LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Registrar of Co-operative Societies
Lascelles Employees & Partners 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 Lascelles Employees & Partners Co-operative Credit Union Limited ("co-operative"), set out on pages 4 to 58, which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of 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, 2019, and of its financial performance and 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 *Auditor's 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.

To the Registrar of Co-operative Societies
Lascelles Employees & Partners Co-operative Credit Union Limited
(A Society Registered Under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (Continued)

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 judgement 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Registrar of Co-operative Societies
Lascelles Employees & Partners Co-operative Credit Union Limited
(A Society Registered Under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.
- 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-operatives 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-operative 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 in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

April 8, 2020

LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Financial Position
December 31, 2019

	Notes	2019	2018
ASSETS			
Earning assets:			
Loans to members	5	876,791,745	834,547,829
Liquid assets	6	45,464,732	16,483,716
Securities purchased under resale agreements	7	22,633,488	68,794,818
Financial investments	8	192,029,832	173,966,233
Total earning assets		1,136,919,797	1,093,792,596
Non-earning assets:			
Liquid assets	9	19,328,647	17,100,134
Other assets	10	24,900,635	19,435,323
Property, plant and equipment	11	2,646,960	4,216,731
Right of use asset	12(a)	5,384,420	-
Intangible assets	13	7,816,951	7,271,960
Total non-earning assets		60,077,613	48,024,148
TOTAL ASSETS		$ 1,196,997,410	1,141,816,744
LIABILITIES			
Interest bearing liabilities:			
Members' deposits	14	386,820,997	359,463,409
Members' voluntary shares	15	445,139,771	425,281,849
External credits	16	48,984,076	49,054,222
Total interest-bearing liabilities		880,944,844	833,799,480
Non-interest bearing liabilities:			
External credits	16	11,628,542	11,628,542
Payables	17	4,551,519	6,193,717
Other liabilities	18	30,931,567	29,142,600
Lease liabilities	12(b)	5,852,209	-
Accruals	19	7,565,972	8,603,840
Total non-interest bearing liabilities		60,529,809	55,568,699
Total liabilities		941,474,653	889,368,179
EQUITY			
Permanent shares	21	4,610,000	4,260,000
Institutional capital	22	156,804,777	154,060,999
Non-institutional capital	23	82,981,295	83,112,551
Undistributed surplus		11,126,685	11,015,015
Total equity		255,522,757	252,448,565
TOTAL LIABILITIES AND EQUITY		$ 1,196,997,410	1,141,816,744

The financial statements, on pages 4 to 58, were approved for issue by the Board of Directors on April 8, 2020 and signed on its behalf by:

R. Muir
_________________________ President
Ryan Muir

Hardie
_________________________ Treasurer
Wayne Hardie

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

LASCELLES EMPLOYEES & PARTNERS 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, 2019

	Notes	2019	2018
Interest income calculated using the effective interest rate method:			
Loans to members		119,656,499	118,579,903
Investments and deposits		5,099,638	6,424,789
		124,756,137	125,004,692
Interest expense:			
Members' deposits		(15,670,630)	(13,780,177)
External credits		(2,067,407)	(2,140,104)
Members' voluntary shares		(7,265,422)	(10,418,035)
Other finance costs	24	(2,185,066)	(2,085,964)
		(27,188,525)	(28,424,280)
Net interest income		97,567,612	96,580,412
Recovery of impairment losses		533,055	513,599
Impairment losses on loans, net of recoveries	5(b)	(10,275,124)	(20,179,813)
		87,825,543	76,914,198
Non-interest income:			
Other income	20	-	3,218,543
Fees		12,981,663	17,097,459
Gross margin		100,807,206	97,230,200
Operating expenses	25	(90,464,888)	(89,694,908)
Surplus for the year before honoraria and other payments:		10,342,318	7,535,292
Honoraria		(3,000,000)	(3,000,000)
Scholarship fund		(2,500,000)	(3,000,000)
Sponsorship fund		(1,000,000)	-
Anniversary fund		-	(800,000)
Donation		(500,000)	(500,000)
Surplus for the year after honoraria and other payments		3,342,318	235,292
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of fair value through OCI investment		2,258,574	18,981
Total comprehensive income for the year		$ 5,600,892	254,273

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

LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Changes in Equity
Year ended December 31, 2019

	Permanent Shares (Note 21)	Institutional capital (Note 22)	Non-Institutional capital (Note 23)	Undistributed surplus	Total
Balances as at December 31, 2017	4,034,000	152,150,504	86,933,317	12,788,890	255,906,711
Adjustment on initial application of IFRS 9	-	-	-	(2,013,219)	(2,013,219)
Balances as at January 1, 2018	4,034,000	152,150,504	86,933,317	10,775,671	253,893,492
Total comprehensive income for the year:					
Surplus for the year	-	-	-	235,292	235,292
Gain on revaluation of fair value through OCI investment, being total other comprehensive income	-	-	18,981	-	18,981
Total comprehensive income	-	-	18,981	235,292	254,273
Transactions with members recorded directly in equity:					
Contributions by and distributions to members:					
Entrance fees	-	113,800	-	-	113,800
Share subscription	187,000	-	-	-	187,000
Appropriation of surplus for 2017:					
Dividends-permanent shares	-	-	-	(2,000,000)	(2,000,000)
Movements in reserves:					
Retained earnings reserve	-	289,637	-	(289,637)	-
Building reserve, net	-	-	1,500,000	(1,500,000)	-
Share transfer reserve	39,000	-	(39,000)	-	-
IT infrastructure reserve	-	-	2,000,000	(2,000,000)	-
IT infrastructure reserve utilized	-	-	(7,300,747)	7,300,747	-
Statutory transfer for 2018	-	1,507,058	-	(1,507,058)	-
	226,000	1,910,495	(3,839,747)	4,052	(1,699,200)
Balances as at December 31, 2018	$4,260,000	154,060,999	83,112,551	11,015,015	252,448,565

The accompanying notes form an integral part of the financial statements

LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Changes in Equity (continued)
Year ended December 31, 2019

	Permanent Shares (Note 21)	Institutional capital (Note 22)	Non-Institutional capital (Note 23)	Undistributed surplus	Total
Balances as at December 31, 2018	4,260,000	154,060,999	83,112,551	11,015,015	252,448,565
Total comprehensive income for the year:					
Surplus for the year	-	-	-	3,342,318	3,342,318
Gain on revaluation of fair value through OCI investment, being total other comprehensive income	-	-	2,258,574	-	2,258,574
Total comprehensive income	-	-	2,258,574	3,342,318	5,600,892
Transactions with members recorded directly in equity:					
Contributions by and distributions to members:					
Entrance fees	-	160,300	-	-	160,300
Share subscription	313,000	-	-	-	313,000
Appropriation of surplus for 2018:					
Dividends-permanent shares	-	-	-	(3,000,000)	(3,000,000)
Movements in reserves:					
Retained earnings reserve	-	515,015	-	(515,015)	-
Building reserve, net	-	-	321,248	(321,248)	-
Share transfer reserve	37,000	-	(37,000)	-	-
IT infrastructure reserve	-	-	(2,674,078)	2,674,078	-
Statutory transfer for 2019	-	2,068,463	-	(2,068,463)	-
	350,000	2,743,778	(2,389,830)	(3,230,648)	(2,526,700)
Balances as at December 31, 2019	$4,610,000	156,804,777	82,981,295	11,126,685	255,522,757

The accompanying notes form an integral part of the financial statements

LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Cash Flows
Year ended December 31, 2019

	Notes	2019	2018
Cash flows from operating activities:			
Surplus for year		3,342,318	235,292
Adjustments to reconcile surplus for year to net cash provided by operating activities:			
Depreciation	11,12	4,136,875	2,645,968
Amortisation of intangible assets	13	2,448,265	1,974,063
Loss on disposal of property, plant and equipment		-	4
Interest expense		25,003,459	26,338,316
Interest income		(124,756,137)	(125,004,692)
		(89,825,220)	(93,811,049)
Other assets		(4,946,553)	2,852,792
Interest received		124,237,378	125,265,996
Interest paid - members' voluntary shares		(24,206,337)	(24,101,139)
Loans to members, net		(42,243,916)	(5,396,067)
Non-interest bearing liabilities		(1,019,880)	(3,387,121)
Net cash (used)/provided by operating activities		(38,004,528)	1,423,412
Cash flows from investing activities:			
Financial investments		(15,805,025)	(112,835,239)
Additions to property, plant and equipment and intangible assets	11,13	(4,214,255)	(2,539,842)
Net cash used by investing activities		(20,019,280)	(115,375,081)
Cash flows from financing activities:			
Members' deposits, net		27,357,588	25,183,022
Members' voluntary shares		19,857,922	20,760,654
External credits-interest bearing		(70,146)	(286,777)
Lease payment, net		(1,546,657)	-
Entrance fees		160,300	113,800
Permanent shares, net		313,000	187,000
Dividends – permanent shares		(3,000,000)	(2,000,000)
Net cash provided by financing activities		43,072,007	43,957,699
Decrease in liquid assets		(14,951,801)	(69,993,970)
Liquid assets at beginning of year		102,378,668	172,372,638
Liquid assets at end of year		$ 87,426,867	102,378,668
Comprised of:			
Securities purchased under resale agreements	7	22,633,488	68,794,818
Liquid assets – earning	6	45,464,732	16,483,716
Liquid assets – non-earning	9	19,328,647	17,100,134
		$ 87,426,867	102,378,668

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

1. Identification

Lascelles Employees & Partners Co-operative Credit Union Limited (the co-operative) is registered under the Co-operative Societies Act. Membership was restricted to present and past employees of the Lascelles Group of Companies, associated companies and their immediate family members. On August 27, 2010 a resolution was passed to amend the Interpretations Clause in Rule 4, Article II "companies associated" to include approved individuals or employees of organisations which do business with the Lascelles deMercado (LdM) Group of Companies. The liability of individual members is limited by shares. Individual membership may not exceed 20% of total share capital.

Lascelles deMercardo Group of Companies was purchased by the Campari Group (an Italian based spirits entity) at the end of November 2012. A number of individual companies were not retained within the new Campari owned entity called J. Wray and Nephew Ltd. (formerly LDM Group) but instead have been sold to other entities.

The co-operative's operations are concentrated in the parish of Kingston. It is domiciled in Jamaica and its registered office and principal place of business is located at 236 Spanish Town Road, Kingston.

The co-operative's main activities are the promotion of thrift, the provision of loans to members, exclusively for provident and productive purposes, at a reasonable rate of interest and to receive the savings of its members either as payments on shares or as deposits.

On October 1, 2017, the cooperative merged its operation with Nestle Jamaica Co-operative Credit Union Limited (NJCCUL).

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.

At December 31, 2019, the co-operative employed 15 persons (2018: 12).

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

2. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Co-operative Societies Act.

New and amended standards and interpretations that became effective during the year:

This is the first set of co-operative's annual financial statements in which IFRS 16, *Leases* has been applied. Changes to significant accounting policies are disclosed in note 3.

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New and amended standards in issue but not yet effective:

At the date of approval of the financial statements, there were certain new and amended standards and interpretation to existing standards, which were in issue, but were not yet effective and had not been early adopted by the co-operative. Those which management considered may be relevant to the co-operative are as follows:

- 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 does not expect the amendment to have a significant impact on its future financial statements when it is adopted.

- 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 de-recognised 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 the co-operative has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
  - A new control-based approach to de-recognition will allow an entity to derecognize 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.

The co-operative is assessing the impact that the amendments will have on its 2020 financial statements.

2. Statement of compliance and basis of preparation (cont'd)

(a) Basis of measurement:

The financial statements are prepared on the historical cost basis, except for the inclusion of certain investments at fair value. The methods used to measure and value investments, are set out in note 4(u).

(c) Functional and presentation currency:

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

(d) Use of estimates and judgements:

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of, assets, , liabilities, contingent assets and contingent liabilities at the reporting date, and the income 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 period, if the revision affects both current and future periods.

(d) Use of estimates and judgements (cont'd):

(i) Judgements:

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

(1) Classification of financial assets:

The assessment of the business model within which assets are held and assessment of whether the contractual terms of a financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements of its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on a 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 require significant judgement.

3. Changes in significant accounting policies

The co-operative initially applied IFRS 16 *Leases* from January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the co-operative's financial statements.

The co-operative applied IFRS 16 using the modified retrospective approach, under which the right-of-use asset is equivalent to the lease liability, hereby no adjustment was recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the co-operative determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The co-operative now assesses whether a contract is or contains a lease based on the definition of a lease as disclosed in note 4(t).

On transition to IFRS 16, the co-operative elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The co-operative applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the co-operative leases property. The co-operative previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the co-operative. Under IFRS 16, the co-operative recognises right-of-use assets and lease liabilities for this lease – i.e. this lease is on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the co-operative allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for lease of property the co-operative has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

3. Changes in significant accounting policies

Leases classified as operating leases under IAS 17

Previously, the co-operative classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the co-operative's incremental borrowing rate as at January 1, 2019. Right-of-use asset is measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the co-operative's incremental borrowing rate at the date of initial application: the co-operative applied this approach to its property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the co-operative applied this approach to all other leases.

The co-operative has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The co-operative used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the co-operative:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on transition

On transition to IFRS 16, the co-operative recognised right-of-use assets, and lease liabilities at the same amount, thereby, no adjustment was made to the retained earnings at transition. The impact on transition is summarised below. When measuring the lease liabilitity, the co-operative discounted lease payments using its incremental borrowing rate at January 1, 2019 of 9.93%.

	January 1, 2019
Right-of-use asset	6,730,525
Lease liability	(6,730,525)
Undistributed surplus	$ -

4. Significant accounting policies

Except for the changes disclosed in note 3, the co-operative has consistently applied the accounting policies as set out in below for all periods presented in these financial statements.

(a) Property plant and equipment:

(i) Owned assets:

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

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.

(ii) Depreciation:

Depreciation is recognised on the straight-line basis at annual rates estimated to write-down the assets to their residual values over their expected useful lives.

The rates used are as follows:

Leasehold improvements	-	33⅓%
Equipment	-	20% - 25%
Computers	-	20% - 50%
Furniture and fixtures	-	10% - 25%
Righ of use asset	-	20%

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

4. Significant accounting policies (cont'd)

(b) Intangible asset:

(i) Computer software and website costs

Software and website costs, are measured at cost, less accumulated amortisation and impairment losses, if any. Amortisation is charged on the straight-line basis over the estimated useful lives of the assets. The amortisation rate is 20%-33⅓% per annum. The amortisation method and useful lives are reassessed at each reporting date and adjusted where appropriate.

(ii) Core deposits

Core deposits relate to the total cost of maintaining the core base (e.g. interest, servicing costs, fee income, and opportunity cost of reserve requirement and float) in comparison to the cost of an alternative funding source. These are measured at cost less impairment losses and are deemed to have a finite useful life. Amortisation is calculated using the straight line basis to allocate the cost of the intangible asset over their estimated useful lives of 15 years.

(c) Securities purchased under resale agreements:

Securities purchased under resale agreements ("reverse repo or resale agreements") are short-term transactions whereby an entity buys securities and simultaneously agrees to resell them on a specified date and at a specified price. Reverse repos are accounted for as short-term collateralised lending and are measured at amortised cost.

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreement using the effective interest rate method and is included in interest income.

(d) Loans to members and allowance for loan losses:

(i) Loans to members:

Loans are measured at amortised cost, less allowance for loan losses [see note (ii) below]. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

4. Significant accounting policies(cont'd)

(d) Loans to members and allowance for loan losses (cont'd):

(ii) Allowance for loan losses:

Impairment is recognised as indicated in note 4 (i).

Loans are measured net of the provision from credit losses.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost which is the cash given to originate the loan including any transaction costs, and are subsequently measured at cost less impairment losses, if any.

The guidelines stipulated by the JCCUL require the allowance for loan loss to be stipulated percentages of total delinquent loans, the percentage varying with the period of delinquency, without considering securities held against such loans.

The allowance for loan loss required by JCCUL that is in excess of the requirements of IFRS, is treated as an appropriation of undistributed surplus and included in a non-distributable loan loss reserve. In addition, a general loan loss reserve is approved at the Annual General Meetings. This is treated as an appropriation of undistributed surplus and is also included in a non-distributable loan loss reserve.

(e) Other assets:

Other assets are measured at cost less impairment losses, if any.

(f) Other payables and accruals:

Other payables and accruals are measured at cost.

(g) External credits:

External credits are recognised initially at cost. Subsequent to initial recognition, they are measured at amortised cost on the effective interest basis.

(h) Deferred income:

Funds received from the Stabilization fund in JCCUL is treated initially as deferred income and transferred to the profit and loss when cost associated with the purpose for which it was received is incurred.

4. Significant accounting policies (cont'd)

(i) Impairment of financial assets:

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

- financial assets that are debt instruments;
- loans receivable.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than loan receivables) 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 ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the 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'.

Measurement of ECL

ECL 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);

- 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.

4. Significant accounting policies (cont'd)

(i) Impairment of financial assets (cont'd):

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 ECL 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 costs 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.

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 consider otherwise;
- 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.

4. Significant accounting policies (cont'd)

(i) Impairment of financial assets (cont'd):

Credit-impaired financial assets (cont'd)

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;
- loan commitments and financial guarantee contracts: generally, as a provision.

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 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.

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.

4. Significant accounting policies (cont'd)

(j) Impairment of non-financial assets:

The carrying amounts of the co-operative's non-financial assets 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 profit or loss.

(i) Calculation of recoverable amount:

The recoverable amount of the co-operative's investment securities classified as loans and receivables and other receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less cost 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:

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of 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.

(k) Dividends

Dividends on permanent shares is treated as an appropriation of surplus and payable when declared

4. Significant accounting policies (cont'd)

(l) Interest income

Interest income is recognised in profit or loss for 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 instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the co-operative estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs 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 and, for financial assets, adjusted for any expected credit loss allowance.

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

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.

Presentation

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

4. Significant accounting policies (cont'd)

(m) Fees income:

Fee income from contracts with customers is measured based on the consideration specified in a contract with a customer. The co-operative recognises revenue when the related service has been provided to the customer.

A contract with a customer that results in a recognised financial instrument in the co-operative's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the co-operative first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Performance obligations and revenue recognition policies:

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition
Service fees	The co-operative charges processing fees which will include credit risk evaluation and execution services to customers. Fees are charged on initiation of loan.	Revenue from service fees is recognised as the service is provided.

(n) Dividend income:

Dividends are recognised in profit or loss when the co-opeative's irrevocable right to receive payment is established.

4. Significant accounting policies (cont'd)

(o) Interest expense:

Interest expense is recognised in profit or loss 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 that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of 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 a 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 includes financial liabilities measured at amortised cost.

(p) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Jamaica dollars at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognised in the profit or loss.

(q) Employee benefits:

(i) The co-operative is a participating employer in a defined-contribution pension plan, Lascelles deMercado Defined-Contribution Fund. The main sponsor of the plan is J. Wray & Nephew Limited. It does not expose the participating entities to actuarial risks. Pension contributions are expensed as and when they fall due.

(r) League fees and stabilisation dues:

JCCUL has determined the rate of calculating league fees at 0.20% (2018: 0.20%) of total assets. Stabilisation dues are computed at a rate of 0.15% (2018: 0.15%) of total savings.

4. Significant accounting policies (cont'd)

(s) 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 a 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 or of a parent of the co-operative.

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

(i) The entity and the 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.

(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 services to 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.

4. Significant accounting policies (cont'd)

(t) Leases

The co-operative has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 3.

Policy applicable from January 1, 2019

At inception of a contract, the co-operative assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the co-operative uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the co-operative allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the co-operative has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The co-operative recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the co-operative by the end of the lease term or the cost of the right-of-use asset reflects that the co-operative will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

4. Significant accounting policies (cont'd)

(t) Leases (cont'd)

Policy applicable from January 1, 2019 (cont'd)

As a lessee (cont'd)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the co-operative's incremental borrowing rate. Generally, the co-operative uses its incremental borrowing rate as the discount rate.

The co-operative determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencementdate;
- amounts expected to be payable under a residual value guarantee; and

Lease payments included in the measurement of the lease liability comprise the following:

- the exercise price under a purchase option that the co-operative is reasonably certain to exercise, lease payments in an optional renewal period if the co-operative is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the co-operative is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the co-operative 's estimate of the amount expected to be payable under a residual value guarantee, if the co-operative changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The co-operative presents right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The co-operative has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and low-value assets. The co-operative recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. Significant accounting policies (cont'd)

(t) Leases (cont'd)

Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the co-operative determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Assets held under other leases were classified as operating leases and were not recognised in the co-operative 's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(u) Financial instruments – Classification, recognition and de-recognition, and measurement:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise cash and cash equivalents, resale agreements, investment securities, and other assets.

(i) Recognition and initial measurement

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

Loans to members and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the co-operative becomes a party to the contractual provisions of the instrument.

4. Significant accounting policies (cont'd)

(u) Financial instruments – Classification, recognition and de-recognition, and measurement (cont'd):

(i) Revenue recognition (cont'd)

A financial asset (unless it is a loans to members 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. Receivables without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

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

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

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).

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.

4. Significant accounting policies (cont'd)

(u) Financial instruments – Classification, recognition and de-recognition, and measurement (cont'd):

(ii) Classification and subsequent measurement (cont'd)

Financial assets – Business Model Assessment

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. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the co-operative's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the co-operative's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets – Assessment whether contractual cashflows are solely payments of principal and interest

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.

4. Significant accounting policies (cont'd)

(u) Financial instruments – Classification, recognition and de-recognition, and measurement (cont'd):

(ii) Classification and subsequent measurement (cont'd)

The co-operative's objective is to hold financial assets to collect contractual cash flows.

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. In making this assessment, the co-operative considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the co-operative's claim to cash flows from specified assets (e.g. non-recourse features).

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.

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.

(iii) Derecognition:

The co-operative derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or 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 in which the co-operative neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the 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 recognised in profit or loss.

4. Significant accounting policies (cont'd)

(u) Financial instruments – Classification, recognition and de-recognition, and measurement (cont'd):

(iii) Derecognition (cont'd):

The co-operative enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. An example of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the co-operative neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the co-operative continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The co-operative derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

(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 currently 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.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the co-operative's trading activity.

(v) Measurement and gains and losses:

Financial assets at amortised cost are measured using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

LASCELLES EMPLOYEES & PARTNERS CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Notes to the Financial Statements (continued)
Year ended December 31, 2019

5. Loans to members

	2019	2018
Balance at beginning of year	858,209,045	848,344,949
Loans granted	483,857,658	441,605,797
	1,342,066,703	1,289,950,746
Less: Repayments and transfers	(441,410,393)	(431,741,701)
Balance before allowance for loan losses	900,656,310	858,209,045
Less: Allowance for loan losses	(23,864,565)	(23,661,216)
Balance at end of year	$ 876,791,745	834,547,829

(a) The following is a summary of loans in arrears

Period overdue	2019 Number in arrears	Loans in arrears	Rate (%)	Savings & deposits held	Loan loss allowance required
1 to 2 months	18	1,183,618	-	539,699	-
2 to 3 months	28	4,775,431	10	240,403	477,543
3 to 6 months	64	12,405,169	30	187,591	3,721,551
6 to 12 months	47	7,973,714	60	163,149	4,784,228
Over 12 months	-	-	100	-	-
		$26,337,932		1,130,842	8,983,322

Period overdue	2018 Number in arrears	Loans in arrears	Rate (%)	Savings & deposits held	Loan loss allowance required
1 to 2 months	24	5,941,719	-	833,990	-
2 to 3 months	41	9,137,284	10	1,455,954	913,728
3 to 6 months	38	12,339,673	30	318,189	3,701,902
6 to 12 months	33	5,658,188	60	104,845	3,394,913
Over 12 months	1	466,117	100	3,641	466,117
		$33,542,981		2,716,619	8,476,660

The aggregate amount of non-performing loans on which interest is not being accrued amounted to $26,337,932 (2018: $33,542,981). Uncollected interest not accrued in these financial statements on these loans was estimated at $ 2,194,945 (2018: $2,224,594).

5. Loans to members (cont'd)

(b) Allowance for loan losses:

	2019	2018
Balance brought forward	23,661,216	18,643,620
Transition adjustment	-	549,566
Charged to surplus during the year	10,275,124	20,179,813
Amounts charged off during the year	(10,071,775)	(15,711,783)
Balance carried forward	$23,864,565	23,661,216

Allowances made are in accordance with IFRS provisioning requirements:

	2019	2018
Specific provision (IFRS)	$23,864,565	23,661,216

In keeping with IFRS, the general provision is included in loan loss reserve and treated as an appropriation of undistributed surplus (note 23), where applicable.

(c) Loans, net of allowance for loss, are due from the reporting date as follows:

	2019	2018
Within 1-3 months	60,149,891	62,268,634
From 4 months to 1 year	164,322,849	170,391,619
From 1 year to 5 years	507,385,583	488,932,054
Over 5 years	144,933,422	112,955,522
	$876,791,745	834,547,829

(d) The credit quality of loans is summarised as follows:

	2019	2018
Neither past due nor impaired	712,381,552	697,285,314
Past due but not impaired	138,072,261	115,275,873
31 to 60 days	1,183,618	5,941,719
61 to 90 days	4,775,431	9,137,284
91 to 181 days	12,405,169	6,907,639
180 to 360	7,973,714	-
Impaired	23,864,565	23,661,216
	900,656,310	858,209,045
Less: Impairment allowance	(23,864,565)	(23,661,216)
	$876,791,745	834,547,829

6. Earning assets – liquid assets

	2019	2018
Securities and deposits:		
Short-term deposits – Mayberry Investments Limited	33,073,364	12,243,973
Savings account	12,579,737	4,430,326
	45,653,101	16,674,299
Less: Impairment allowance	(188,369)	(190,583)
	$45,464,732	16,483,716

7. Securities purchased under resale agreements

	2019	2018
Principal	22,724,781	69,176,337
Less: Impairment allowance	(91,293)	(381,519)
	$22,633,488	68,794,818

The fair value of securities held as collateral for securities purchased under resale agreements as at December 31, 2019 was $23,236,100 (2018: $70,530,667).

8. Financial investments

	2019			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
Mayberry Corporate Notes	-	10,000,000	-	10,000,000
Deposits - CUFMC	-	108,395,348	-	108,395,348
Deposits - VMBS	-	2,613,402	-	2,613,402
Deposit – Barita	-	62,842,876	-	62,842,876
Quoted shares	-	-	652,803	652,803
Unquoted shares – JCIAL	-	-	508,000	508,000
Unquoted shares – QNET	-	-	38,251	38,251
Unquoted shares - JCCUL	7,116,489	-	-	7,116,489
	7,116,489	183,851,626	1,199,054	192,167,169
Less: Impairment allowance	-	(137,337)	-	(137,337)
	$7,116,489	183,714,289	1,199,054	192,029,832

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8. Financial investments (cont'd)

	2018			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
Mayberry Corporate Notes	-	10,000,000	-	10,000,000
Deposits - CUFMC	-	141,713,677	-	141,713,677
Deposits – BARITA	-	11,899,968	-	11,899,968
Deposits - VMBS	-	2,613,402	-	2,613,402
Quoted shares	-	-	492,649	492,649
Unquoted shares – JCIAL	-		508,000	508,000
Unquoted shares - JCCUL	7,116,489	-	-	7,116,489
	7,116,489	166,227,047	1,000,649	174,344,185
Less: Impairment allowance	-	(377,952)	-	(377,952)
	$7,116,489	165,849,095	1,000,649	173,966,233

9. Non-earning – liquid assets

	2019	2018
Cash and cash equivalents:		
Current account	19,273,290	17,055,138
Others	55,357	44,996
	$19,328,647	17,100,134

10. Other assets

	2019	2018
Interest receivable on investments	1,123,954	605,195
Tax recoverable - investments	2,190,768	2,189,493
Salary deductions - members	15,624,134	12,318,818
Sundry debtors	1,184,319	689,212
Prepayment and other receivables	4,777,460	3,632,605
	$24,900,635	19,435,323

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11. Property, plant and equipment

	Leasehold improvements	Equipment	Computers	Furniture and fixtures	Total
Cost:					
December 31, 2017	5,528,329	15,775,709	3,933,992	1,837,704	27,075,734
Additions	-	91,517	601,229	158,602	851,348
Disposals	-	-	(147,513)	(25)	(147,538)
December 31, 2018	5,528,329	15,867,226	4,387,708	1,996,281	27,779,544
Additions	-	175,431	923,207	122,361	1,220,999
December 31, 2019	5,528,329	16,042,657	5,310,915	2,118,642	29,000,543
Depreciation:					
December 31, 2017	5,528,327	10,928,301	2,886,372	1,721,379	21,064,379
Charge for the year	-	2,201,253	377,798	66,917	2,645,968
Eliminated on disposals	-	-	(147,511)	(23)	(147,534)
December 31, 2018	5,528,327	13,129,554	3,116,659	1,788,273	23,562,813
Charge for the year	-	2,152,871	527,859	110,040	2,790,770
December 31, 2019	5,528,327	15,282,425	3,644,518	1,898,313	26,353,583
Net book values:					
December 31, 2019	$ 2	760,232	1,666,397	220,329	2,646,960
December 31, 2018	$ 2	2,737,672	1,271,049	208,008	4,216,731

12. Leases

The co-operative leases land and building from J. Wray & Nephew for office use which were previously clasisified as operating leases under IAS 17. The lease commenced July 3, 2015 and lasted for five years with the option to renew on similar terms. Information about the co-operative's lease is presented below:

(a) Right of use asset:

	2019 Land and Building
Balance at January 1, 2019	6,730,525
Depreciation charge for the year	(1,346,105)
Balance at December 31, 2019	$5,384,420

(b) Lease liabilities:

Maturity analysis – contractual undiscounted cashflows:	
Within one year	1,662,655
One to five years	5,774,272
Total undiscounted lease liability at December 31, 2019	7,436,927

	2019
Lease liability included in the statement of financial position:	
Current	1,584,718
Non-Current	4,267,491
	$5,852,209

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12. Leases (cont'd)

	2019
(c) Amounts recognised in profit and loss	
Interest on lease liabilities	$ 668,341
(d) Amounts recognised in cash flow	
Total cash outflow for leases	$1,546,657

13. Intangible assets

	Website	Software	Core deposits	Total
Cost:				
December 31, 2017	183,000	10,834,333	3,513,384	14,530,717
Additions	-	1,688,494	-	1,688,494
December 31, 2018	183,000	12,522,827	3,513,384	16,219,211
Additions	-	2,993,256	-	2,993,256
December 31, 2019	183,000	15,516,083	3,513,384	19,212,467
Amortisation:				
December 31, 2017	73,200	6,899,988	-	6,973,188
Charge for the year	36,600	1,703,237	234,226	1,974,063
December 31, 2018	109,800	8,603,225	234,226	8,947,251
Charge for the year	36,600	2,177,439	234,226	2,448,265
December 31, 2019	146,400	10,780,664	468,452	11,395,516
Net book values:				
December 31, 2019	$ 36,600	4,735,419	3,044,932	7,816,951
December 31, 2018	$ 73,200	3,919,602	3,279,158	7,271,960

14. Members' deposits

	2019	2018
Balance at beginning of year	359,463,409	334,280,387
Add: New deposits	1,200,814,896	1,166,240,242
	1,560,278,305	1,500,520,629
Less: Withdrawals and transfers	(1,173,457,308)	(1,141,057,220)
Balance at end of year	$ 386,820,997	359,463,409

15. Members' voluntary shares

	2019	2018
Balance at beginning of year	425,281,849	404,521,195
Add: New shares	331,720,026	307,664,385
	757,001,875	712,185,580
Less: Withdrawals and transfers	(311,862,104)	(286,903,731)
Balance at end of year	$445,139,771	425,281,849

16. External credits

		2019	2018
Interest bearing:			
(i)	Guardian General Insurance Jamaica Limited – loan	30,074,083	29,520,572
(ii)	JCCUL mortgage loan	18,024,273	19,490,032
(iii)	National Housing Trust	700,000	-
(iv)	Campari, JWN and Lascelles loan	185,720	43,618
		$48,984,076	49,054,222
Non-interest bearing:			
(v)	Campari Limited – Computer loan	1,628,542	1,628,542
(vi)	Campari Limited Motor Car Loan	10,000,000	10,000,000
		$11,628,542	11,628,542

(i) This represents an unsecured revolving loan to facilitate loans to members employed to Guardian General Insurance Jamaica Limited. There are no fixed repayment terms, and interest is charged at 2.5% per annum.

(ii) The loan is unsecured, bears interest at 7% per annum and is repayable by January 29, 2031.

(iii) This represents an unsecured loan to facilitate loans to the members who contribute to NHT with gross earnings of $30,000 or less weekly. Interest is charged at 4.5% per annum and is repayable by December 1, 2024.

(iv) This represents an unsecured revolving loan to facilitate loans to the members employed to Campari Limited. There are no fixed repayment terms, and interest is charged at between 1.25% to 4.3% per annum.

(v) This loan is unsecured, interest-free and has no fixed repayment terms.

(vi) This loan is unsecured, interest-free and has no fixed repayment terms.

17. Payables

	2019	2018
Audit and accounting fees	3,793,696	5,032,000
QNET ATM settlement	456,448	860,341
NUCS-CIS – upkeep savings	301,375	301,376
	$4,551,519	6,193,717

18. Other liabilities

	2019	2018
CUNA Mutual	393,679	484,650
Standing order	12,769,071	12,352,623
Sundry creditors	40,250	17,000
Interest on deposits and voluntary shares	575,010	446,249
Statutory liabilities	967,397	1,000,811
Inactive accounts	552,985	552,985
Deceased members	3,837,112	4,127,615
Insurance	266,430	454,732
Withholding tax payable	5,521,191	4,167,214
Other	6,008,442	5,538,721
	$30,931,567	29,142,600

19. Accruals

	2019	2018
Donations and scholarship	1,490,827	1,512,601
Sundry	6,075,145	7,091,239
	$7,565,972	8,603,840

20. Deferred income

	2019	2018
Funds received from JCCUL for IFRS 9 implementation	-	3,218,543
Amounts recognised in income during the year	-	(3,218,543)
	$ -	-

The 2018 balance represented amounts received from JCCUL for IFRS 9 assistance as detailed below:

(i) Financing of first year costs for IFRS 9 related to consultancy, training, depreciation on software procurement; and
(ii) Financing of Expected Credit Loss Model development.

21. Permanent shares

	2019	2018
Balance at start of year	4,260,000	4,034,000
Add: Amount subscribed	350,000	226,000
Balance at end of year	$4,610,000	4,260,000

Shares in the co-operative entitle each member to one vote in the conduct of the affairs of the co-operative at annual general meetings. Shares may be transferred to another member or anyone eligible for membership with the consent of the Board of Directors. However, the Board of Directors reserves 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.

22. Institutional capital

	2019	2018
Statutory reserve (i)	89,838,080	87,769,617
Retained earnings reserve (ii)	37,092,481	36,577,466
Business combination reserve (iii)	28,794,473	28,794,473
	155,725,034	153,141,556
Entrance fees	1,079,743	919,443
	$156,804,777	154,060,999

Institutional capital forms a part of the permanent capital of the co-operative and is not available for distribution.

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22. Institutional capital (cont'd)

(i) Statutory reserve:

The statutory reserve is maintained in accordance with the provisions of the Co-operative Societies Act, which require that a minimum of 20% of net 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%. The transfer is calculated on profits.

(ii) Retained earnings reserve:

Retained earnings reserve is increased from time to time by amounts appropriated from undistributed surplus, which in the opinion of the Directors, are necessary to support the operations of the co-operative and, thereby, protect the interest of the members. The amount transferred is determined at the Annual General Meeting.

(iii) Business combination reserve

This represents the excess of the fair value of net assets acquired and the deemed value for shares issued to members in the business combination.

23. Non-institutional capital

	2019	2018
General reserve (i)	27,652,941	27,652,941
Loan loss reserve (ii)	15,269,302	15,269,302
Building reserve (iii)	27,587,172	27,265,924
Share transfer reserve (iv)	4,091,000	4,128,000
IT infrastructure reserve (v)	5,126,387	7,800,465
Investment reserve (vi)	3,254,493	995,919
	$82,981,295	83,112,551

(i) General reserve is established from time to time by amounts appropriated from undistributed surplus, which in the opinion of the directors, are necessary to support the operations of the co-operative and thereby, protect the interest of the members. The amount transferred is determined at the Annual General Meeting.

(ii) The reserve represents an amount set aside to support loans granted to members that may become delinquent. This is a non-distributable loan loss reserve which represents the excess of JCCUL loan loss provision over IFRS requirements. The reserve also includes amounts transferred as determined at the Annual General Meeting.

(iii) The reserve represents an amount set aside to be used for leasehold improvements and to purchase a building for the credit union. The amount transferred is determined at the Annual General Meeting.

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23. Non-institutional capital (cont'd)

(iv) This reserve was set aside for the purpose of purchasing permanent shares from members who are closing their account. The amount transferred is determined at the Annual General Meeting.

(v) The reserve represent an amount to be used for upgrading IT facility and to purchase new systems. The amount transferred is determined at the Annual General Meeting.

(vi) This represents the unrealised gains and losses arising on changes in the fair value of investments designated as fair value through other comprehensive income.

24. Other finance costs

	2019	2018
Bank charges	886,653	801,848
QNET charges	1,298,413	1,284,116
	$2,185,066	2,085,964

25. Operating expenses

	2019	2018
(i) Personnel expenses:		
Salaries, allowances and statutory contributions	34,749,516	37,196,499
Employee welfare and benefits, education and training	5,604,341	5,514,825
Pension contributions	1,231,879	1,304,272
	41,585,736	44,015,596
(ii) Administration expenses:		
Repairs and maintenance	2,342,532	1,530,708
Stationery	562,950	332,705
Audit and accounting fees	4,316,596	5,679,960
Depreciation and amortisation	6,585,140	4,620,031
Insurance	5,395,703	6,277,460
Office expenses	2,489,892	2,130,937
Advertising and promotion	4,416,220	4,249,725
IT services	1,200,000	1,405,067
Legal and professional services	1,681,152	849,223
Telephone	1,446,796	1,273,306
AGM expenses	2,034,649	1,451,909
Bond premium	159,879	152,062
Security	2,436,579	2,290,243
Courier services	926,221	202,772
Balance b/f	$35,994,309	32,446,108

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Notes to the Financial Statements (continued)
Year ended December 31, 2019

25. Operating expenses (cont'd)

(ii) Administration expenses (cont'd):

	2019	2018
Balance c/f	35,994,309	32,446,108
Utilities	2,321,921	3,878,314
Minimum business tax	-	60,000
Miscellaneous	655,205	194,596
General Consumption tax irrecoverable	4,136,354	4,179,045
	43,107,789	40,758,063

(iii) Representation and affiliation expenses:

	2019	2018
Directors' meetings	974,250	975,962
League fees @ 0.20% (2018: 0.20%) x total assets	2,522,514	2,117,512
Stabilisation fund levy @ 0.15% (2018: 0.15%) of total savings	1,094,002	1,108,202
League AGM	1,180,597	719,573
	5,771,363	4,921,249
Total operating expenses	$90,464,888	89,694,908

26. Staff and volunteers' loans

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

	2019		
	Number	Loans $	Shares and deposits $
Staff	15	9,689,387	6,574,875
Volunteers	49	49,019,810	54,400,622

	2018		
	Number	Loans $	Shares and deposits $
Staff	11	8,260,185	3,183,339
Volunteers	40	33,703,534	38,029,325

Included in staff loans, shares and deposits are loans of $1,071,029 (2018: $995,926) and shares and deposits of $2,349,654 (2018: $1,299,014) with key management personnel. Loans to staff are granted at concessionary rates of interest. For other loans, no special conditions are attached and the conditions of repayment have been complied with.

27. Related parties

(a) Identity of related parties:

The co-operative has a related party relationship with its Directors and other key management personnel and the pension scheme. Related party balances are disclosed in note 26.

(b) Key management personnel compensation is as follows:

	2019 $	2018 $
Short-term employee benefits	22,011,373	20,163,963
Post-employment benefits	812,240	730,697

28. Life savings and loan protection insurance

Life savings and loan protection insurance was in force during the year.

29. Comparison of ledger balances

	Members' deposits	Loans	Members' demand loans
General ledger	386,820,997	876,791,745	445,139,771
Personal ledger	386,820,997	876,791,745	445,139,771
Differences as at December 31, 2019	$ -	-	-

30. Loan commitments

At December 31, 2019, loan commitments to members were $NIL (2018: $26,857,123).

30. Fidelity insurance

Fidelity insurance coverage was adequately maintained during the year.

31. 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

31. Financial risk management

(a) Introduction and overview

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.

(b) Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This risk arises primarily from the co-operative's loans to members, deposits with other institutions and investment securities. There is also credit risk exposure in respect of financial instruments not reflected in the statement of financial position such as loan commitments and guarantees. These expose the co-operative to similar risks as loans and are managed in the same manner.

(i) Loans to members

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. The Credit Committee reports to the Board on a monthly basis.

Credit review process

The co-operative assesses the probability of default of individual counterparties using internal ratings. Clients of the co-operative are segmented into five rating classes. The co-operative's internal rating scale, which is shown below, reflects the range of default probabilities defined for each rating class, via:

Co-operative's rating	*Description of the rating*
1	*Excellent*
2	*Good*
3-4	*Fair*
5	*Bad*

Exposure to credit risk is managed in part by obtaining collateral. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. 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.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(i) Loans to members (cont'd)

Credit review process (cont'd)

The credit quality of loans receivables is as follows:

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	
Loans and receivable					
Excellent/ Good	846,557,528	-	-	846,557,528	769,567,218
Fair	-	31,847,903	-	31,847,903	54,659,095
Bad	-	-	22,250,879	22,250,879	33,982,732
Total gross carrying amount	846,557,528	31,847,903	22,250,879	900,656,310	858,209,045
Loss allowance	(4,354,352)	(1,380,905)	(18,129,308)	(23,864,565)	(23,661,216)
Carrying amount	$842,203,176	30,466,998	4,121,571	876,791,745	834,547,829

Credit review process

(ii) Financial investments and resale agreements:

The co-operative limits its exposure to credit risk associated with investment securities by investing mainly in liquid securities with counterparties that have high credit quality and Government of Jamaica securities.

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.

Twelve (12)-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

(iii) Cash and cash equivalents

Cash and cash equivalents are held with banks and other financial institutions counterparties with 1 ratings.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iii) Cash and cash equivalents (cont'd)

Impairment has been measured at twelve (12)- month expected loss basis and reflects the short maturities of the exposures. The co-operative considered that cash and cash equivalents have low credit risk. No material impairment allowance was recognised on initial adoption of IFRS 9 and there was no change during the period.

Impairment

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 4(i).

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) 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 a backstop of 30 days past due.

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 judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Significant increase in credit risk (cont'd)

Credit risk grades (cont'd):

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 information obtained during periodic review of customer files.

- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- External data from credit reference agencies, including industry-standard credit scores.
- 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 grade 1 (excellent) to grade 3 (doubtful).

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.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Determining whether credit risk has been increased significantly (cont'd):

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).

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.

For 2019, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic scenario, a proxy of 0.7 (2018:1.1) times ECL was determined to be appropriate.

The economic scenarios used as at December 31, 2019 assumed no significant changes in key indicators within the next year.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Measurement of ECL

The key inputs into the measurement of ECL are 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. They are calculated on a discounted cash flow basis using the effective interest risk.

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. They are based on published reports of the major rating agencies : Moody's and Standard & Poor's. For loans secured by property, loan to value 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.

EAD represents the expected exposure in the event of a default. The co-operative derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the co-operative measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the co-operative considers a longer period. The maximum contractual period extends to the date at which the co-operative has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

Credit risk exposure to the co-operative at December 31, 2019 and December 31, 2018, without taking account of any collateral held or other credit enhancements, is as follows:

(1) Credit risk exposures relating to financial assets represent the amounts carried on the statement of financial position.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Maximum exposure to credit risk before collateral held or other credit enhancements (cont'd)

Credit exposure

(i) Loans to members

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

	2019	2018
Motor vehicle	380,069,460	316,872,294
Personal	176,037,391	182,456,852
Mortgage	75,098,112	80,248,946
Executive	189,912,736	189,111,051
Other	79,538,611	89,519,902
	900,656,310	858,209,045
Loss allowance	(23,864,565)	(23,661,216)
	$876,791,745	834,547,829

(ii) Debt securities

The following table summarizes the co-operative's credit exposure for debt securities at their carrying amounts, as categorised by their issue (see note 8).

	2019	2018
Mayberry Corporate Notes	10,000,000	10,000,000
Other institutions	173,851,626	156,227,047
	183,851,626	166,227,047
Less: Loss allowance	(137,337)	(377,952)
	$183,714,289	165,849,095

Collateral and other credit enhancements held against financial assets

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of different types of collateral. The main types of collateral obtained are mortgages over commercial and residential properties, lien over motor vehicle and hypothecation of shares held in the co-operative.

31. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Collateral and other credit enhancements held against financial assets (cont'd)

Estimates of fair value are based on the value of collateral assessed at the time of granting credit or acquiring other financial assets, and generally are not updated except when a loan (or other financial asset) is individually assessed as impaired. Collateral generally is not held over balances with banks except when securities are held under resale agreements, against deposits and investment securities and no such collateral was held as at December 31, 2019 and December 31, 2018.

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

An estimate, made at the time of borrowing, of the fair value of collateral and other security enhancements held against loans to borrowers and others is shown below:

	Loans and advances		Resale agreements	
	2019	2018	2019	2018
Neither past due nor impaired financial assets:				
Properties	33,468,173	128,704,077	-	-
Debt securities (note 7)	-	-	23,236,100	70,530,667
Liens on motor vehicles	207,070,675	350,189,500	-	-
Co-Maker	206,131,886	350,596,251	-	-
Total	$446,670,734	829,489,828	23,236,100	70,530,667

(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 monitored monthly. The key measure used by the co-operative for managing liquidity risk is the ratio of liquid assets to total savings deposits.

31. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

For this purpose, liquid assets include cash and bank balances, deposits held with JCCUL and highly liquid investments which are readily converted into cash within three months. The liquid asset ratio at the end of the year was 27% (2018: 21%).

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.

The following table presents the undiscounted contractual maturities of financial liabilities on the basis of their earliest contractual maturity.

	2019						
	Within 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Contractual cash flows	Carrying amount
Members' deposit	198,020,322	70,149,421	116,796,769	1,854,485	-	386,820,997	386,820,997
Members' voluntary shares	445,139,771	-	-	-	-	445,139,771	445,139,771
External credits	-	-	-	-	60,612,618	60,612,618	60,612,618
Lease liability	-	-	1,662,655	5,774,272	-	7,436,927	5,852,209
Accounts payable and accruals	43,049,058	-	-	-	-	43,049,058	43,049,057
	$686,209,151	70,149,421	118,459,424	7,628,757	60,612,618	943,059,371	941,474,652

	2018						
	Within 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Contractual cash flows	Carrying amount
Members' deposit	175,138,937	60,535,520	121,913,371	1,875,581	-	359,463,409	359,463,409
Members' voluntary shares	425,281,849	-	-	-	-	425,281,849	425,281,849
External credits	-	-	-	-	60,682,764	60,682,764	60,682,764
Accounts payable and accruals	43,940,157	-	-	-	-	43,940,157	43,940,157
	$644,360,943	60,535,520	121,913,371	1,875,581	60,682,764	889,368,179	889,368,179

While members' permanent shares are classified as equity, these shares can be withdrawn at the option of the members and will, therefore, affect the liquidity position of the co-operative. These 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.

31. Financial risk management (cont'd)

(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, foreign currency rate and equity prices 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 risk.

(i) Currency risk

Currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The co-operative is exposed to foreign currency risk 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 had no foreign currency balance at the reporting date.

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments 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.

No interest is paid on members' permanent shares 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.

At the reporting date, the interest rate profile of the co-operative's interest-bearing financial instruments was:

	2019	2018
Fixed rate financial assets:		
Loans to members	876,791,745	834,547,829
Liquid assets	45,464,732	16,483,716
Securities purchased under resale agreements	22,633,488	68,794,818
Financial investments	192,029,832	173,966,233
	$1,136,919,797	1,093,792,596

31. Financial risk management (cont'd)

(d) Market risk (cont'd)

(ii) Interest rate risk (cont'd)

At the reporting date, the interest rate profile of the co-operative's interest-bearing financial instruments was:

	2019	2018
Fixed rate financial liabilities:		
Members' deposit	386,820,997	359,463,409
Members' voluntary shares	445,139,771	425,281,849
External credits	48,984,076	49,054,222
	$880,944,844	833,799,480

The co-operative does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or available-for-sale and, therefore, a change in interest rates at the reporting date would not affect profit or loss or equity. The co-operative has no variable rate financial instrument at the reporting date.

(iii) Equity price risk

Equity price risk arises from available-for-sale equity securities held by the co-operative as part of its investment portfolio.

The co-operative's exposure to equity price risk is insignificant as the co-operative's equity listed on the Jamaican Stock Exchange is less than 1% of its financial investments portfolio.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the co-operative's processes, personnel, technology and infrastructure, and from external factors, other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The co-operative's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

31. Financial risk management (cont'd)

(f) 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 members' shares, institutional capital, non-institutional capital and undistributed surplus. 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% (2018: 13%).

There were no changes in the co-operative's approach to capital management during the year.

32. Fair values

(i) Definition and measurement of fair values:

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.

When measuring the fair value of an asset or liability, where a quoted market price is available, fair value is computed by the co-operative using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data;

The fair value of the quoted equities is determined based on their quoted bid price at the reporting date. The estimated fair values of loans to members are assumed to be the principal receivable less any allowance for loan losses.

The fair value of external credits, deposits payable on demand or after notice, and deposits with a variable or floating rate payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable within a year are assumed to approximate their carrying values, due to their short-term nature.

No quoted price is available for shares held in JCCUL and fair value cannot otherwise be determined as there is no available market for this or similar instruments. There is no intention to dispose of these instruments. Therefore fair value is assumed to approximate to carrying value.

32. Fair values (cont'd)

(ii) Definition and measurement of fair values:

Co-operative uses observable data as far as possible. Fair values are categorized into different levels in a three-tier fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

Fair value hierarchy: The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3: Financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The fair value of liquid assets, other assets and other liabilities are assumed to approximate their carrying values due to their short-term nature.

(i) Basis of valuation

Financial instrument	Method of estimating fair value
(i) Quoted share	Estimated using bid prices published by the stock exchange.
(ii) Unquoted shares	Net asset valuation method.

32. Fair values (cont'd)

The fair value of the financial assets, together with the carrying amounts and their classification shown in the statement of financial position, are as follows:

	December 31, 2019						
	Carrying amount			Fair value			
	Fair value through profit or loss	Fair value through other comprehensive income	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Financial assets measured at fair value:							
Quoted ordinary shares		652,803	652,803	652,803	-	-	652,803
Unquoted ordinary shares	7,116,489	546,251	7,662,740	-	-	7,662,740	7,662,740
	7,116,489	1,199,054	8,315,543	652,803	-	7,662,740	8,315,543

	December 31, 2018						
	Carrying amount			Fair value			
	Fair value through profit or loss	Fair value through other comprehensive income	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Financial assets measured at fair value:							
Quoted ordinary shares		492,649	492,649	492,649	-	-	492,649
Unquoted ordinary shares	7,116,489	508,000	7,624,489	-	-	7,624,489	7,624,489
	7,116,489	1,000,649	8,117,138	492,649	-	7,624,489	8,117,138

33. Subsequent event

Subsequent to the reporting date, the World Health Organization declared the Coronavirus (COVID-19) outbreak a pandemic due to its rapid spread across the globe. Jamaica has been affected by the outbreak, which resulted in the Government of Jamaica declaring Jamaica a disaster area on March 13, 2020. This has disrupted business operations, caused a downturn in the economy and significantly increased economic uncertainty.

The co-operative expects that this will have some impact on financial performance, however an estimate of this amount cannot be made at this time. The co-operative maintains a healthy liquidity position that is expected to cushion any negative impact in the medium term. Management is also monitoring the turn of events closely and actively working on implementing the necessary strategic actions to mitigate any effect on the co-operative's business activities, and ensure long term sustainability.