

**COMMUNITY FIRST CO-OPERATIVE CREDIT UNION
LIMITED**

Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)



COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Opinion

We have audited the financial statements of Community First Co-operative Credit Union Limited ("the Credit Union"), which comprise the statement of financial position at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in member's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Responsibilities of Management and Those Charged with Governance for the Financial Statements *(cont'd)*

In preparing the financial statements, management is responsible for assessing the Credit Union'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 Credit Union or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union'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 Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union 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.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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

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.



Chartered Accountants
March 22, 2021

Antigua and Barbuda

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019	2018
Assets			
Cash and cash equivalents	9	\$ 26,004,543	18,973,113
Loans and advances	10	200,273,841	165,761,024
Investment securities	11	20,632,281	15,337,177
Other assets	12	610,288	989,814
Property and equipment	13	13,503,220	13,273,143
Total Assets		\$ 261,024,173	214,334,271
Liabilities and Members' Equity			
Liabilities			
Members' deposits	14	216,289,339	180,917,717
Other liabilities	15	5,676,106	1,028,683
Total Liabilities		221,965,445	181,946,400
Members' Equity:			
Permanent shares	16	\$ 7,250,440	6,161,285
Reserves	17	13,400,221	11,994,422
Retained earnings		18,408,067	14,232,164
Total Members' Equity		39,058,728	32,387,871
Total Liabilities and Members' Equity		\$ 261,024,173	214,334,271

Approved for issue by the Board of Directors and signed on its behalf by:

President  Thomas C. Greenaway-Whyte (Mar 22, 2021 10:11 EDT) Treasurer  Yanrick Gordon (Mar 22, 2021 10:28 EDT)

The notes on pages 8 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2019

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Interest income		\$ 16,833,973	14,180,477
Interest expense		(4,034,796)	(3,196,795)
Net interest income		12,799,177	10,983,682
Other income	19	1,643,154	1,314,844
Operating income		14,442,331	12,298,526
Operating expenses			
General and administrative expenses	18	(8,899,489)	(6,998,790)
Provision for impairment	10	(300,702)	(2,192,489)
		(9,200,191)	(9,191,279)
Finance income			
Investment income		645,002	793,862
Profit for the year		\$ 5,887,142	3,901,109
Total comprehensive income for the year		\$ 5,887,142	3,901,109

The notes on pages 8 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Changes in Member's Equity

Year ended December 31, 2019

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>Permanent shares</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2017		\$ 5,553,760	11,104,122	11,649,531	28,307,413
Transactions with members					
Dividends paid	24	-	-	(443,516)	(443,516)
Issuance of permanent shares	16	607,525	-	-	607,525
		607,525	-	(443,516)	164,009
Other reserves movements					
Statutory reserve		-	962,143	(962,143)	-
Entrance fees		-	15,340	-	15,340
Revaluation surplus transfer		-	(87,183)	87,183	-
		-	890,300	(874,960)	15,340
Comprehensive income					
Profit for the year		-	-	3,901,109	3,901,109
Balance at December 31, 2018		\$ 6,161,285	11,994,422	14,232,164	32,387,871
Effect of change in accounting policy - IFRS 16		-	-	(35,860)	(35,860)
Restated balance at January 1, 2019		6,161,285	11,994,422	14,196,304	32,352,011
Transactions with members					
Dividends paid	24	-	-	(289,015)	(289,015)
Issuance of permanent shares	16	1,089,155	-	-	1,089,155
		1,089,155	-	(289,015)	800,140
Other reserves movements					
Statutory reserve	17	-	1,473,543	(1,473,543)	-
Entrance fees	17	-	19,435	-	19,435
Revaluation surplus transfer		-	(87,179)	87,179	-
		-	1,405,799	(1,386,364)	19,435
Comprehensive income					
Profit for the year		-	-	5,887,142	5,887,142
Total comprehensive income		-	-	5,887,142	5,887,142
Balance at December 31, 2019		\$ 7,250,440	13,400,221	18,408,067	39,058,728

The notes on pages 8 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2019

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit for the year		\$ 5,887,142	3,901,109
Items not affecting cash:			
Depreciation	13	698,135	513,394
Provision for credit losses		300,702	2,192,489
Interest expense		4,034,796	3,196,795
Interest income		(17,478,975)	(14,180,477)
Operating loss before changes in working capital		(6,558,200)	(4,376,690)
Change in loans and advances		(38,342,163)	(33,941,443)
Change in other assets		379,526	(318,676)
Change in other liabilities		4,176,603	570,351
Change in members' deposits		35,313,368	27,843,629
Cash used in operations		(5,030,866)	(10,222,829)
Interest received		17,067,307	14,180,477
Interest paid		(3,976,541)	(3,196,795)
Net cash generated from operating activities		8,059,899	760,853
Cash flows from investing activities			
(Purchase)/sale of investment securities		(5,271,320)	6,165,308
Purchase of property and equipment	13	(493,252)	(1,438,368)
Proceeds from sale of loan		3,916,528	-
Net cash (used in)/ generated from investing activities		(1,848,044)	4,726,940
Cash flows from financing activities			
Proceeds from issuance of permanent shares		1,089,155	607,525
Entrance fees		19,435	15,340
Dividends paid	24	(289,015)	(443,516)
Net cash generated from financing activities		819,575	179,349
Increase in cash and cash equivalents		7,031,430	5,667,142
Cash and cash equivalents, beginning of year		18,973,113	13,305,971
Cash and cash equivalents, end of year		\$ 26,004,543	18,973,113

The notes on pages 8 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

1. Nature of operations

The principal activity of the Community First Co-operative Credit Union Limited ("the Credit Union") is to encourage financial prudence through savings and provide loans and other financial products and services to its members.

2. General information and statement of compliance with IFRS

Community First Co-operative Credit Union Limited was registered on January 18, 1982 under the Co-operative Laws of Antigua and Barbuda. The organisation was established on April 7, 1959 under the Co-operative Society Ordinance 1958, the Co-operative Societies Rule 1960 and with subsequent amendments. The Credit Union changed its name to Community First Co-operative Credit Union Limited effective January 31, 2005.

The registered office of the Credit Union is located at Old Parham Road, St. John's, Antigua.

The accompanying financial statements are the financial statements of the Credit Union and have been prepared in accordance with IFRS and International Financial Reporting Standards Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB) under the historical cost convention, as modified by the revaluation of land and buildings and financial assets at fair value through other comprehensive income.

3. Basis of Preparation

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standard Board (IASB). These financial statements were approved by the Board of Directors on March 22, 2021.

(b) Going Concern

These financial statements have been prepared on the going concern basis, which assumes that the Credit Union will continue in operation for the foreseeable future. They do not purport to give effect to adjustments, if any, that may be necessary should the Credit Union be unable to realise its assets and discharge its liabilities in other than the ordinary course of business.

(Expressed in Eastern Caribbean Dollars)

3. Basis of Preparation (cont'd)

(c) Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Credit Union has adopted the following amendments to standards and new interpretations effective from January 1, 2019. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Credit Union's separate financial statements.

- IFRS 16, *Leases, effective January 1, 2019*, replaces IAS 17, this new standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17, lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

IFRS 16 Transition Method

The Credit Union adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019) without restatement of comparative figures. The Credit Union elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Credit Union applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- b) Exclude initial direct cost from measurement of right-to-use assets at the date of initial application for the leases where the right-to-use asset was determined as if IFRS 16 had been applied since the commencement date;
- c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial applications; and
- d) Apply the exemptions not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial applications.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***3. Basis of Preparation (cont'd)****(c) Adoption of New or Revised Standards, Amendments to Standards and Interpretations (cont'd)***IFRS 16 Transition Method (cont'd)*

As a lessee, the Credit Union previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership. Under IFRS 16, the Credit Union recognised right-of-use assets and lease liabilities for most leases. However, the Credit Union has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of twelve (12) months or less.

On adoptions of IFRS 16, the Credit Union recognised right of use assets and lease liabilities as follows.

Classifications under IAS 17	Right -of-use assets	Lease liabilities
Operating leases that meet the definition of investment property in IAS 40 - Investment Property	Fair value as at January 1, 2019.	Measured at the present value of the remaining lease payments, discounted using the Credit Union's incremental borrowing rate as at January 1, 2019. The Credit Union's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was ten (10%) percent.
All other operating Leases	Office space: Right-of-use assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments. All other: the carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.	
Finance Leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial applications (i.e. carrying values brought forward, unadjusted).	

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

3. Basis of Preparation (cont'd)**(c) Adoption of New or Revised Standards, Amendments to Standards and Interpretations (cont'd)****IFRS 16**

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at January 1, 2019:

	IAS 17 Carrying Amounts as at December 31, 2018	Impact of adopting IFRS 16	IFRS 16 Carrying Amount as at January 1, 2019
<u>Assets</u>			
Property and Equipment			
Right-of-Use Asset	-	434,960	434,960
<u>Liabilities</u>			
<i>Other liabilities</i>			
Operating Lease liability	-	(470,820)	(470,820)
<u>Members' Equity</u>			
Retained Earnings	14,232,164	(35,860)	14,196,304

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation.** Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Credit Union assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Credit Union.

(Expressed in Eastern Caribbean Dollars)

3. Basis of Preparation (cont'd)

(c) **Adoption of New or Revised Standards, Amendments to Standards and Interpretations (cont'd)**
Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Credit Union's financial statements. The new and amended standards and interpretations are effective for annual periods beginning on or after January 1, 2019, unless otherwise stated.

- *IFRIC 23 Clarification of uncertainty in tax accounting.* The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, where there is uncertainty over income tax treatments under IAS 12. An entity is required to reassess its judgements and estimates if facts and circumstances change. The requirements are applied by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the entity first applies them without adjusting comparatives information.
- Improvements to IFRS 2015-2017 cycle, contain amendments to certain standards and interpretations. Below is the main amendment applicable to the Credit Union:

IFRS 3, *Business combinations and IFRS11 Joint Arrangements*, the amendment clarify that when an entity obtains control of a business that is a joint operation, it premeasures previously held interests in that business. These changes also clarify that when an entity obtains control of a business that is a joint operation, the entity does not re-measure previously held interest in that business.

IAS 23, *Borrowing Costs*, this amendment clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

(d) **New Standards and interpretation of amendments to existing standards issued but not effective during the year**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Credit Union's financial statements are disclosed below. The Credit Union intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. This standard is not applicable to the Credit Union.

(Expressed in Eastern Caribbean Dollars)

3. Basis of Preparation (cont'd)

(d) New Standards and interpretation of amendments to existing standards issued but not effective during the year

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Credit Union will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 amendments to the definition of material is not expected to have a significant impact on the Credit Union's financial statements.

4. Summary of significant accounting policies

4.1 Overall considerations

The significant accounting policies set out below have been applied consistently by the Credit Union to all periods presented in these financial statements, except as otherwise stated.

4.2 Revenue recognition

Revenue arises from the rendering of services. The Credit Union recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for the Credit Union's activities. It is measured at the fair value of consideration received or receivable. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability.

The Credit Union's calculation of the effective interest rate includes all material fees received, transaction costs, discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies(cont'd)

4.2 Revenue recognition (cont'd)

(ii) Other income

Other income is recognised on the accrual basis.

4.3 Foreign currency translation

Functional and presentation currency

These financial statements are presented in Eastern Caribbean Dollars, which is the Credit Union's functional and presentation currency. All financial information presented in Eastern Caribbean Dollars has been rounded to the nearest dollar.

Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Eastern Caribbean Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Eastern Caribbean Dollars at foreign exchange rates ruling at the dates the values were determined.

4.4 Leases (Policy applicable before January 1, 2019)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases are recognised in profit or loss on the straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Leases (Policy applicable after January 1, 2019)

Credit Union as a lessee

The Credit Union applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Credit Union recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Credit Union recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Credit Union as a lessor

Leases in which the Credit Union does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies(cont'd)

4.4 Leases (Policy applicable before January 1, 2019) (cont'd)

Credit Union as a lessor (cont'd)

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.5 Financial Instruments

The Credit Union recognises a financial asset or a liability in the statement of financial position when it becomes party to the contractual provision of the instruments.

(a) *Initial recognition and measurement of financial instruments*

At initial, recognition, the Credit Union measures its financial assets and financial liabilities at their fair values plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability such as fees and commissions.

If the Credit Union determines that the fair value of its financial assets and liabilities at initial recognition differs from the transaction price, the difference is recognised as follows:

- If that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss.
- In all other cases, the difference between the fair value at initial recognition and the transaction price is deferred. After initial recognition, the Credit Union recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(b) *Classification and subsequent measurement of financial assets*

The Credit Union classifies the financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (i) the Credit Union's business model for managing the financial assets; and
- (ii) the contractual cash flow characteristics of the financial asset.

Based on these factors, the Credit Union classifies its asset into one of the following three measurements:

Financial assets at amortised cost

A financial asset is measured at amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Expressed in Eastern Caribbean Dollars)

4. **Summary of significant accounting policies (cont'd)**

4.5 **Financial Instruments**

Financial assets at amortised cost (cont'd)

Amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset. When calculating the effective interest rate, the Credit Union estimates the expected cash flows by considering all the contractual terms of the financial instrument, but does not consider the expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The Credit Union's financial assets measured at amortised cost include loan to members, investments in fixed deposits and treasury bills and cash and cash equivalents.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other profit or loss (FVTPL)

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. The Credit union does not have any assets measured at FVTPL.

Reclassifications

If the business model under which the holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Credit Union's financial assets. During the current financial year and previous accounting period there were no changes in the business models under which the Credit Union holds financial assets and therefore no reclassifications were made except for the new classifications under IFRS 9. Changes in contractual cash flows are considered under the accounting policy on *Modification of loans to members* in Note 4.5 (d) and *Derecognition of financial assets* in Note 4.5 (f).

(Expressed in Eastern Caribbean Dollars)

4. **Summary of significant accounting policies (*cont'd*)**

4.5 **Financial Instruments (*cont'd*)**

(c) ***Impairment of Financial Assets***

The Credit Union recognises a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost and the exposure arising from loan commitments and financial guarantee contracts. The expected credit losses are assessed on a forward looking basis. The Credit Union's measurement of ECL reflects:

- a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b) the time value of money; and
- c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The financial assets are grouped on the basis of shared credit risk characteristics to determine the average credit losses for each group of assets. The Credit Union considers this approach to be a reasonable estimate of the probability-weighted amount. The lifetime expected credit losses for the nonperforming financial assets are assessed on an individual basis. The Credit Union considers if there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking. At each reporting date, the Credit Union measures the loss allowance at an amount equal to the lifetime expected credit losses, if the credit risk on that financial instrument has increased significantly since initial recognition. The Credit Union considers the following factors in assessing changes in credit risk since initial recognition:

- significant changes in internal price indicators of credit risk;
- changes in the rates or terms of an existing instrument that would be significantly different if the instrument was newly issued (e.g. more stringent covenants);
- significant increases in credit risk on other financial instruments from the same borrower;
- an actual or forecast significant adverse changes in the business, financial or economic conditions that are expected to significantly affect the borrower's ability to meet its debt obligations (e.g. increase in interest rates and unemployment rates);
- an actual or expected significant change in the financial instrument's external credit rating;
- an actual or expected internal credit rating downgrade for the borrower or decrease in behavioral scoring used to assess credit risk internally;
- an actual or expected significant change in the operating results of the borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of guarantees or credit enhancements reductions in financial support from a parent entity that are expected to reduce the borrower's incentive to make scheduled contractual payments;
- expected breaches of contract that may, for example, lead to covenant waivers or amendments, or interest payment holidays;

(Expressed in Eastern Caribbean Dollars)

4. **Summary of significant accounting policies (cont'd)**

4.5 **Financial Instruments (cont'd)**

(c) *Impairment of Financial Assets (cont'd)*

- existing or expected adverse changes in the regulatory, economic, or technological environment that significantly affect, or are expected to affect, the borrower's ability to meet its debt obligations;
- changes in the Credit Union's credit management approach in relation to the financial instrument (e.g. specific intervention with the borrower, more active or close monitoring of the instrument by the Credit Union);
- significant changes in the expected performance and behaviour of the borrower including changes in the payment status of borrowers in the (e.g. expected increase in delayed contractual payments); and
- past due information, including the rebuttable presumption of more than 30 days past due.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Credit Union under the contract and the cash flows that the Credit Union expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Credit Union if the holder of the commitment draws down the loan and the cash flows that the Credit Union expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Credit Union expects to receive from the holder, the debtor or any other party.

The Credit Union measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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. Credit-impaired financial assets are referred to as Stage 3 assets.

(Expressed in Eastern Caribbean Dollars)

4. **Summary of significant accounting policies (cont'd)**

4.5 **Financial Instruments (cont'd)**

(c) ***Impairment of Financial Assets (cont'd)***

Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Credit Union assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Credit Union considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

- the borrower is past due more than 90 days on any material credit obligation to the Credit Union; or
- the borrower is unlikely to pay its credit obligations to the Credit Union in full.

This definition of default is used by the Credit Union for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Credit Union considers both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.5 Financial Instruments (cont'd)

(c) Impairment of Financial Assets (cont'd)

Definition of default (cont'd)

The Credit Union uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired.

Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

(d) Modification of loans to members

When the Credit Union renegotiates or otherwise modifies, the contractual cash flows of its customer loans, the Credit Union assesses whether or not the new terms are substantially different from the original terms of the agreement. The Credit Union derecognises the original loan if the terms are substantially different and recognises the new loan at its fair value. The Credit Union also recalculates the new effective interest rate for the loan. The date of the modification is considered to be the date of initial recognition of the new loan when applying the impairment requirements and also assessing whether a significant increase in credit risk has occurred. The Credit Union also considers whether there may be evidence that the modified loan is credit-impaired at initial recognition. In this situation, the loan is recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset as a result of the borrower being unable to make the originally agreed payments. Differences in the carrying amount are recognised as a gain or loss on derecognition in the profit or loss.

If the new terms are not substantially different the original loan is not derecognised. The Credit Union recalculates the gross carrying amount of the loan and recognises a modification gain or loss in the profit and loss.

The gross carrying amount of the loan is recalculated as the present value of the renegotiated contractual cash flows discounted at the loan's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). Any costs or fees incurred adjust the carrying amount of the modified loan and are amortised over the remaining term of the modified financial asset.

(e) Write offs

The Credit Union directly reduces the gross carrying amount of a financial asset when the Credit Union has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. This is the case when the Credit Union 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. A write-off constitutes a derecognition event. The Credit Union may apply enforcement activities to financial assets written off. Recoveries resulting from the Credit Union's enforcement activities will result in impairment gains, which will be presented in net impairment loss on financial assets' in the statement of profit or loss.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.5 Financial Instruments (cont'd)

(e) Write offs (cont'd)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(f) Derecognition of financial assets

The Credit Union derecognises financial assets when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to receive the cash flows of the financial asset are retained but the contractual obligation to pay the cash flows to one or more recipients is assumed in an arrangement where:

- (i) The Credit Union has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;
- (ii) The Credit Union is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- (iii) The Credit Union has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients

(g) Transfers of financial assets

The Credit Union enters into transactions resulting in transfers of financial assets. A transfer of a financial asset may result in derecognition of the asset in its entirety, recognition of the Credit Union's retained interest in the asset and an associated liability for amounts it may have to pay, or continued recognition of the financial asset in its entirety and recognition of a collateralised borrowing for the proceeds received.

When the transfer does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Credit Union is not entitled to use these financial assets for any other purposes. The most common transactions under which the Credit Union has continued involvement of the transferred assets are:

- (i) Sale and repurchase agreements: under these agreements the Credit Union may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Credit Union retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at amortised cost, unless it is designated at FVTPL.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.5 Financial Instruments (cont'd)

(g) Transfers of financial assets (cont'd)

- (ii) Securities lending agreements: under these agreements the Credit Union lends securities to other banks and/or customers for a fee and receives collateral in the form of cash. The securities are retained on the balance sheet as the Credit Union retains substantially all the risks and rewards of ownership. The cash collateral received is accounted for as a financial liability at amortised cost, unless it is designated at FVTPL.
- (iii) Securitisations: the Credit Union uses securitisations as a source of finance and a means of risk transfer. Such transactions generally result in the transfer of contractual cash flows from portfolios of financial assets to holders of issued debt securities. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of the Credit Union's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Credit Union transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

(h) Financial Liabilities:

Classification and subsequent measurement of financial liabilities

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost. Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specific in the contract is discharged, cancelled or expires).

4.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments. Bank overdraft which is repayable on demand forms an integral part of the business and is included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are measured at amortised cost.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.7 Property and equipment and depreciation

(a) Initial measurement

Property and equipment are initially stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of items.

(b) Subsequent measurement

Land and building

After recognition, land and building whose fair value can be measured reliably are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in members' equity under the heading of revaluation reserves (note 17). However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserves in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in members' equity under the heading of revaluation reserve.

When a building is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Furniture, equipment and motor vehicles

After recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(c) Depreciation

Depreciation is calculated on the straight line method to write down the cost less estimated residual values of the assets. The following depreciation rates are applied:

Building	25 years
Equipment	10 years
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	5 years
Telephone equipment	5 years
Motor vehicles	5 years

Land is not depreciated.

The assets' residual values and estimated useful lives are reviewed and adjusted, if appropriate, at each reporting date.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.7 Property and equipment and depreciation (cont'd)

(c) Depreciation (cont'd)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss.

4.8 Impairment of non-financial assets

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use.

To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed only to the extent that the asset's or cash-generating unit's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.9 Provisions

Provision for legal disputes or other claims are recognised when the Credit Union has a present or legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Credit Union to settle the obligation and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies (cont'd)

4.10 Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or losses incurred.

4.11 Equity, reserves and dividend payments

a) *Permanent shares*

Permanent shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

b) *Reserves*

Statutory reserves comprise amounts required to be set aside as stipulated by the Co-operative Societies Act (see Note 17).

General reserves comprise donated capital and entrance fees set aside as stipulated by the Credit Union's By-laws (see Note 17).

Revaluation reserves comprise gains and losses from the revaluation of land and building (see Note 13).

Other reserves comprise provision for loan losses recognised for regulatory purposes.

c) *Retained earnings*

Retained earnings include all current and prior period retained profits.

d) *Dividends*

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*.

Dividends paid are recognised in equity in the period in which they are approved by the Credit Union's members at the Annual General Meeting.

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

5. Significant management judgements in applying accounting policies and estimation uncertainty

In the application of the Credit Union's accounting policies, which are described in note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(Expressed in Eastern Caribbean Dollars)

5. Significant management judgements in applying accounting policies and estimation uncertainty: (cont'd)

The estimates and assumptions that have the most significant effect on the amounts recognised on the financial statements are described below.

5.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Credit Union determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Credit Union monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Credit Union's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for the financial assets measured at amortized cost, FVTPL and FVTOCI is an area that requires the use of modeling and assumptions about future economic conditions and credit behaviors (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgement are also required in applying the account requirements for measuring ECL, such as:

- Determining credit for significant increase in credit risk
- Choosing appropriate model and assumptions for the measurement of proportional loss
- Establishing groups of similar financial assets for the purposes of measuring ECL
- Recovery rates on unsecured exposures
- Drawdown of approved facilities
- Determination of macroeconomic drivers (management overlay)
- Determination of life of revolving credit facilities
- Models and assumptions used

5.2 Valuation of Stage 3 loan facilities

The proposed cash flow was discounted using the yield of the facilities. The Credit Union makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(Expressed in Eastern Caribbean Dollars)

5. Significant management judgements in applying accounting policies and estimation uncertainty (cont'd)

5.2 Valuation of Stage 3 loan facilities (cont'd)

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5.3 Expected Credit Loss on Financial Assets at FVTOCI - Equity Investments:

The Credit Union determines Fair Value equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgement, the Credit Union evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. These factors may give rise to uncertainty regarding the recoverability of the carrying value in the subsequent period and/or the eventual recoverability of the amounts invested in full.

The Credit Union recognised ECL on equity investments during the year of nil (2018: nil).

6. Financial Risk Management

Risk management objectives and policies

The Credit Union has exposure to the following risks arising from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Credit Union's exposure to each of the above risks, the Credit Union's objectives, policies and processes for measuring and managing risk, and the Credit Union's management of capital.

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function.

The Board of Directors receives monthly reports from the Credit Union's Management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***6. Financial Risk Management (cont'd)****Risk management objectives and policies (cont'd)**

The Credit Union's risk management processes are essentially those mandated by the Board of Directors and are structured to facilitate identification of risks in its various business activities and to formulate risk management strategies, policies and procedures. Risks are maintained within established limits. The Credit Union's risk management policies entail diversification of risk in its portfolios, the establishment of risk rating indicators for individual members and lines of credit and continuous review of risk profiles for its members and portfolios. Risk limits are also set in relation to groups of borrowers and industry and geographical segments. The policies also include review, analysis and valuation of all risk taking activities.

6.1 Credit risk analysis

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to this risk for various financial instruments, for example, granting loans to members, placing deposits and investing in bonds.

i. Loans to members

The Credit Union's exposure to credit risk is influenced mainly by the individual characteristics of each member. The demographics of the Credit Union's member base, including the default risk of the country in which members operate, has less of an influence on credit risk. Geographically there is concentration of credit risk as all members are located in Antigua and Barbuda.

ii. Cash and cash equivalents

Cash and cash equivalents are held with established and reputable financial institutions, which represent minimum risk of default.

iii. Maximum exposure to credit risk

The maximum on-balance sheet and off-balance sheet exposure to credit risk at the reporting date was:

	2019	2018
On-balance sheet		
Cash and cash equivalents	\$ 26,004,543	18,973,113
Loans to members	200,273,841	165,761,024
Investments	20,632,281	15,337,177
Other receivables	328,313	729,957
	\$ 247,238,978	200,801,271
Off-balance sheet		
Unused line of credit	150,000	415,344
	\$ 247,388,978	201,216,615

Credit risk in respect of financial assets is limited as these balances are shown net of provision for doubtful debts.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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*(Expressed in Eastern Caribbean Dollars)***6. Financial Risk Management (cont'd)****6.1 Credit risk analysis (cont'd)****Loans to members****(a) Expected credit loss on loans to members**

The Expected Credit Loss, commonly referred to as ECL, represents the amount the Credit Union is likely to lose in the event of a default. The Credit Union is required to categorise the loans in their respective stages as outlined in the IFRS 9 Standard.

Expected credit loss (ECL) on loans to members are analysed below:

	Gross Amount	ECL	Net Amount
Stage 1	\$ 194,092,508	11,715	194,080,793
Stage 2	1,656,514	97,923	1,558,591
Stage 3	9,089,886	4,455,429	4,634,457
As at December 31, 2019	\$ 204,838,908	4,565,067	200,273,841

	Gross Amount	ECL	Net Amount
Stage 1	\$ 162,523,503	7,117	162,516,386
Stage 2	646,875	510,055	136,820
Stage 3	6,855,011	3,747,193	3,107,818
As at December 31, 2018	\$ 170,025,389	4,264,365	165,761,024

Stage 1 loans

Loans placed in this stage include loans for which there is no evidence of a significant increase in credit risk since the origination date and loans that are due to mature within 12 months of the reporting date providing that such loans were not in a state of default.

Stage 2 loans

Loans placed in this stage include loans past due between for 1 to 89 days and loans that experienced a significant increase in credit risk even if past due days threshold is not met.

Stage 3 loans

Loans placed in this stage are loans that are past due 90 days and over and loans that show evidence of impairment even if the 90 days threshold is not met.

One of the crucial requirements of IFRS 9 is for the Credit Union to determine whether there is a significant increase in credit risk (SIICR) from the date of loan origination to the current or the reporting date. In the event of a SIICR, the loan must be placed in Stage 2 and will require a lifetime provision. The loan should remain in this Stage until there is evidence that the event(s) that resulted in the increase in the credit risks have been satisfactorily cured. It is only then that these loans should be transitioned back to Stage 1. SIICR is determined by observing to the extent to which adverse changes in one or more of the credit risk drivers could increase the likelihood of the default since the origin of the loan. A change in members' employment arrangement, payment method, industry or personal conditions could be deemed significant enough to trigger a migration of loans to Stage 2 even if the past due days quantitative SIICR threshold is not met.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

Loans to members *(cont'd)*

(b) Loans to members re-negotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continual review. Restructuring is most commonly applied to term loans, in particular customer finance loans. There were no renegotiated loans which were impaired at December 31, 2019 or 2018.

(c) Repossessed collateral

The Credit Union had no repossessed collateral in its statement of financial position as of December 31, 2019 (2018: nil).

Bonds and equity investments

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment; however, there is no hierarchy of ranking. There are no external ratings of the securities. None of the securities are pledged as collateral.

6.2 Liquidity risk analysis

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Credit Union's liquidity risk is subject to risk management controls and is managed within the framework of regulatory requirements, policies and limits approved by the Board. The Board receives reports on liquidity risk exposures and performance against approved limits. Management provides the Board with information on liquidity risk for Board oversight purposes through its monthly meetings. The key elements of the Credit Union's liquidity risk management framework include:

- liquidity risk measurement and management limits, including limits on maximum net cash outflow over a specified short-term horizon;
- holdings of liquid assets to support its operations, which can generally be converted to cash within a reasonable time;
- liquidity stress testing PEARLS-specific ratios; and
- liquidity contingency planning.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk (cont'd)

6.2 Liquidity risk analysis (cont'd)

The table below presents the cash flows payable by the Credit Union under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual and undiscounted cash flows.

As of December 31, 2019

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Members' deposits	\$ 216,289,339	190,233,227	4,540,738	21,515,374	-	-	216,289,339
Other liabilities	5,676,106	5,676,106	-	-	-	-	5,676,106
	<u>\$ 221,965,445</u>	<u>195,909,333</u>	<u>4,540,738</u>	<u>21,515,374</u>	<u>-</u>	<u>-</u>	<u>221,965,445</u>

As of December 31, 2018

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Members' deposits	\$ 180,917,717	161,151,817	4,048,161	15,717,739	-	-	180,917,717
Other liabilities	1,028,683	1,028,683	-	-	-	-	1,028,683
	<u>\$ 181,946,400</u>	<u>162,180,500</u>	<u>4,048,161</u>	<u>15,717,739</u>	<u>-</u>	<u>-</u>	<u>181,946,400</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk *(cont'd)*

6.2 Liquidity risk analysis *(cont'd)*

Assets held for managing liquidity risk

The Credit Union holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Credit Union's assets held for managing liquidity risk comprise:

- Un-restricted cash in bank
- Certificates of deposit
- Loans and receivables investment securities
- Unimpaired loans

6.3 Market risk analysis

The Credit Union is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union does not face any such risk since its transactions are substantially in Eastern Caribbean Dollars, which is its functional currency. The United States Dollar, in which the Credit Union also transacts business, is fixed in relation to the Eastern Caribbean Dollar.

(ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market. The Credit Union has no exposure to such risk since its existing investments are not listed in any stock exchange or market.

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest bearing liabilities, which are subject to interest rate adjustments within a specified period.

The Credit Union actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Credit Union's funding and investment activities is managed in accordance with Board-approved policies.

The table below summarizes the Credit Union's exposure to interest rate risks. Included in the table are the Credit Union's assets and liabilities at carrying amounts categorized by the earlier of contractual repricing and maturity dates.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk (cont'd)

6.3 Market risk analysis (cont'd)

(iii) Interest rate risk (cont'd)

As of December 31, 2019

	Interest rate%	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and cash equivalents		\$ 22,520,092	3,484,451	-	-	-	-	26,004,543
Loans and advances	6.36-18	-	204,490	2,695,609	68,583,079	128,790,663	-	200,273,841
Investment securities	3-8	-	989,817	18,970,920	546,406	-	125,139	20,632,282
Other assets		-	-	-	-	-	328,313	328,313
Total financial assets		22,520,092	4,678,758	21,666,529	69,129,485	128,790,663	453,452	247,238,979
Liabilities								
Members' deposits	2-7	189,897,793	4,540,738	21,515,374	-	-	335,434	216,289,339
Other liabilities		-	-	-	-	-	5,676,106	5,676,106
Total financial liabilities		\$ 189,897,793	4,540,738	21,515,374	-	-	6,011,540	221,965,445
Total interest repricing gap		\$ (167,377,701)	138,020	151,155	69,129,485	128,790,663	(5,558,088)	25,273,534

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk (cont'd)

6.3 Market risk analysis (cont'd)

(iii) Interest rate risk (cont'd)

As of December 31, 2018

	Interest rate%	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and cash equivalents		\$ 18,973,113	-	-	-	-	-	18,973,113
Loans and advances	6.36-18	3,414,494	125,761	2,566,230	53,943,888	109,975,016	-	170,025,389
Investment securities	3-8	-	1,018,647	12,517,203	1,325,287	400,000	76,040	15,337,177
Other assets		-	-	-	-	-	809,782	809,782
Total financial assets		22,387,607	1,144,408	15,083,433	55,269,175	110,375,016	885,822	205,145,461
Liabilities								
Members' deposits	2-7	157,098,147	4,048,161	15,717,739	-	-	4,053,670	180,917,717
Liabilities		-	-	-	-	-	1,028,683	1,028,683
Total financial liabilities		\$ 157,098,147	4,048,161	15,717,739	-	-	5,082,353	181,946,400
Total interest repricing gap		\$ (134,710,540)	(2,903,753)	(634,306)	55,269,175	110,375,016	(4,196,531)	23,199,061

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk (cont'd)

6.3 Market risk analysis (cont'd)

(iii) Interest rate risk (cont'd)

Fair value interest rate sensitivity analysis

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow interest rate sensitivity analysis

The Credit Union is not exposed to any cash flow interest rate risk as it has no variable rate financial instruments.

6.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

The primary responsibility for development and implementation of controls to address operational risk is assigned to management within the Credit Union. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk by establishing requirements for:

- appropriate segregation of duties, including the independent authorization of transactions;
- the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial instrument risk (cont'd)

6.4 Operational risk (cont'd)

- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Credit Union's standards is supported by a programme of periodic reviews undertaken by the Supervisory Committee. The results of the Supervisory Committee reviews are discussed with management, with summaries to the Board of Directors.

7. Fair value of financial assets and liabilities

a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of the Credit Union's financial assets and liabilities not presented on the statement of financial position at their fair values.

	Carrying Value		Fair Value	
	2019	2018	2019	2018
Financial assets				
Cash and cash equivalents	\$ 26,004,543	18,973,113	26,004,543	18,973,113
<i>Investment securities:</i>				
- Investment at amortised costs	18,784,136	13,510,536	18,784,136	13,510,536
- Investment at Fair Value through Other Comprehensive Income (FVTOCI)	1,351,578	1,725,287	1,351,578	1,725,287
Loans and advances	200,273,841	165,761,024	200,273,841	165,761,024
Other assets	328,313	729,957	328,313	729,957
	<u>\$ 246,742,411</u>	<u>200,699,917</u>	<u>246,742,411</u>	<u>200,699,917</u>
Financial liabilities				
Members' deposits	\$ 216,289,339	180,917,717	216,289,339	180,917,717
Other liabilities	5,676,106	1,028,682	5,676,106	1,028,682
	<u>\$ 221,965,445</u>	<u>181,946,399</u>	<u>221,965,445</u>	<u>181,946,399</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

7. Fair value of financial assets and liabilities *(cont'd)*

a) Financial instruments not measured at fair value *(cont'd)*

(i) Loans to members

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Members' deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

b) Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and December 31, 2018.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***7. Fair value of financial assets and liabilities (cont'd)****b) Fair value measurement of financial instruments (cont'd)**

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into the following levels of the fair value hierarchy.

	<u>Level 3</u>	<u>Total</u>
December 31, 2019		
Financial assets		
Fair value through other comprehensive Income (FVTOCI) \$	<u>76,040</u>	<u>76,040</u>
	<u>Level 3</u>	<u>Total</u>
December 31, 2018		
Financial assets		
Fair value through other comprehensive Income (FVTOCI) \$	<u>76,040</u>	<u>76,040</u>

Measurement of fair value of financial instruments

The Credit Union's finance team performs valuations of financial items for financial reporting purposes. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the General Manager and to the Board of Directors. Valuation processes and fair value changes are discussed among the Board of Directors and the valuation team at least every year, in line with the Credit Union's reporting dates. The valuation techniques used for instruments categorised in Level 3 are described below:

Financial assets at FVTOCI

The fair value is generally on broker/dealer price quotations. Where this information is not available, fair value is based on cost less any impairment recognised.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***7. Fair value of financial assets and liabilities (cont'd)****c) Fair value measurement of non-financial assets**

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at December 31, 2019 and December 31, 2018.

	<u>Level 3</u>	<u>Total</u>
December 31, 2019		
Property and equipment		
Land	\$ 2,809,776	2,809,776
Buildings	<u>9,218,732</u>	<u>9,218,732</u>
Total assets	<u>\$ 12,028,508</u>	<u>12,028,508</u>
	<u>Level 3</u>	<u>Total</u>
December 31, 2018		
Property and equipment		
Land	\$ 2,809,776	2,809,776
Buildings	<u>9,218,732</u>	<u>9,218,732</u>
Total assets	<u>\$ 12,028,508</u>	<u>12,028,508</u>

Fair value of the Credit Union's main property assets is estimated based on appraisals performed by independent, professionally qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors at each reporting date. Further information is set out below.

The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

The land and buildings were re-valued in October, 2011. They were previously revalued in July 2009.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***8. Capital management policies and procedures**

The Credit Union has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve three major objectives:

- exceed regulatory thresholds;
- meet longer-term internal capital targets; and
- provide the Credit Union's members with a source of finance.

Capital is managed in accordance with the Board-approved Capital Management Policy which is based on regulatory requirements of the Co-operative Societies Act and the PEARLS regulations. Management and the Board of Directors develop the capital strategy and oversee the capital management processes of the Credit Union. The Credit Union's management and Supervisory Committee are key in implementing the Credit Union's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

The three primary regulatory capital ratios used to assess capital adequacy are as follows:

	<u>Regulatory requirement</u>	<u>2019 %</u>	<u>2018 %</u>
1. Net Loans/Total Assets	70% to 80%	76.4	77.3
2. Institutional Capital/Total Assets	10% minimum	15.2	12.2
3. Total Delinquency/Total Loans	5% maximum	2.3	4.7

9. Cash and cash equivalents

	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 4,839,302	2,941,299
Cash in bank	15,180,790	16,031,814
Total cash	20,020,092	18,973,113
Short term deposit and treasury bill	5,984,451	-
Total cash and cash equivalent	\$ 26,004,543	18,973,113

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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10. Loans to members

	2019	2018
Personal loans	\$ 110,338,831	93,190,062
Mortgage loans	89,977,836	69,738,727
Christmas loans	2,055,664	5,079,012
Overdrafts	807,088	745,983
Loans and advances to members	203,179,419	168,753,784
Less: Provision for loan losses	(4,565,067)	(4,264,365)
	198,614,352	164,489,419
Loan interest receivable	1,659,489	1,271,605
Total loans and advances to members	\$ 200,273,841	165,761,024
Current	4,071,586	29,058,692
Non-current	196,202,255	136,702,332
	\$ 200,273,841	165,761,024

The movement in allowance for loan impairment is as follows:

	2019	2018
Provision for loan losses		
Balance at beginning of the year	\$ 4,264,365	2,405,568
Amounts written off during the year	-	(333,692)
Provisions for credit losses	300,702	2,192,489
Balance at end of the year	\$ 4,565,067	4,264,365

The average interest rate earned on the loans and advances during the financial year was 9.46% (2018:9.46%).

The Credit Union's loan loss provision has been made in accordance with the requirements of IFRS 9. Under the PEARLS methodology, the Credit Union provides for loan losses at the rate of thirty-five (35%) percent on balances less than twelve (12) months old and one hundred (100%) percent on balances more than twelve (12) months old on the net amount of delinquent loans according to the policy set by the Board of Directors. This basis of provision is a requirement of Antigua and Barbuda Co-operative Societies Regulations 2010, Section 201 (compliance with PEARLS). As of December 31, 2019, the provision for credit losses in accordance with the PEARLS methodology amounted to \$2,065,759 (2018: \$2,470,070).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

11. Investment securities

	2019	2018
Financial assets at amortised costs		
One (1) year fixed deposits		
Capita Financial Services Inc.	\$ 3,476,759	3,376,626
National Co-operative Credit Union (Dominica)	3,208,492	3,150,232
Eastern Caribbean Home Mortgage Bank	1,578,750	1,526,250
FND Enterprise Credit Union	3,120,000	1,080,000
Antigua Commercial Bank Ltd.	393,706	388,750
	11,777,707	9,521,858
Three (3) year fixed deposits		
Ariza Credit Union Ltd	1,235,927	1,194,674
Total assets at amortised costs	\$ 13,013,634	10,716,532
Fair value through other comprehensive Income (FVTOCI)		
Six (6) month treasury bill		
Government of St. Lucia	873,106	832,722
One (1) year treasury bills		
Government of Grenada	1,474,362	-
Government of Antigua and Barbuda	3,423,034	1,961,281
	\$ 4,897,396	1,961,281
Two (2) year bond		
Government of St. Lucia	311,226	300,138
Three (3) year bond		
Government of St. Vincent	-	400,000
First Citizens	453,709	438,505
	453,709	838,505
Five (5) year bond		
Government of Dominica	411,665	411,665
Seven (7) year bond		
Government of Antigua and Barbuda	174,978	174,979
Government of St. Vincent	371,428	-
	546,406	174,979
Total bonds	\$ 1,723,006	1,725,287

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

11 Investment securities (cont'd)

	2019	2018
Fair value through other comprehensive Income (FVTOCI) (cont'd)		
Antigua and Barbuda Co-operative League Shares	\$ 1,000	1,000
Eastern Caribbean Home Mortgage Bank	70,040	70,040
Eastern Caribbean Co-operative Central Ltd.	5,000	5,000
	<u>76,040</u>	<u>76,040</u>
Interest receivable	49,099	25,315
Total investment securities	\$ <u>20,632,281</u>	<u>15,337,177</u>
	2019	2018
Current	\$ 20,085,875	13,765,672
Non-current	546,406	1,571,505
	\$ <u>20,632,281</u>	<u>15,337,177</u>

Investments classified as available-for-sale are shown at cost since they are not actively traded in any market and their fair value cannot be reliably determined.

12. Other assets

	2019	2018
Other receivables	\$ 328,313	729,957
Prepayments	179,681	180,032
Unused office supplies	102,294	79,825
Total other assets	\$ <u>610,288</u>	<u>989,814</u>

All amounts are short-term. The net carrying value of other assets is considered a reasonable approximation of the fair value.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

13. Property and equipment

	Land	Building	Leasehold improvement	Office equipment	Furniture and fixtures	Computer equipment	Motor vehicles	Right-of-Use Assets	Work in progress	Total
Cost/valuation										
At December 31, 2017 \$	2,809,776	9,218,732	473,599	1,736,733	956,223	723,073	109,894	-	407,577	16,435,607
Additions	-	-	-	6,458	30,286	198,724	-	-	1,202,900	1,438,368
Transfer	-	-	-	-	-	-	-	-	-	-
At December 31, 2018	2,809,776	9,218,732	473,599	1,743,191	986,509	921,797	109,894	-	1,610,477	17,873,975
Additions	-	-	-	-	-	-	80,947	434,960	412,305	928,212
Transfer	-	-	1,069,522	459,886	99,368	137,947	-	-	(1,766,723)	-
At December 31, 2019 \$	2,809,776	9,218,732	1,543,121	2,203,077	1,085,877	1,059,744	190,841	434,960	256,059	18,802,187
Accumulated Depreciation										
At December 31, 2017 \$	-	1,275,633	180,372	1,173,360	802,431	572,749	82,893	-	-	4,087,438
Charge for the year	-	232,091	21,039	119,199	29,370	84,694	27,001	-	-	513,394
At December 31, 2018	-	1,507,724	201,411	1,292,559	831,801	657,443	109,894	-	-	4,600,832
Charge for the year	-	232,236	47,776	142,190	36,502	101,830	10,296	127,305	-	698,135
At December 31, 2019 \$	-	1,739,960	249,187	1,434,749	868,303	759,273	120,190	127,305	-	5,298,967
Carrying value										
At December 31, 2019 \$	2,809,776	7,478,772	1,293,934	768,328	217,574	300,471	70,651	307,655	256,059	13,503,220
At December 31, 2018 \$	2,809,776	7,711,008	272,188	450,632	154,708	264,354	-	-	1,610,477	13,273,143

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***13. Property and equipment (cont'd)***Revaluation reserve*

Revaluation reserve represents the excess of appraised values over the cost of the Credit Union's land and building as a result of a professional valuation which has been adopted by the Credit Union. The Credit Union's property valuation was performed by an independent professional valuator in November 2015. The excess of the appraised value over cost amounted to EC\$3,480,213, which was credited to the revaluation reserve.

The following are the historical cost carrying amounts of land and buildings carried at revalued amounts as of December 31, 2019.

2019			
	Land	Buildings	Total
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	-	(1,552,704)	(1,552,704)
Net book values	\$ 1,041,979	3,992,669	5,034,648

2018			
	Land	Buildings	Total
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	-	(1,440,516)	(1,440,516)
Net book values	\$ 1,041,979	4,104,857	5,146,836

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

14. **Members' Deposits**

	2019	2018
Regular savings	\$ 130,144,485	109,250,247
Deposit accounts	34,909,842	30,774,271
Term deposits	28,508,123	21,874,251
Individual retirement accounts (CFIRA)	8,299,425	6,948,650
Checking accounts	4,225,219	3,343,093
School saving society	2,460,431	2,328,432
Education savings accounts (CFESA)	2,428,222	2,017,578
Thrift Fund	2,183,010	2,301,405
Summer Club	1,616,781	1,090,783
Insurance deposits	1,085,887	710,577
Self-starter savings	92,380	-
Holiday Club	100	1,250
	215,953,905	180,640,537
Interest payable	335,434	277,180
Total members' deposits	\$ 216,289,339	180,917,717
Current	216,289,339	180,917,717
Non-current	-	-
	\$ 216,289,339	180,917,717

These deposits have various maturity profiles with interest rates varying from two percent (2 %) to six percent (6%) [2018: two percent (2%) to six percent (6%)] per annum.

15. **Other liabilities**

	2019	2018
Debit issued and other borrowed funds	\$ 3,916,528	-
Operating lease liability	350,544	-
Trade payables	145,992	182,999
Accruals and other liabilities	1,263,042	845,684
	\$ 5,676,106	1,028,683

The credit Union transferred a pool of fixed rate mortgages with a carrying amount of \$4,068,845 to the Eastern Caribbean Home Mortgage Bank (ECHMB). The carrying amount of the transferred assets and the associated liability as at December 31, 2019 was \$3,916,528 (2018:nil) while the fair value was \$2,916,528 (2018:nil).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

16. Permanent shares

	2019	2018
Issued and fully paid 1,450,088 (2018: 1,232,257) shares @ \$5.00 each	\$ 7,250,440	6,161,285

In accordance with the By-laws of the Community First Co-operative Credit Union Limited, Article VIII, the Credit Union is required to have a permanent capital base whereby each member must acquire shares at a minimum cost of two hundred (\$200) dollars. The Credit Union has the right to issue an unlimited number of shares; however, the maximum shareholding by any one member is restricted to 20% of the total share capital. During the year, the Credit Union issued 217,831(2018: 121,505) permanent shares at \$5 each to its members for cash in the amount of \$1,089,155(2018: \$607,525).

17. Reserves

	2019	2018
Statutory		
Balance at January 1	\$ 6,887,204	5,925,060
Appropriation of net income	1,473,542	962,144
Balance at December 31	8,360,746	6,887,204
General		
Entrance fees	181,337	161,897
Donated capital	10,209	10,209
	191,546	172,106
Revaluation reserve		
Balance at January 1	4,935,112	5,022,291
Revaluation surplus transfer	(87,183)	(87,179)
Balance at December 31	4,847,929	4,935,112
Total reserves	\$ 13,400,221	11,994,422

In accordance with Section 125 (2) of the Co-operative Societies Act, management is required to set aside a statutory reserve of twenty-five (25%) percent of the net profits (if any) each year. In addition, all entrance fees are credited to a general reserve.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

18. General and administrative expenses

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Payroll & Related Cost	20	\$ 3,364,841	2,907,756
Depreciation	13	698,135	513,394
CUNA Insurance Premiums		629,969	548,570
Repairs & Maintenance		537,776	357,500
Bank Charges & Interest		370,451	265,381
Telephone & Cables		365,684	132,524
Stationery		333,658	262,924
Education & Training	21	276,347	175,169
Insurance		243,495	214,234
Building Security		243,297	202,368
Social Events		206,911	59,584
Advertising		205,362	192,377
Utilities		188,266	146,280
Legal & Professional Fees		183,730	118,241
League Fees & Expenses		155,000	155,000
Cleaning		141,199	97,579
Office & General Expenses		104,931	68,684
Rent		102,915	282,278
Annual General Meeting		75,500	41,550
Directors' & Committee Expenses		68,046	44,903
Audit Fees		64,575	80,375
Uniforms		49,026	41,279
Contribution & Donations		41,875	46,610
Subscriptions		16,782	13,903
Gasoline		7,513	8,102
Postage		1,869	1,836
Miscellaneous		222,336	20,389
Total general and administrative expenses		\$ 8,899,489	6,998,790

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

19. Other Income

	2019	2018
Fees and commissions	\$ 601,103	491,370
Loan fees	852,833	758,614
Other income	189,218	64,860
Total other income	\$ 1,643,154	1,314,844

20. Payroll and related costs

	2019	2018
Salaries and wages	\$ 2,561,074	2,227,428
Other benefits	545,712	459,155
Social security contributions	171,598	145,672
Medical benefits contributions	86,457	75,501
Total payroll and related costs	\$ 3,364,841	2,907,756
Number of employees	50	39

21. Education and training

	2019	2018
Human Resources Development	\$ 187,851	126,879
Caribbean Confederation of Credit Unions (CCCU)	86,185	26,314
Leadership Summit - Trinidad & Tobago League - Panama	2,311	21,976
Total education and training	\$ 276,347	175,169

22. Income tax

Under Section 212 of the Income Tax laws of Antigua and Barbuda, the Credit Union is classified as a non-profit organization and is therefore exempt from the payment of income tax.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

*(Expressed in Eastern Caribbean Dollars)***23. Related party balances and transactions****Related parties**

A related party is a person or entity that is related to the Credit Union:

- a) A person or a close member of that person's family is related to the Credit Union if that person:
 - i) has control or joint control over the Credit Union;
 - ii) has significant influence over the Credit Union; or
 - iii) is a member of the key management personnel of the Credit Union, or of a parent of the Credit Union.
- b) An entity is related to the Credit Union if any of the following conditions applies:
 - i) The entity and the Credit Union 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 Credit Union or an entity related to the Credit Union.
 - 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).

Related party balances

	Total loans		Total deposits	
	2019	2018	2019	2018
Board of directors	\$ 331,596	334,603	333,688	250,009
Credit committee	34,654	43,695	111,912	42,908
Supervisory committee	24,137	19,371	74,550	211,424
Key management personnel	326,133	209,289	942,794	744,663
Total related party balances	\$ 716,520	606,958	1,462,944	1,249,004

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

23. Related party balances and transactions (cont'd)**Related party transactions**

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

Transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions except for certain loans made available to officers.

	2019	2018
Interest income on loans	\$ 47,971	50,581
Interest expense on deposits	33,123	33,962
Accrued interest receivable on loans	1,465	755
Accrued interest payable on deposits	4,269	2,202

Interest rates on related party deposits range from 1% to 6% (2018: 1% to 6%). Interest rates on related party loans range from 7.5% to 12% (2018: 7.5% to 12%).

Remuneration of Key Management Personnel

During the year, salaries and related benefits paid to key members of management were as follows:

	2019	2018
Salaries and allowances	\$ 732,518	540,545
Other staff costs	107,202	77,144
	\$ 839,720	617,689

24. Dividends

During the year, the Credit Union paid \$289,015 as dividends (2018: \$443,516) to its members/shareholders. Dividends for 2019 have not yet been proposed. As the distribution of dividends requires approval at the Annual General Meeting, no liability in this respect is recognised in the 2019 financial statements.

25. Subsequent Events

The Credit Union has begun to assess the potential effects that the outbreak of the Coronavirus (Covid-19) will have on its financial performance and operations in the current year.

The Board of Directors approved moratorium policy allowing a maximum period of moratorium of six (6) months for vehicle loans, twelve (12) months for other personal loan and eighteen (18) months for mortgages.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

25. **Subsequent Events:** *(cont'd)*

The Credit Union has approved 991 moratoriums from April to December 2020, the value of the loans being \$51,214,237. As of December 31, 2020, there are 210 active moratoriums amounting to \$12,896,664. In addition, total interest of \$2,414,120 was waived from April to December 2020.