

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

Financial Statements

December 31, 2022

(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, 2022, the statement of profit and other comprehensive income, statement of changes in member's equity and statement of cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our audit report, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with the IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Qualified Opinion

The Credit Union's property is accounted for using the revaluation model. Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. [IAS 16.31]. No revaluation has been performed by either an independent professional valuator or by management since November 2015. As a result, we are unable to determine whether the fair value of property and equipment is fairly stated at December 31, 2022.

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.

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.

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

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.

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
October 11, 2024

Antigua and Barbuda

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

	Notes	2022	2021
Assets			
Cash and cash equivalents	9	\$ 48,267,469	38,426,415
Loans and advances	10	283,514,689	253,127,275
Investment securities	11	27,223,893	24,194,727
Other assets	12	851,988	1,470,488
Property and equipment, net	13	15,163,046	14,044,025
Total Assets		\$ 375,021,085	331,262,930
Liabilities and Members' Equity			
Liabilities			
Members' deposits	14	\$ 316,034,251	279,003,332
Other liabilities	15	6,884,051	6,359,933
Total Liabilities		322,918,302	285,363,265
Members' Equity			
Permanent shares	16	8,235,405	7,876,900
Reserves	17	16,913,765	15,357,913
Retained earnings		26,953,613	22,664,852
Total Members' Equity		52,102,783	45,899,665
Total Liabilities and Members' Equity		\$ 375,021,085	331,262,930

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

President Yanni Gordon (Oct 14, 2024 14:53 EDT)

Treasurer Treasa James (Oct 14, 2024 15:01 EDT)

The notes on pages 7 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Profit and Other Comprehensive Income

Year ended December 31, 2022

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Interest income		\$ 20,558,812	20,246,896
Interest expense		(6,188,430)	(4,879,593)
Net interest income		14,370,382	15,367,303
Other income	18	2,178,861	1,787,071
Operating income		16,549,243	17,154,374
Operating expenses			
General and administrative expenses	19	(10,878,195)	(9,766,649)
Provision for credit losses	10	(900,752)	(3,691,955)
		(11,778,947)	(13,458,604)
Finance income			
Investment income		948,052	988,945
Profit for the year		\$ 5,718,348	4,684,715
Total comprehensive income for the year		\$ 5,718,348	4,684,715

The notes on pages 7 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Changes in Members' Equity

Year ended December 31, 2022

(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, 2020		\$ 7,605,405	14,084,040	19,151,316	40,840,761
Transactions with members					
Dividends paid	24	-	-	-	-
Issuance of permanent shares	16	271,495	-	-	271,495
		<u>271,495</u>	<u>-</u>	<u>-</u>	<u>271,495</u>
Other reserves movements					
Statutory reserve	17	-	1,171,179	(1,171,179)	-
Entrance fees		-	14,395	-	14,395
Unclaimed deposits	17	-	88,299	-	88,299
		<u>-</u>	<u>1,273,873</u>	<u>(1,171,179)</u>	<u>102,694</u>
Comprehensive income					
Profit for the year		<u>-</u>	<u>-</u>	<u>4,684,715</u>	<u>4,684,715</u>
Total comprehensive income		<u>-</u>	<u>-</u>	<u>4,684,715</u>	<u>4,684,715</u>
Balance at December 31, 2021		\$ 7,876,900	15,357,913	22,664,852	45,899,665
Transactions with members					
Dividends paid	25	-	-	-	-
Issuance of permanent shares	16	358,505	-	-	358,505
		<u>358,505</u>	<u>-</u>	<u>-</u>	<u>358,505</u>
Other reserves movements					
Statutory reserve	17	-	1,429,587	(1,429,587)	-
Entrance fees		-	15,520	-	15,520
Unclaimed deposits	17	-	110,745	-	110,745
		<u>-</u>	<u>1,555,852</u>	<u>(1,429,587)</u>	<u>126,265</u>
Comprehensive income					
Profit for the year		<u>-</u>	<u>-</u>	<u>5,718,348</u>	<u>5,718,348</u>
Total comprehensive income		<u>-</u>	<u>-</u>	<u>5,718,348</u>	<u>5,718,348</u>
Balance at December 31, 2022		\$ <u>8,235,405</u>	<u>16,913,765</u>	<u>26,953,613</u>	<u>52,102,783</u>

The notes on pages 7 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, 2022

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities			
Profit for the year		\$ 5,718,348	4,684,715
Items not affecting cash:			
Depreciation	13	983,611	994,546
Provision for credit losses	10	900,752	3,691,955
Interest expense		6,188,430	4,879,593
Interest income		(21,506,864)	(21,235,841)
Operating loss before changes in working capital		(7,715,723)	(6,985,032)
Change in loans and advances		(32,491,302)	(34,610,095)
Change in other assets		618,500	(616,895)
Change in members' deposits		36,985,431	37,545,291
Change in other liabilities		743,577	733,719
Cash used in operations		(1,859,517)	(3,933,012)
Interest received		22,574,439	19,298,479
Interest paid		(6,142,942)	(4,841,490)
Net cash generated from operating activities		14,571,980	10,523,977
Cash flows from investing activities			
Purchase of investment securities		(3,113,064)	(325,956)
Purchase of property and equipment	13	(2,102,632)	(1,764,923)
Disposal of right of use asset, net	24	-	86,906
Net cash used in investing activities		(5,215,696)	(2,003,973)
Cash flows from financing activities			
Proceeds from issuance of permanent shares	16	358,505	271,495
Unclaimed deposits		110,745	88,299
Entrance fees		15,520	14,395
Dividends paid	25	-	-
Net cash generated from financing activities		484,770	374,189
Increase in cash and cash equivalents		9,841,054	8,894,193
Cash and cash equivalents, beginning of year		38,426,415	29,532,222
Cash and cash equivalents, end of year		\$ 48,267,469	38,426,415

The notes on pages 7 to 52 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(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 International Financial Reporting Standards (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. The measurement bases are fully described in the summary of accounting policies.

3. Basis of Preparation

(a) Statement of Compliance

These financial statements have been prepared in accordance with the IFRS Accounting Standards as issued by the International Accounting Standard Board (IASB). These financial statements were approved by the Board of Directors on October 11, 2024.

(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.

The Credit Union has reported a net income of EC\$5,718,348 (2021: net income of EC\$4,684,715) during the year ended December 31, 2022 and, as of that date, it had retained earnings of EC\$26,953,613 (2021: EC\$22,664,852 surplus).

The Credit Union continued to operate with sufficient liquid resources as evidenced by the increase in cash and cash equivalents at December 31, 2022. Investments in the amount of \$27.2 million remain available for liquidation if required to further complement cash balances.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(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, 2022. 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.

Onerous Contracts- Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets) Effective 1 January 2022

IAS 7 was amended to clarify that when assessing if a contract is onerous, the cost of fulfilling it includes all cost related directly to the contract. Such costs include both:

- (a) the incremental costs of the contract (i.e. costs a company would avoid if it did not have contract, like direct labour and materials); and
- (b) An allocation of other costs that relate directly to fulfilling the contract (e.g, contract management and supervision, or depreciation of equipment used in fulfilling it).

Reference to the Conceptual Framework (Amendments to IFRS 3, Business Combination)

IFRS 3, updates revised 2018 Conceptual Framework. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that this update does not change which assets and liabilities qualify for recognition in a business combination or create new Day 2 gains or losses.

An acquirer applies the definition of a liability in IAS37 not the definition in the Conceptual Framework - to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer applies the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred as of the acquisition date. In addition, the amendments clarify that the acquirer does not recognize a contingent assets at the acquisition date.

Proceeds before Intended Use (Amendments to IAS 16 Property, Plant and Equipment (PPE)).

IAS 16 amendment introduces new guidance. Proceeds from selling items (e.g. samples) before the related PPE is available for its intended use can no longer be deducted from the cost of PPE. Instead, such proceeds are recognized in profit or loss, together with the cost of producing those items to which IAS 2 applies). Therefore, a company will need to distinguish between:

- (a) Costs of producing and selling items before the PPE is available for its intended use; and
- (b) Costs of making the PPE available for its intended use

The amendments apply retrospectively but only for new PPE that reaches its intended use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

COVID-19-Related Rent Concessions (Amendments to IFRS 16) Effective 1 June 2021

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(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 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

Interest Rate Benchmark Reform - IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

IBOR reform Phase 2 IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

These amendments have no material effect on the Credit Union.

Several other amendments and interpretations apply for the first time in 2022, 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, 2022, unless otherwise stated.

(d) New Standards and Interpretation of Amendments to Existing Standards Issued but not Effective during the Year

New Standards and interpretations of amendments not yet effective:

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Credit Union has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(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 *(cont'd)*

The following amendments are effective for the period beginning 1 January 2024:

- Lease liability in a Sale and Leaseback (Amendments to IFRS 16)
- Classification of Liabilities as Current or Non-Current and Non-current liabilities with Covenants (Amendments to IAS 1, Presentation of Financial Statements)

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

In response to feedback and enquiries from stakeholders, in December 2020, the IFRS Interpretations Committee (IFRIC) issued a Tentative Agenda Decision, analysing the applicability of the amendments to three scenarios. However, given the comments received and concerns raised on some aspects of the amendments, in April 2021, IFRIC decided not to finalise the agenda decision and referred the matter to the IASB. In its June 2021 meeting, the IASB tentatively decided to amend the requirements of IAS 1 with respect to the classification of liabilities subject to conditions and disclosure of information about such conditions and to defer the effective date of the 2020 amendment by at least one year.

The Credit Union is currently assessing the impact of these new accounting standards and amendments. The Bank will assess the impact of the final amendments to IAS 1 on classification of its liabilities once they are issued by the IASB. The Credit Union does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

The Credit Union is currently assessing the impact of these new accounting standards and amendments.

4. Summary of Material 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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

4. Summary of Material Accounting Policies *(cont'd)*

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.

(ii) Fee and other income

The Credit Union earns fee income from financial services it provides to its members. Fee income is recognised at an amount that reflects the consideration to which the Credit Union expects to be entitled in exchange for providing the services.

The performance obligations as well as the timing of their satisfaction, are identified and determined, at the inception of the contract. The Credit Union's revenue contracts do not include multiple performance obligations.

When the Credit Union provides services to its members, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of a contract period for a service provided over time.

The Credit Union has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the member.

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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

4. Summary of Material Accounting Policies (cont'd)

4.4 Leases

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.

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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

(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.

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.

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4. Summary of Material Accounting Policies (cont'd)

4.5 Financial Instruments (cont'd)

(b) Classification and subsequent measurement of financial assets (cont'd)

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).

(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);

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4. Summary of Material Accounting Policies (cont'd)

4.5 Financial Instruments (cont'd)

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

The Credit Union considers the following factors in assessing changes in credit risk since initial recognition: *(cont'd)*

- 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;

- 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

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4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

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

- 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.

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.

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Notes to the Financial Statements

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4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

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

Definition of default (cont'd)

- 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.

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.

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4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

(d) Modification of loans to members (cont'd)

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.

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

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

(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.
- (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.
- (iv) 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.

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Notes to the Financial Statements

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4. Summary of Material Accounting Policies *(cont'd)*

4.5 Financial Instruments *(cont'd)*

(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.

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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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4. Summary of Material Accounting Policies *(cont'd)*

4.7 Property and equipment and depreciation *(cont'd)*

(b) Subsequent measurement (cont'd)

Land and building (cont'd)

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
Right of use assets	2-5 years

Land is not depreciated.

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

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.

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Notes to the Financial Statements

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4. Summary of Material Accounting Policies *(cont'd)*

4.8 Impairment of non-financial assets *(cont'd)*

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.

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.

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4. Summary of Material Accounting Policies *(cont'd)*

4.11 Equity, reserves and dividend payments *(cont'd)*

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, unclaimed deposits 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. Material 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.

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

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Notes to the Financial Statements

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5. Material Management Judgements in Applying Accounting Policies and Estimation Uncertainty: (cont'd)

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

(Expressed in Eastern Caribbean Dollars)

5. Material Management Judgements in Applying Accounting Policies and Estimation Uncertainty:
(cont'd)

5.3 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.

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.

5.4 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 (2019: 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.

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management (cont'd)

Risk management objectives and policies (cont'd)

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.

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.

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6. Financial Risk Management *(cont'd)*

Risk management objectives and policies *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

iii. Maximum exposure to credit risk

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

	2022	2021
On-balance sheet		
Cash and cash equivalents	\$ 48,267,469	38,426,415
Loans to members	283,514,689	253,127,275
Investments	27,223,893	24,194,727
Other receivables	441,572	1,121,392
	<u>359,447,623</u>	<u>316,869,809</u>
Off-balance sheet		
Unused line of credit	-	585,870
	<u>\$ 359,447,623</u>	<u>317,455,679</u>

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

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	\$ 273,760,123	467	273,759,656
Stage 2	3,302,609	17,397	3,285,212
Stage 3	18,663,131	12,193,310	6,469,821
As at December 31, 2022	<u>\$ 295,725,863</u>	<u>12,211,174</u>	<u>283,514,689</u>
	Gross Amount	ECL	Net Amount
Stage 1	\$ 244,382,744	18,480	244,364,264
Stage 2	2,334,549	53,016	2,281,533
Stage 3	17,720,404	11,238,926	6,481,478
As at December 31, 2021	<u>\$ 264,437,697</u>	<u>11,310,422</u>	<u>253,127,275</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management *(cont'd)*

Risk management objectives and policies *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

Loans to members *(cont'd)*

(a) *Expected credit loss on loans to members (cont'd)*

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.

(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, 2022 or 2021.

(c) *Reposessed collateral*

The Credit Union had no reposessed collateral in its statement of financial position as of December 31, 2022 (2021: nil).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management *(cont'd)*

Risk management objectives and policies *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

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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6. Financial Risk Management *(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, 2022

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Members' deposits	\$ 316,034,251	251,501,275	28,686,881	35,846,095	-	-	316,034,251
Other liabilities	6,884,051	6,884,051	-	-	-	-	6,884,051
	<u>\$ 322,918,302</u>	<u>258,385,326</u>	<u>28,686,881</u>	<u>35,846,095</u>	<u>-</u>	<u>-</u>	<u>322,918,302</u>

As of December 31, 2021

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Members' deposits	\$ 279,003,332	246,264,335	8,519,775	24,219,222	-	-	279,003,332
Other liabilities	6,359,933	6,359,933	-	-	-	-	6,359,933
	<u>\$ 285,363,265</u>	<u>252,624,268</u>	<u>8,519,775</u>	<u>24,219,222</u>	<u>-</u>	<u>-</u>	<u>285,363,265</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management *(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, 2022

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management (cont'd)

6.3 Market risk analysis (cont'd)

(iii) Interest rate risk (cont'd)

As of December 31, 2022

	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		\$ 48,267,469	-	-	-	-	-	48,267,469
Loans and advances	6.36-18	1,162,591	5,380,719	4,117,847	68,447,573	204,405,959	-	283,514,689
Investment securities	3-8	-	3,989,458	17,516,615	3,641,780	2,000,000	76,040	27,223,893
Other assets		-	-	-	-	-	441,572	441,572
Total financial assets		49,430,060	9,370,177	21,634,462	72,089,353	206,405,959	517,612	359,447,623
Liabilities								
Members' deposits	2-7	229,955,234	41,219,211	35,846,095	-	-	9,013,711	316,034,251
Other liabilities	11	-	-	-	-	-	6,884,051	6,884,051
Total financial liabilities		\$ 229,955,234	41,219,211	35,846,095	-	-	15,897,762	322,918,302
Total interest repricing gap		\$ (180,525,174)	(31,849,034)	(14,211,633)	72,089,353	206,405,959	(15,380,150)	36,529,321

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)*

6.3 Market risk analysis *(cont'd)*

(iii) Interest rate risk (cont'd)

As of December 31, 2021

	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		\$ 38,426,415	-	-	-	-	-	38,426,415
Loans and advances	6.36-18	5,513,444	298,938	3,969,082	64,709,459	178,636,352	-	253,127,275
Investment securities	3-8	3,000,000	995,000	15,409,618	911,226	3,300,000	578,883	24,194,727
Other assets		-	-	-	-	-	1,121,392	1,121,392
Total financial assets		46,939,859	1,293,938	19,378,700	65,620,685	181,936,352	1,700,275	316,869,809
Liabilities								
Members' deposits	2-7	245,812,100	8,519,775	24,219,222	-	-	452,235	279,003,332
Liabilities	11	-	-	-	-	-	6,359,933	6,359,933
Total financial liabilities		\$ 245,812,100	8,519,775	24,219,222	-	-	6,812,168	285,363,265
Total interest repricing gap		\$ (198,872,241)	(7,225,837)	(4,840,522)	65,620,685	181,936,352	(5,111,893)	31,506,544

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management *(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;
- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and

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)*

6.4 Operational risk *(cont'd)*

- 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	
	2022	2021	2022	2021
Financial assets				
Cash and cash equivalents	\$ 48,267,469	38,426,415	48,267,469	38,426,415
<i>Investment securities:</i>				
- Investment at amortised costs	26,728,908	23,615,844	26,728,908	23,615,844
- Investment at Fair Value through Other Comprehensive Income (FVTOCI)	76,040	76,040	76,040	76,040
Loans and advances	283,514,689	253,127,275	283,514,689	253,127,275
Other assets	441,572	1,121,392	441,572	1,121,392
	<u>\$ 359,028,678</u>	<u>316,366,966</u>	<u>359,028,678</u>	<u>316,366,966</u>
Financial liabilities				
Members' deposits	\$ 316,019,934	279,003,332	316,019,934	279,003,332
Other liabilities	6,884,051	6,359,933	6,884,051	6,359,933
	<u>\$ 322,903,985</u>	<u>285,363,265</u>	<u>322,903,985</u>	<u>285,363,265</u>

(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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(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)

(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, 2022 and December 31, 2021.

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, 2022		
Financial assets		
Fair value through other comprehensive Income (FVTOCI)	\$ 76,040	76,040
	<u>Level 3</u>	<u>Total</u>
December 31, 2021		
Financial assets		
Fair value through other comprehensive Income (FVTOCI)	\$ 76,040	76,040

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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7. Fair Value of Financial Assets and Liabilities (cont'd)**b) Fair value measurement of financial instruments (cont'd)****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.

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, 2022 and December 31, 2021.

	<u>Level 3</u>	<u>Total</u>
December 31, 2022		
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, 2021		
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>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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7. Fair Value of Financial Assets and Liabilities *(cont'd)*

c) Fair value measurement of non-financial assets

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.

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>2022 %</u>	<u>2021 %</u>
1. Net Loans/Total Assets	70% to 80%	75.6	76.4
2. Institutional Capital/Total Assets	10% minimum	13.8	13.9
3. Total Delinquency/Total Loans	5% maximum	4.2	4.3

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9. Cash and Cash Equivalents

	<u>2022</u>	<u>2021</u>
Cash on hand	\$ 4,515,981	5,234,093
Cash in bank	43,751,488	33,192,322
Total cash and cash equivalents	\$ 48,267,469	38,426,415

10. Loans to Members

	<u>2022</u>	<u>2021</u>
Mortgage loans	151,942,728	135,478,171
Personal loans	\$ 139,782,249	124,063,858
Overdrafts	1,372,570	1,162,589
Christmas loans	510,543	631,629
Loans and advances to members	293,608,090	261,336,247
Less: Provision for credit losses	(12,211,174)	(11,310,422)
	281,396,916	250,025,825
Loan interest receivable	2,117,773	3,101,450
Total loans and advances to members	\$ 283,514,689	253,127,275
Current	\$ 9,498,568	8,615,208
Non-current	274,016,121	244,512,067
	\$ 283,514,689	253,127,275

The movement in allowance for loan impairment is as follows:

	<u>2022</u>	<u>2021</u>
Provision for loan losses		
Balance at beginning of the year	\$ 11,310,422	7,618,467
Provision for credit losses	\$ 900,752	3,691,955
Balance at end of the year	\$ 12,211,174	11,310,422

The average interest rate earned on the loans and advances during the financial year was 7.80% (2020:9.46%).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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10. Loans to Members *(cont'd)*

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, 2022, the provision for credit losses in accordance with the PEARLS methodology amounted to \$15,568,104 (2021: \$12,703,474).

11. Investment Securities

	<u>2022</u>	<u>2021</u>
Financial assets at amortised cost		
Fixed deposits		
One (1) year fixed deposits		
Capita Financial Services Inc. (St. Lucia)	3,960,514	3,817,564
National Co-operative Credit Union (Dominica)	3,508,984	3,320,157
First Federal Co-operative Credit Union Ltd. (St. Kitts)	2,145,833	3,292,499
Ariza Co-operative Credit Union Ltd. (Grenada)	1,308,583	1,311,627
ACB Caribbean Ltd.	\$ 408,164	403,205
Eastern Caribbean Home Mortgage Bank (St. Kitts)		-
	<u>11,332,078</u>	<u>12,145,052</u>
Two (2) year fixed deposit		
First Federal Co-operative Credit Union Ltd. (St. Kitts)	1,236,666	-
Total fixed deposits	<u>12,568,744</u>	<u>12,145,052</u>
Treasury bills		
Six (6) month treasury bill		
Government of St. Lucia	2,994,313	3,000,000
One (1) year treasury bills		
Government of Grenada	2,969,932	-
Government of Antigua and Barbuda	3,416,448	3,405,288
	<u>6,386,380</u>	<u>3,405,288</u>
Total treasury bills	<u>9,380,693</u>	<u>6,405,288</u>

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(Expressed in Eastern Caribbean Dollars)

11. Investment Securities (cont'd)

	2022	2021
Bonds		
Two (2) year bond		
Government of St. Lucia	295,702	311,226
Three (3) year bond		
First Citizens Investment Services Ltd. (St. Lucia)	498,054	482,850
Five (5) year bond		
Government of St. Vincent	600,000	600,000
Seven (7) year bonds		
Government of Dominica	1,300,000	1,300,000
Government of St. Vincent	85,715	371,428
	1,385,715	1,671,428
Eight (8) year bond		
Government of St. Lucia	1,000,000	1,000,000
Ten (10) year bond		
Government of Antigua and Barbuda	1,000,000	1,000,000
Total bonds	4,779,471	5,065,504
Financial assets at Fair Value through Other Comprehensive Income (FVTOCI)		
Equity shares		
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
Total equity shares	76,040	76,040
Interest receivables	418,945	502,843
Total investment securities	\$ 27,223,893	24,194,727

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11. Investment Securities *(cont'd)*

	<u>2022</u>	<u>2021</u>
Current	\$ 21,506,073	19,890,010
Non-current	5,717,820	4,304,717
	<u>\$ 27,223,893</u>	<u>24,194,727</u>

12. Other Assets

	<u>2022</u>	<u>2021</u>
Other receivables	441,572	1,121,392
Prepayments	\$ 299,384	245,205
Unused office supplies	111,032	103,891
Total other assets	<u>\$ 851,988</u>	<u>1,470,488</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

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13. Property and Equipment, Net

	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, 2020	\$ 2,809,776	9,218,732	1,543,121	2,232,280	1,162,125	1,140,109	190,841	631,513	564,322	19,492,819
Additions	-	-	-	289,439	6,987	201,248	-	861,964	405,285	1,764,923
Transfer	-	-	-	87,263	-	-	-	-	(87,263)	-
Disposal	-	-	-	-	-	-	-	(152,085)	-	(152,085)
At December 31, 2021	2,809,776	9,218,732	1,543,121	2,608,982	1,169,112	1,341,357	190,841	1,341,392	882,344	21,105,657
Additions	-	-	-	123,654	2,700	-	-	937,865	1,038,413	2,102,632
Transfer	-	-	-	42,968	12,094	513,439	-	-	(568,501)	-
Disposal	-	-	-	-	-	-	-	(680,996)	-	(680,996)
At December 31, 2022	\$ 2,809,776	9,218,732	1,543,121	2,775,604	1,183,906	1,854,796	190,841	1,598,261	1,352,256	22,527,293
Accumulated Depreciation										
At December 31, 2020	\$ -	1,972,341	377,178	1,597,064	906,027	838,721	131,754	309,180	-	6,132,265
Charge for the year	-	221,182	126,368	160,437	39,756	116,691	11,564	318,548	-	994,546
Write-back on disposals	-	-	-	-	-	-	-	(65,179)	-	(65,179)
At December 31, 2021	-	2,193,523	503,546	1,757,501	945,783	955,412	143,318	562,549	-	7,061,632
Charge for the year	-	232,381	127,990	160,531	32,568	69,025	11,564	349,552	-	983,611
Write-back on disposals	-	-	-	-	-	-	-	(680,996)	-	(680,996)
At December 31, 2022	\$ -	2,425,904	631,536	1,918,032	978,351	1,024,437	154,882	231,105	-	7,364,247
Carrying value										
At December 31, 2022	\$ 2,809,776	6,792,828	911,585	857,572	205,555	830,359	35,959	1,367,156	1,352,256	15,163,046
At December 31, 2021	\$ 2,809,776	7,025,209	1,039,575	851,481	223,329	385,945	47,523	778,843	882,344	14,044,025

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

13. **Property and Equipment, Net** *(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, 2022.

	2022		
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	<u> </u>	<u>(1,885,426)</u>	<u>(1,885,426)</u>
Net book values	<u>\$ 1,041,979</u>	<u>3,659,947</u>	<u>4,701,926</u>

	2021		
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	<u> </u>	<u>(1,774,519)</u>	<u>(1,774,519)</u>
Net book values	<u>\$ 1,041,979</u>	<u>3,770,854</u>	<u>4,812,833</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

14. **Members' Deposits**

	<u>2022</u>	<u>2021</u>
Regular savings	\$ 184,309,610	162,429,217
Deposit accounts	56,026,345	47,420,726
Term deposits	35,846,095	32,759,380
Individual retirement accounts (CFIRA)	14,525,855	12,463,075
Checking accounts	6,528,807	8,016,134
Thrift fund	6,921,632	5,451,176
Education savings accounts (CFESA)	3,993,483	3,373,419
School saving society	2,334,044	2,343,023
Summer club	2,146,050	2,157,432
Insurance deposits	2,484,905	1,937,230
Self-starter savings	467,660	243,270
Holiday club	5,558	10,531
	<u>315,590,044</u>	<u>278,604,613</u>
Interest payable	444,207	398,719
Total members' deposits	\$ 316,034,251	<u>279,003,332</u>
Current	\$ 290,593,282	279,003,332
Non-current	25,440,969	-
	<u>\$ 316,034,251</u>	<u>279,003,332</u>

These deposits have various maturity profiles with interest rates varying from one percent (1%) to six percent (6%) [2021: two percent (2%) to six percent (6%)] per annum.

15. **Other Liabilities**

	<u>2022</u>	<u>2021</u>
Debit issued and other borrowed funds	\$ 3,487,121	3,640,056
Accruals and other liabilities	1,661,716	1,765,215
Operating lease liability	1,455,946	827,859
Trade payables	279,268	126,803
	<u>\$ 6,884,051</u>	<u>6,359,933</u>

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, 2022 was \$3,487,121 (2021: \$3,640,056).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

16. Permanent Shares

	<u>2022</u>	<u>2021</u>
Issued and fully paid 1,647,081 (2021: 1,575,380) shares @ \$5.00 each	\$ 8,235,405	7,876,900

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 twenty (20%) percent of the total share capital. During the year, the Credit Union issued 71,701 (2021: 54,299) permanent shares at \$5 each to its members for cash in the amount of \$358,505 (2021: \$271,495).

17. Reserves

	<u>2022</u>	<u>2021</u>
Statutory		
Balance at January 1	\$ 9,748,586	8,577,407
Appropriation of net income	1,429,587	1,171,179
Balance at December 31	11,178,173	9,748,586
General		
Entrance fees	225,877	210,357
Donated capital	10,209	10,209
Unclaimed deposits	738,760	628,015
	974,846	848,581
Revaluation reserve		
Balance at January 1	4,760,746	4,760,746
Revaluation surplus transfer	-	-
Balance at December 31	4,760,746	4,760,746
Total reserves	\$ 16,913,765	15,357,913

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 and unclaimed deposits are credited to a general reserve.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

(Expressed in Eastern Caribbean Dollars)

18. Other Income

	2022	2021
Loan fees	\$ 949,590	925,152
Fees and commissions	829,282	767,715
Other income	399,989	87,232
Gain from termination of lease	-	6,972
Total other income	\$ 2,178,861	1,787,071

19. General and Administrative Expenses

	Notes	2022	2021
Payroll and related cost	20	\$ 4,087,850	3,870,910
Depreciation	13	983,611	994,546
CUNA Insurance Premiums		831,454	762,346
Repairs and maintenance		590,663	544,903
Bank charges		461,050	410,775
Telephone and cables		429,254	417,006
Stationery		367,397	335,094
League fees and expenses		319,933	155,000
Legal and professional fees		260,935	214,952
Cleaning		246,054	230,035
Building security		242,368	221,683
Advertising		237,416	229,508
Insurance		217,426	301,187
Audit Fees		215,625	100,213
Utilities		212,093	198,983
Education and training	21	190,248	98,087
Office and general expenses		145,033	122,702
Uniforms		144,025	28,213
Interest expense on leases		139,846	98,215
Directors' and Committee expenses		113,873	77,638
Subscriptions		111,887	50,880
Contribution and donations		98,890	80,395
Rent		83,124	81,990
Social Events		81,569	27,440
Gasoline		9,513	6,041
Postage		1,000	875
Annual General Meeting		-	70,500
Miscellaneous		56,058	36,532
Total general and administrative expenses		\$ 10,878,195	9,766,649

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

20. Payroll and Related Costs

	2022	2021
Salaries and wages	\$ 3,053,179	2,908,991
Other benefits	712,316	664,206
Social security contributions	220,306	200,422
Medical benefits contributions	102,049	97,291
Total payroll and related costs	\$ 4,087,850	3,870,910
Number of employees	52	52

21. Education and Training

	2022	2021
Human Resources Development Caribbean Confederation of Credit Unions (CCCU)/ Conventions	\$ 141,093	96,987
	49,155	1,100
Total education and training	\$ 190,248	98,087

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.

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.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2022

*(Expressed in Eastern Caribbean Dollars)***23. Related Party Balances and Transactions (cont'd)****Related parties (cont'd)**

- 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	
	2022	2021	2022	2021
Board of directors	\$ 960,643	963,307	242,708	344,406
Credit committee	68,632	93,005	19,303	42,962
Supervisory committee	-	51,418	118,222	106,727
Key management personnel	1,265,506	1,263,049	1,284,698	1,383,025
Total related party balances	\$ 2,294,781	2,370,779	1,664,931	1,877,120

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.

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 (cont'd)**

	<u>2022</u>	<u>2021</u>
Interest income on loans	\$ 141,320	108,158
Interest expense on deposits	55,468	56,529
Accrued interest receivable on loans	3,750	3,813
Accrued interest payable on deposits	-	3,883

Interest rates on related party deposits range from 1%-6% (2020: 1% to 6%). Interest rates on related party loans range from 4.7% to 12% (2020: 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:

	<u>2022</u>	<u>2021</u>
Salaries and allowances	\$ 758,410	732,663
Other staff costs	65,154	63,083
	<u>\$ 823,564</u>	<u>795,746</u>

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24. Leases

The Company leases office spaces for its operations. The leases run for a fixed period. Previously, the leases was classified as operating leases under IAS 17.

a) Right-of-Use Assets

	2022	2021
As of January 1	\$ 778,843	322,333
Additions during the year	937,865	861,964
Disposals during the year	-	(86,906)
Depreciation expense	(349,552)	(318,548)
As of December 31	\$ 1,367,156	778,843

b) Lease Liability

	2022	2021
<i>Maturity analysis - contractual discounted cash flows:</i>		
Total discounted lease liabilities at January 1	\$ 827,859	365,092
Add/(Deduct):		
Lease interest	139,846	98,215
Lease payments	(449,624)	(410,506)
Additions to lease liability	937,865	861,964
Disposal to lease liability	-	(86,906)
Lease liabilities included in the statement of financial position on December 31	\$ 1,455,946	827,859
	2022	2021
Current	\$ 314,695	229,371
Non-current	1,141,251	598,488
	\$ 1,455,946	827,859

c) Amounts recognised in profit or loss

	2022	2021
Interest on lease liabilities	\$ 139,846	98,215

d) Amounts recognised in cash flows

	2022	2021
Total cash outflow for leases	\$ (449,624)	(410,506)

(e) Extension options

The leases have fixed periods. The lessor and its stakeholders have not indicated that the agreement will be broken in the near future and hence the agreement is expected to exist over the life of the lease agreement.

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25. Dividends

During the year, the Credit Union paid no dividends to its members/shareholders. Dividends for 2023 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 2022 financial statements.