as at December 31, 2018 assumed no significant changes in key indicators for Jamaica within the next year.

Based on the economic scenario, proxies of 0.6, 1.1 and 1.6 times ECL were determined to be appropriate for positive, stable and negative outlooks respectively.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(vi) Impairment (continued):

Measurement of ECLs

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Co-operative estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property,loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Applicable before January 1, 2018

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days based on the established PEARLS grid recommended by the JCCUL or based on any known difficulties in the cash flows of counterparties, credit rating downgrades or breaches of the original terms of the contract.

The Co-operative addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. The assessment applied to individually significant accounts normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed allowances are determined through the application of PEARLS' prescribed percentages to the aging profiles of the loan portfolio.

5. Financial risk management (continued)

(b) Credit risk (continued):

Credit review process (continued):

(vii) Exposure to credit risk:

Maximum credit exposure to credit risk before collateral held or other credit enhancements

The maximum credit exposure, the total amount of loss that the Co-operative would suffer if every counterparty to the Co-operative's financial assets were to default at once, is represented by the carrying amount of the financial assets shown on the statement of financial position as at the reporting date.

Concentration of risk

Loans

The following table summarises the Co-operative's credit exposure for consumer loans at their carrying amounts:

	2018	2017
	$	$
Construction and real estate	170,211,784	131,633,096
Unsecured	19,522,683	5,792,688
Cash secured	89,554,944	90,194,582
Motor vehicle	149,448,828	120,770,011
	428,738,239	348,390,377
	(3,898,257)	(1,842,637)
Less: Allowance for impairment losses	424,839,982	346,547,740

(c) Liquidity risk:

Liquidity risk is the risk that the Co-operative will encounter difficulty in meeting obligations from its financial liabilities. The Co-operative's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal or stressed conditions. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed facilities. The Co-operative manages this risk by keeping a substantial portion of its financial assets in liquid form in accordance with regulatory guidelines.

The Co-operative is subject to a liquidity limit of 20% imposed by JCCUL and compliance is regularly monitored. The key measure used by the Co-operative for managing liquidity risk is the ratio of liquid assets to total savings deposits. For this purpose, liquid assets include cash and bank balances, deposits held with JCCUL and highly liquid investments which are readily convertible into cash. The Co-operative's liquid asset ratio at the end of the year was 53% (2017: 52%).

There has been no change to the Co-operative's exposure to liquidity risk or the manner in which it measures and manages the risk.

5. Financial risk management (continued)

(c) Liquidity risk (continued):

The following table presents the undiscounted contractual maturities of financial liabilities.

	2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Contractual outflows	Carrying amount
	$	$	$	$	$	$
Members' share deposits	242,847,745	-	-	-	242,847,745	242,847,745
Savings deposits	275,269,662	-	-	-	275,269,662	275,269,662
Accounts payable	11,480,164	-	-	-	11,480,164	11,480,164
	529,597,571	-	-	-	529,597,571	529,597,571

	2017					
	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Contractual outflows	Carrying amount
	$	$	$	$	$	$
Members' share deposits	219,842,846	-	-	-	219,842,846	219,842,846
Savings deposits	171,101,752	-	-	-	171,101,752	171,101,752
Accounts payable	5,366,150	-	-	-	5,366,150	5,366,150
	396,310,748	-	-	-	396,310,748	396,310,748

Members' share deposits is classified as liabilities. These deposits can be withdrawn at the option of the members and will, therefore, affect the liquidity position of the Co-operative. These deposits have no contractual maturity. The amounts included in the analysis are based on management's estimate of expected cash flows on these instruments as determined by retention history. These may vary significantly from actual cash flows which are generally expected to maintain a stable or increasing balance.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. These arise mainly from changes in interest rate and foreign currency rate and will affect the Co-operative's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

There has been no change to the Co-operative's exposure to market risks or the manner in which it measures and manages the risks.

(i) Currency risk:

Currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. There was no significant exposure to foreign currency risk, as the Co-operative's foreign currency instruments are minimal.

5. Financial risk management (continued)

(d) Market risk (continued):

(ii) Interest rate risk:

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. Interest rate risk is managed by holding primarily fixed rate financial instruments. Liquid assets are held for the short-term and, accordingly, would substantially reflect prevailing interest rates in the financial markets. Interest is paid on members' share deposits and savings deposits, and external credits are accepted from, and loans given to, members at a fixed rate of interest which is fairly stable. Accordingly, there is no significant exposure to interest rate risk.

The interest rate profile of the Co-operative was as follows:

	2018	2017
	$	$
Fixed rate financial assets:		
J$ Benchmark Investment Notes	5,000,000	5,000,000
Loans to members	424,839,982	346,547,740
Liquid assets	25,227,974	68,607,002
	445,067,956	420,154,742

	2018	2017
	$	$
Variable rate financial assets:		
J$ benchmark notes	2,070,000	2,070,000
JCCUL Credit Union Premium	32,209,195	31,114,716
	34,279,195	33,184,716
Fixed rate financial liabilities:		
Members' share deposits	(242,847,745)	(219,842,846)
Savings deposits	(275,269,662)	(171,101,752)
	(518,117,407)	(390,944,598)

5. Financial risk management (continued)

(d) Market risk (continued):

(ii) Interest rate risk (continued):

Cash flow sensitivity analysis:

An increase/decrease in the basis points (bp) using the scenario noted below would have increased or decreased profit or loss by the amounts shown.

	100bp Increase $	100bp Decrease $
December 31, 2018		
Variable rate instruments	342,792	(342,792)

	100bp Increase $	100bp Decrease $
December 31, 2017		
Variable rate instruments	331,847	(331,847)

(e) Capital management:

The Co-operative's objectives when managing capital are to safeguard the Co-operative's ability to continue as a going concern, so that it can continue to provide returns to its members and benefits for other stakeholders and to maintain a strong capital base to support the development of its business. The Co-operative defines its capital as permanent share capital, redemption reserve fund, institutional capital and non-institutional capital and other reserves. Its dividend payout is made taking into account the maintenance of an adequate capital base.

The Co-operative is required by JCCUL to maintain its institutional capital at a minimum of 8% of total assets. At the reporting date, this ratio was 13.72% (2017: 13.82%).

The proposed Bank of Jamaica regulations require JCCUL to ensure that member co-operatives:

(i) Hold a minimum level of the regulatory capital of 6% of total assets; and

(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

5. Financial risk management (continued)

(e) Capital management (continued):

The table below summarises the composition of regulatory capital and the ratios of the Co-operative as at the reporting date. During the year, the Co-operative complied with all externally imposed capital requirements to which it is subject.

	2018		2017	
	Actual	Required	Actual	Required
Total regulatory capital ($)	107,266,964	63,892,216	103,051,341	49,936,209
Total capital ratio	17%	10%	21%	10%

6. Loans to members

	2018 $	2017 $
(a) Balance at start of the year	348,390,377	294,160,109
Loans granted	211,777,204	157,740,914
	560,167,581	451,901,023
Less repayments	(131,429,342)	(103,510,646)
Total	428,738,239	348,390,377
Less IFRS allowance for loan loss (note 7)	(3,898,257)	(1,842,637)
Balance at end of the year	424,839,982	346,547,740

The ageing of the loans at the reporting date was as follows:

	2018 $	2017 $
Neither past due nor impaired	415,273,831	339,197,638
Past due but not impaired		
Less than 2 months	5,505,632	4,838,153
2 to 3 months	1,411,614	317,337
3 to 6 months	2,006,483	811,742
6 to 12 months	2,194,001	253,755
Over 12 months	2,346,678	2,971,752
	428,738,239	348,390,377

6. Loans to members (continued)

(b) Delinquent loans:

At December 31, 2018 there were 27 (2017: 18) past due loans, as follows:

2018						
Months in arrears	Past due loans	Number of accounts in arrears	Savings held against loans	Portions not covered by savings	Level of allowances	JCCUL Provision
	$		$	$	%	$
Less than 2 months	5,505,632	14	2,821,166	2,684,466	0	-
2 to 3 months	1,411,614	4	1,948,529	-	10	141,161
3 to 6 months	2,006,483	4	894,722	1,111,761	30	601,945
6 to 12 months	2,194,002	2	119,028	2,074,973	60	1,316,401
Over 12 months	2,346,677	3	446,374	1,900,303	100	2,346,677
	13,464,408	27	6,229,819	7,771,503		4,406,184

2017						
Months in arrears	Past due loans	Number of accounts in arrears	Savings held against loans	Portions not covered by savings	Level of allowances	JCCUL Provision
	$		$	$	%	$
Less than 2 months	4,838,153	9	2,960,221	1,877,932	0	0
2 to 3 months	317,337	2	1,184,270	-	10	31,734
3 to 6 months	811,742	1	1,066,892	-	30	243,523
6 to 12 months	253,755	3	65,921	187,834	60	152,253
Over 12 months	2,971,752	3	1,187,048	1,784,704	100	2,971,752
	9,192,739	18	6,464,352	3,850,470		3,399,262

There is no significant concentration of loans which are made only to members who reside in Jamaica and are employees of the Bank of Jamaica.

The Co-operative had no restructured loans as at December 31, 2018 and 2017.

7. Allowance for loan loss

The movement in the allowance for loan loss determined under the requirement of IFRS is as follows:

	2018	2017
	$	$
Balance at start of year	1,842,637	2,274,505
Remeasurement on January 1, 2019 (IFRS 9)	1,066,189	-
Increase/(decrease) in provision for current year	989,431	(431,868)
Balance at end of year	3,898,257	1,842,637

7. Allowance for loan loss (continued)

Provision made in accordance with JCCUL provisioning requirements:

	2018 $	2017 $
IFRS provision	(3,898,257)	(1,842,637)
General provision	8,392,954	7,344,256
Regulatory loan loss provision (note 19)	4,406,184	3,399,262
	8,900,881	8,900,881

In keeping with IFRS, the general and regulatory provisions are included in loan loss reserve and treated as an appropriation of accumulated surplus (see note 19).

8. Liquid assets

	2018 $	2017 $
(a) Earning assets:		
Financial assets at amortised cost		
(2017: Loans and receivables)		
JCCUL - deposits	-	8,951,102
- special deposits	24,450,662	58,888,970
CUETS settlement deposit	777,312	766,930
	25,227,974	68,607,002
(b) Non earning assets:		
Current account	62,458,844	18,257,909
Savings account	10,031,917	1,893,680
	72,490,761	20,151,589

The amounts are due within twelve (12) months of the reporting date.

9. Financial investments

	2018 $	2017 $
Amortised cost (2017: Loans and receivables)		
Government of Jamaica securities:		
J$ Benchmark Investment Notes	7,070,000	7,070,000
FVOCI (2017: Available- for sale)		
Unquoted shares:		
JCCUL shares and permanent capital	2,499,297	2,499,297
JCCUL Credit Union Premium	32,209,195	31,114,716
Credit Union Fund Management Limited (CUFMC) shares	10,500,000	10,500,000
Jamaica Co-operatives Insurance Agency Company Limited shares	500,000	500,000
Quality Network Co-operative Limited (QNCT) shares	70,161	70,161
Units in CUMAX money market fund	49,106,544	-
	101,955,197	51,754,174

9. Financial investments (continued)

Impairment has been measured at 12-month expected credit loss and was not considered significant for adjustment. No impairment losses were recognised on adoption of IFRS 9.

As at reporting date the fair value of the Government of Jamaica securities (J$ Benchmark Investment Notes) was $7,614,985 (2017: $7,273,565).

The amounts are expected to be recovered as follows:

	2018	2017
	$	$
Over 12 months	7,070,000	7,070,000
No maturity	94,885,197	44,684,174
	101,955,197	51,754,174

10. Other assets

	2018	2017
	$	$
Interest receivable	1,020,813	1,186,527
Income tax recoverable	1,444,692	1,863,373
Security deposit	11,000	11,000
	2,476,505	3,060,900

The amounts are expected to recovered within the next twelve (12) months.

11. Property, plant and equipment

	Computer equipment	Furniture and fixtures	Equipment	Total
	$	$	$	$
Cost:				
December 31, 2016	1,018,413	197,995	415,181	1,631,589
Additions	563,084	58,254	-	621,338
December 31, 2017	1,581,497	256,249	415,181	2,252,927
Additions	-	-	306,445	306,445
December 31, 2018	1,581,497	256,249	721,626	2,559,372
Depreciation:				
December 31, 2016	944,161	41,503	295,981	1,281,645
Charge for the year	139,126	4,254	35,218	178,598
December 31, 2017	1,083,287	45,757	331,199	1,460,243
Charge for the year	200,933	24,120	57,651	282,704
December 31, 2018	1,284,220	69,877	388,850	1,742,947
Net book values:				
December 31, 2018	297,277	186,372	332,776	816,425
December 31, 2017	498,210	210,492	83,982	792,684

12. Intangible assets

This represents the cost for modification of information systems, net of amortisation for the year. There are no impairment losses.

13. Employee benefits asset

The Co-operative participates in a defined-benefit plan operated by the Jamaica Co-operative Credit Union League Limited. This is a contributory pension plan that is jointly funded by contributions from employees of 5% (5% optional), and by the Co-operative of 8% of the employee's taxable remuneration, taking into account the recommendations of independent, qualified actuaries, Eckler Consultants and Actuaries.

(a) Employee benefits asset:

	2018 $	2017 $
Present value of funded obligations	(29,888,000)	(24,140,000)
Fair value of plan assets	36,424,000	32,588,000
Recognised asset	6,536,000	8,448,000

(b) Movements in the present value of funded obligations:

	2018 $	2017 $
Balance at beginning of year	(24,140,000)	(19,771,000)
Employees' contributions	(1,086,000)	(1,047,000)
Service costs	(887,000)	(789,000)
Interest costs	(1,975,000)	(1,827,000)
	(28,088,000)	(23,434,000)
Remeasurement of actuarial loss arising from:		
- Experience adjustments	334,000	225,000
- Changes in financial assumptions	(2,134,000)	(931,000)
	(1,800,000)	(706,000)
Present value of obligation at end of year	(29,888,000)	(24,140,000)

(c) Movements in plan assets:

	2018 $	2017 $
Fair value of plan assets at beginning of year	32,588,000	27,886,000
Contributions paid	1,810,000	1,745,000
Interest income on plan assets	2,679,000	2,588,000
Administrative expense	(219,000)	(204,000)
Actuarial gain on plan assets	(434,000)	573,000
Fair value of plan assets at end of year	36,424,000	32,588,000

13. Employee benefits asset (continued)

(c) Movements in plan assets (continued):

	2018 $	2017 $
Plan assets consist of the following:		
J$ Debentures	13,341,000	15,605,000
Resale agreements	974,000	1,189,000
Investment properties	8,643,000	5,276,000
US$ Debentures	1,767,000	1,446,000
US$ Certificate of deposit	1,075,000	1,010,000
J$ Certificate of deposit	-	575,000
Quoted equities	6,145,000	4,690,000
Real estate investment trust fund	366,000	313,000
Local Registered Stock	3,460,000	2,246,000
Units in Unit Trusts	1,077,000	854,000
Net current liabilities	(424,000)	(616,000)
	36,424,000	32,588,000

(d) Amounts recognised in surplus or deficit are as follows:

	2018 $	2017 $
Current service cost	887,000	789,000
Interest costs on obligation	1,975,000	1,827,000
Interest income on plan assets	(2,679,000)	(2,588,000)
Administrative expense	219,000	204,000
Net pension expense	402,000	232,000

(e) Items recognised in other comprehensive income:

	2018 $	2017 $
Remeasurement loss on obligation	(1,800,000)	(706,000)
Remeasurement gain on plan assets	(434,000)	573,000
	(2,234,000)	(133,000)

(f) Principal actuarial assumptions at the reporting date expressed as weighted averages.

	2018 %	2017 %
Discount rate	7.00	8.00
Salary increases	5.00	6.00
Pension increases	2.5	2.50

13. Employee benefits asset (continued)

(g) Sensitivity analysis of key economic assumptions:

A change in the defined benefit obligation from one present (1%) change in each of the key economic assumption is shown below.

	2018		2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(4,443,000)	5,822,000	(3,517,000)	4,618,000
Future salary increases	2,899,000	(2,546,000)	2,415,000	(2,106,000)
Future pension increases	2,265,000	(1,943,000)	1,693,000	(1,454,000)

The analysis assumes that all other variables remain constant.

(h) Impact on defined benefit obligation of a one year increase in life expectancy:

The effect on the defined benefit obligation of a one year increase in the life expectancy is about $0.5 million (2017: $0.38 million).

(i) The estimated pension contributions expected to be paid into the plan during the next financial year is $0.72 million (2017: $0.70 million).

14. Members' share deposits

	2018	2017
	$	$
Balance at start of the year	219,842,846	205,687,491
Add: amount subscribed	63,853,386	52,393,470
	283,696,230	258,080,961
Less: withdrawals and transfers	(40,848,485)	(38,238,115)
Balance at end of the year	242,847,745	219,842,846

Shares may be withdrawn in whole or in part by the member, however, the Board of Directors reserve the right at any time to require a member to give notice not exceeding six months, provided that no member may withdraw any shareholdings below the amount of his total liability to the Co-operative without the approval of the Board of Directors.

15. Savings deposits

	2018	2017
	$	$
Balance at start of the year	171,101,752	145,274,136
Add placements during the year	2,175,210,120	1,544,208,961
	2,346,311,872	1,689,483,097
Less withdrawals	(2,071,042,210)	(1,518,381,345)
Balance at end of the year	275,269,662	171,101,752

15. Savings deposits (continued)

	2018 $	2017 $
Broken down as follows:		
Regular deposits	43,046,130	14,347,117
Golden harvests	48,774,752	57,864,216
Fixed deposits	113,254,642	57,385,868
Optimum deposits	30,535,950	19,417,759
Youth savings	17,070,663	14,431,749
Other deposits	22,587,525	7,655,043
	275,269,662	171,101,752

16. Accounts payable and accrued charges

	2018 $	2017 $
Interest payable	290,595	189,725
Audit fees	3,800,000	1,830,215
Sundry payables	7,389,569	3,346,210
	11,480,164	5,366,150

Sundry payables includes deferred income of $2,454,986 (2017:$Nil) received from JCCUL Stabilisation Fund to assist with the implementation of IFRS 9.

17. Institutional capital and milestone reserve

	2018 $	2017 $
(a) Institutional capital:		
Statutory and legal reserve (i)	57,550,159	52,101,760
General reserve (ii)	10,300,935	9,300,936
Education reserve (iii)	10,070,020	9,570,020
Entrance fees	70,411	66,111
	77,991,525	71,038,827

(i) The statutory and legal reserve is maintained in accordance with the provisions of the Co-operative Societies Act, which requires that a minimum of 20% of surplus be carried to a reserve fund. Upon application by a Registered Co-operative, the Registrar may allow the required percentage to be reduced but not below 10%.

(ii) This represents an allocation of funds for unforeseen circumstances.

(iii) This represents an allocation of funds from which the interest generated will be utilised to fund various scholarships.

(b) Milestone reserve:

This represents a reserve fund for the Co-operative's significant milestones recommended by the Board of Directors.

18. Permanent shares and redemption reserve fund

(a) Permanent shares:

	2018 $	2017 $
Balance at beginning of the year	2,722,000	2,608,000
Amounts added	117,000	114,000
	2,839,000	2,722,000
Less withdrawals and transfer	(25,000)	-
Balance at end of the year	2,814,000	2,722,000

Included in the members' ledger are 237 (2017: 226) accounts totalling $17,070,663 (2017: $14,431,749) belonging to persons under the age of eighteen to whom no permanent shares have been allocated as they do not have member status.

The following rights are attached to permanent shares:

- Shares in the Co-operative entitle each member to one vote in the conduct of the affairs of the Co-operative at general meetings.
- They may be transferred to any member or anyone eligible for membership with the consent of the Board and payment of a fee;
- They may be redeemed, subject to the sale, transfer, or repurchase of such shares;
- Dividends may be paid on permanent shares subject to the profitability of the Co-operative;
- They may be used to offset indebtedness only in cases of cessation of membership and liquidation of the Co-operative.

As at December 31, 2018, all members have subscribed to the permanent shares.

(b) Redemption reserve fund:

This represents a fund for the redemption of permanent shares upon termination of membership.

19. Loan loss reserve

This is a non-distributable reserve for loan loss (note 7), which is in excess of the provision, under JCCUL guidelines over IFRS 9 (2017: IAS 39) requirements as well as a general provision.

20. Employee benefits reserve

The employee benefits reserve represents the pension surplus arising on the actuarial valuation, under IAS 19, of the defined-benefit pension plan in which the Co-operative participates (note 12). Annual changes in the value of the plan are recognised in profit or loss and other comprehensive income, then transferred to this reserve.

21. Operating expenses

(i) Personnel expenses:

The Co-operative had 5 persons in its employment at December 31, 2018 (2017: 5).

	2018 $	2017 $
Employee salaries and related expenses	17,496,802	15,084,685
Statutory payroll contributions	1,554,685	1,462,695
Training	399,595	394,745
Health insurance	1,275,149	913,886
Pension expenses	402,000	232,000
	21,128,231	18,088,011

(ii) Members' securities:

CUNA life, savings and loan protection (note 25)	4,339,299	3,533,355

(iii) Administrative expenses:

Annual general meeting	2,866,652	2,413,041
ATM fees	80,009	1,151,299
Auditors' remuneration –current	3,945,182	1,830,215
Bank charges	32,833	28,884
Depreciation	282,704	178,598
International Credit Union day expense	98,600	168,072
Internal audit – JCCUL	587,160	579,005
JCCUL AGM	879,766	670,016
Legal and other professional fees	370,050	224,692
Meetings and functions	244,482	147,173
Minimum business tax	-	120,000
Other administrative expenses	1,748	327,842
Printing, stationery and supplies	626,445	1,328,258
Repairs and maintenance	1,730,615	881,459
Subscriptions and other administrative expenses	3,452,166	970,829
Telephone	247,080	195,856
	15,445,492	11,215,239

(iv) Representation and affiliation expenses:

Jamaica Co-operative Credit Union League:		
Fees	1,004,026	885,760
Stabilisation dues	586,417	526,444
	1,590,443	1,412,204
Total operating expenses	42,503,464	34,248,809

22. Honoraria

Honoraria represents payments made to volunteers (members) of the Co-operative for their contributions made in furtherance of the Co-operative's activities. These amounts are determined by members at their Annual General Meetings and are recognised as an expense when the honoraria is approved.

23. Staff and volunteers' balances

(a) These represent loans granted to members of staff, the Directors and members of the Supervisory and Credit Committees.

	2018		
	Number	Loans $	Shares and deposits $
Directors and committee members	19	22,482,333	24,223,192
Staff	5	31,934,616	3,653,409

	2017		
	Number	Loans $	Shares and deposits $
Directors and committee members	19	21,610,730	13,987,609
Staff	5	19,499,156	3,166,067

During the year, no Directors or Committee members received loans which necessitated a waiver of the general loan policy. At December 31, 2018, all loans owing by Directors, Committee members and staff were being repaid in accordance with the loan agreements.

(b) Key management personnel compensation comprises short-term benefits [included in personnel expenses at note 21(i)] of $4,874,536 (2017: $3,038,640).

24. Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity, in this case the Co-operative").

(a) A person or close member of that person's family is related to the Co-operative if that person:

(i) Has control or joint control over the Co-operative;

(ii) Has significant influence over the Co-operative; or

(iii) Is a member of the key management personnel of the Co-operative.

(b) An entity is related to the Co-operative if any of the following conditions applies:

(i) The entity and Co-operative are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

24. Related parties (continued)

(b) An entity is related to the Co-operative if any of the following conditions applies (continued):

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Co-operative or an entity related to the Co-operative.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Co-operative or to the parent of the Co-operative.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Related parties include directors and senior executives, all of whom are referred to as key management personnel as well as entities closely connected to them. Related party balances are disclosed in note 23.

25. Insurance

During the year, the Co-operative maintained life, savings and loan protection coverage [note 21(ii)]. Premiums of $4,339,299 (2017: $3,533,355) for fidelity insurance coverage was paid during the year.

26. Comparison of ledger balances

	Shares	Savings deposits	Loans
	$	$	$
General ledger	242,847,745	275,269,662	428,738,239
Members' ledger	242,847,745	275,269,662	428,738,239
Differences 2018	-	-	-
Differences 2017	-	5,878	-

27. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value when an active market exists as it is the best evidence of the fair value of a financial instrument.

(a) Fair value hierarchy:

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: discounted cash flow technique using inputs from observable market data, i.e. average of several brokers/dealers market indicative yields in active markets for identical assets or liabilities.
- Level 3: valuation techniques using significant unobservable inputs.

(b) Accounting classification and fair values:

The Co-operative has financial assets classified as fair value through other comprehensive income (FVOCI) and fair value through profit or loss (see note 9).

There were no transfers between levels during the year.

(c) Valuation techniques

The valuation techniques used in measuring fair value in the Level 2 hierarchy are as follows:

Financial assets	Methods
Benchmark Investment Notes	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids); • Using this yield, determine price using accepted formula; • Apply price to estimate fair value.
Units in CUMAX Money Market Fund	The net asset value (NAV) per unit, published by the fund manager.