JAMAICA TEACHERS' ASSOCIATION
CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

FINANCIAL STATEMENTS

DECEMBER 31, 2020

KPMG
Chartered Accountants
P.O. Box 436
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Registrar of Co-operative Societies
JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Jamaica Teachers' Association Co-operative Credit Union Limited ("the Co-operative"), set out on pages 4 to 75, which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Co-operative as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Co-operative Societies Act.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Registrar of Co-operative Societies
JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (continued)

Other Information (continued)

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

To the Registrar of Co-operative Societies
JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Report on the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

April 16, 2021

JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Financial Position
December 31, 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
EARNING ASSETS			
Liquid assets	8	1,883,472	1,337,572
Resale agreements	9	1,124,138	196,906
Loans	10	11,981,497	12,189,034
Financial investments	11	854,037	751,977
Investment property	12	7,636	7,910
Total earning assets		15,850,780	14,483,399
NON-EARNING ASSETS			
Cash and cash equivalents	13	51,674	43,152
Other assets	14	109,513	74,865
Property, plant and equipment	15	145,303	142,853
Intangible assets	16	30,359	32,147
Employee benefits asset	17	181,702	202,030
Right-of-use assets	18(i)	24,355	30,879
Total non-earning assets		542,906	525,926
TOTAL ASSETS		16,393,686	15,009,325
LIABILITIES AND EQUITY			
INTEREST BEARING LIABILITIES			
Leases liabilities	18(ii)	18,156	23,722
Members' deposits	19	5,953,102	5,544,835
Members' voluntary shares	20	6,733,342	6,174,464
External credits	21	1,324	1,769
Total interest bearing liabilities		12,705,924	11,744,790
NON-INTEREST BEARING LIABILITY			
Other liabilities, being total non-interest bearing liability	22	186,927	144,449
TOTAL LIABILITIES		12,892,851	11,889,239
EQUITY			
Institutional capital	23	2,546,293	2,040,540
Non-institutional capital	24	954,542	1,079,546
TOTAL EQUITY		3,500,835	3,120,086
TOTAL LIABILITIES AND EQUITY		16,393,686	15,009,325

The financial statements on pages 4 to 75 were approved by the Board of Directors on April 15, 2021 and signed on its behalf by:

Paul Adams, President

Cyril Lebert, Treasurer

Patrick Smith, Secretary

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

JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Profit or Loss and Other Comprehensive Income
December 31, 2020

	Notes	2020 $'000	2019 $'000
INTEREST INCOME, CALCULATED USING THE EFFECTIVE INTEREST METHOD			
Loans		1,678,149	1,621,162
Liquid assets, resale agreements and financial investments		71,654	51,038
		1,749,803	1,672,200
INTEREST EXPENSE			
Members' deposits		245,074	250,000
External credits		211	1,131
Members' voluntary shares		174,930	274,750
Lease liabilities	18(iii)	2,246	2,549
Other finance costs		7,930	10,668
		430,391	539,098
NET INTEREST INCOME		1,319,412	1,133,102
Impairment gains on liquid assets, resale agreements and financial investments		2,143	7,560
Impairment losses on loans, net of recoveries	10(c)	(79,704)	(95,171)
Net interest income after impairment gains and losses		1,241,851	1,045,491
Loss/(gain) on unit trust investments		(41,016)	133,071
Other income	25	97,894	76,050
NET INTEREST AND OTHER INCOME		1,298,729	1,254,612
OPERATING EXPENSES			
Staff costs	26	422,894	396,919
Other operating expenses	27	477,902	480,130
		900,796	877,049
SURPLUS FOR THE YEAR		397,933	377,563
OTHER COMPREHENSIVE INCOME			
Item that will never be reclassified to surplus or deficit			
Remeasurement of employee benefits asset	17(f)	(23,917)	26,548
Item that may be reclassified to surplus or deficit			
Change in fair value of debt instruments at fair value through other comprehensive income (FVOCI)		10,478	8,850
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME		(13,439)	35,398
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		384,494	412,961

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

Statement of Changes in Equity
December 31, 2020

	Notes	Institutional capital: Permanent shares $'000 [note 23(a)]	Institutional capital: Statutory reserve $'000 [note 23(b)]	Non-institutional capital: Accumulated surplus $'000 [note 24(a)]	Non-institutional capital: Employee benefits asset reserve $'000 [note 24(b)]	Non-institutional capital: Fair value reserve $'000 [note 24(c)]	Non-institutional capital: Revaluation reserve $'000 [note 24(e)]	Non-institutional capital: Permanent share reserve $'000 [note 24(f)]	Total $'000
Restated balances at January 1, 2019		86,201	1,813,273	559,720	173,726	67,921	9,430	2,329	2,712,600
Total comprehensive income for the year									
Surplus for the year		-	-	377,563	-	-	-	-	377,563
Other comprehensive income:									
Remeasurement of employee benefits asset	17(f)	-	-	26,548	-	-	-	-	26,548
Change in fair value of debt instruments at FVOCI		-	-	-	-	8,850	-	-	8,850
Total other comprehensive income		-	-	26,548	-	8,850	-	-	35,398
Total comprehensive income for the year		-	-	404,111	-	8,850	-	-	412,961
Issue of permanent shares		409	-	-	-	-	-	-	409
Transfer to employee benefits asset reserve		-	-	(28,304)	28,304	-	-	-	-
Transfer to statutory reserve	23	-	140,646	(140,646)	-	-	-	-	-
Dividends	28	-	-	(5,895)	-	-	-	-	(5,895)
Entrance fees	23	-	11	-	-	-	-	-	11
Balances at December 31, 2019		86,610	1,953,930	788,986	202,030	76,771	9,430	2,329	3,120,086
Total comprehensive income for the year									
Surplus for the year		-	-	397,933	-	-	-	-	397,933
Other comprehensive loss:									
Remeasurement of employee benefits asset	17(f)	-	-	(23,917)	-	-	-	-	(23,917)
Change in fair value of debt instruments at FVOCI		-	-	-	-	10,478	-	-	10,478
Total other comprehensive loss		-	-	(23,917)	-	10,478	-	-	(13,439)
Total comprehensive income for the year		-	-	374,016	-	10,478	-	-	384,494
Issue of permanent shares		527	-	-	-	-	-	-	527
Transfer to employee benefits asset reserve		-	-	20,328	(20,328)	-	-	-	-
Transfer to statutory reserve:									
From current year surplus	23	-	205,032	(205,032)	-	-	-	-	-
From prior year undistributed surplus	23	-	300,186	(300,186)	-	-	-	-	-
Dividends	28	-	-	(4,280)	-	-	-	-	(4,280)
Entrance fees	23	-	8	-	-	-	-	-	8
Balances at December 31, 2020		**87,137**	**2,459,156**	**673,832**	**181,702**	**87,249**	**9,430**	**2,329**	**3,500,835**

JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Statement of Cash Flows
December 31, 2020

	Notes	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		397,933	377,563
Adjustments for:			
Interest income		(1,749,803)	(1,672,200)
Interest expense		428,145	536,549
Interest expense on lease liabilities	18(iii)	2,246	2,549
Depreciation	12,15	17,227	16,315
Amortisation	16	7,335	6,780
Depreciation - right-of-use assets	18	17,927	7,720
Impairment gain on liquid assets, resale agreement and financial investments		(2,143)	(7,560)
Impairment losses on loans, net of recoveries	10(c)	79,704	95,171
Employee benefits asset	17(e)	11,645	13,531
Operating cash flows before movements in working capital		(789,784)	(623,582)
Changes in operating assets and liabilities			
Loans		127,833	(1,793,229)
Other assets		(24,002)	3,247
Pension contributions	17(b)	(15,234)	(15,287)
Members' deposits		408,267	255,521
Members' voluntary shares		558,878	408,326
Other liabilities		41,466	(34,188)
		307,424	(1,799,192)
Interest received		1,739,157	1,689,941
Interest paid		(427,133)	(535,627)
Net cash generated from /(used by) operating activities		1,619,448	(644,878)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	(19,403)	(16,584)
Purchase of intangible asset	16	(5,547)	(4,800)
Liquid assets		(531,806)	(502,060)
Resale agreements		(928,312)	1,423,350
Financial investments		(91,703)	(243,230)
Net cash (used)/provided by investing activities		(1,576,771)	656,676
CASH FLOWS FROM FINANCING ACTIVITIES			
Permanent shares (net)		527	409
External credit		(445)	(715)
Dividends paid	28	(4,280)	(5,895)
Entrance fees		8	11
Payment of lease liabilities	18(iv)	(19,215)	(17,426)
Net cash used by financing activities		(23,405)	(23,616)
Net increase/(decrease) in cash and cash equivalents		19,272	(11,818)
Cash and cash equivalents at beginning of year		45,790	57,608
CASH AND CASH EQUIVALENTS AT END OF YEAR	13(a)	65,062	45,790

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

1. Identification

Jamaica Teachers' Association Co-operative Credit Union Limited ("Co-operative") is incorporated and domiciled in Jamaica and is registered under the Co-operative Societies Act ("Act"), and has its registered office at 97a Church Street, Kingston, Jamaica.

The main activities of the Co-operative are to promote thrift among its members by affording them an opportunity to accumulate savings and to create for them a source of credit for provident or productive purposes at a reasonable rate of interest.

Membership in the Co-operative is obtained by the holding of members' permanent [note 23(a)] and voluntary shares, which are deposits available for withdrawals on demand. Individual membership may not exceed 20% of the total of the members' shares of the Co-operative.

2. Regulation

The Co-operative Societies Act requires, amongst other provisions, that at least 20% of the net surplus of the Co-operative be transferred annually to a reserve fund. The Co-operative is exempt from Income Tax under Section 59(i) of the Co-operative Societies Act and Section 12 of the Income Tax Act.

3. Basis of preparation

(a) Statement of compliance

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

New and amended standards adopted during the year

Certain new and amended standards which were in issue came into effect during the year. The adoption of those standards did not have any impact on the amounts recognised or disclosures in the financial statements.

3. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations that are not yet effective:

At the date of authorisation of these financial statements, certain new and amended standards and interpretations have been issued which were not effective for the current year and which the Co-operative has not early-adopted. The Co-operative has assessed them with respect to its operations and has determined that the following are relevant:

- Amendments to IFRS 16 *Leases* is effective for annual reporting periods beginning on or after June 1, 2020, with early application permitted. It provides guidance for COVID-19 related rent concessions.

  The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

  The practical expedient will only apply if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before 30 June 2022; and
  - no other substantive changes have been made to the terms of the lease.

  Lessees applying the practical expedient are required to disclose:

  - that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
  - the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

    No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

3. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations that are not yet effective (continued):

- Amendments to IAS 37 *Provision*, C*ontingent Liabilities and Contingent Assets* is effective for annual periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling the contract.

  The amendments clarify that the 'costs of fulfilling a contract' comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments,* IFRS 16 *Leases*, IAS 41 *Agriculture*, and are effective for annual periods beginning on or after January 1, 2022.

  (i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  (ii) IFRS 16 *Leases* amendments removes the illustration of payments from the lessor relating to leasehold improvements.

  (iii) The amendments to IAS 41 *Agriculture* remove the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 *Fair Value Measurement*.

3. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations that are not yet effective (continued):

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after 1 January 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

  With the amendments, convertible instruments may become current. In light of this, the amendments clarify how an entity classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the entity's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that an entity can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

The Co-operative does not expect these amendments to have a significant impact on its financial statements when they become effective.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except for the inclusion of certain investments at fair value. The methods used to measure fair value are set out in note 7. Additionally, employee benefits asset is recognised as plan assets, less the present value of the defined benefit obligation and is limited as explained in note 4(d)(ii).

3. Basis of preparation (continued)

(c) Functional and presentation currency

The financial statements are presented in Jamaica dollars which is the Co-operative's functional currency. The financial information presented are shown in thousands of Jamaica dollars, unless otherwise indicated.

4. Significant accounting policies

(a) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

(i) Recognition and initial measurement

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

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

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

(ii) Classification and subsequent measurement

Financial assets

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

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

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

Business model assessments:

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities that are funding these assets or realising cash flows through the sale of the assets;

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

- how the performance of the portfolio is evaluated and reported to the Co-operative's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Co-operative's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

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

Reclassifications

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iii) Derecognition (continued)

Financial liabilities

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

(iv) Measurement and gains and losses

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

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

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

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

(v) Offsetting

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

(vi) Specific financial instruments

(1) Loans

Loans in the statement of financial position include loans measured at amortised cost. They are initially measured at fair value, plus incremental direct transaction costs and are subsequently measured at amortised cost less any expected credited loss allowance.

(2) Resale agreements

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(vi) Specific financial instruments (continued)

(2) Resale agreements (continued)

The difference between the sale and repurchase consideration is recognised on the accrual basis over the period of the transaction and is included in interest income.

(3) Cash and cash equivalents

Cash and cash equivalents are classified and measured at amortised cost. They comprise cash and bank balances and short-term liquid deposits, where original maturities do not exceed three months, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments, rather than for investment purposes.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and bank deposits not held to satisfy statutory requirements, net of bank overdraft, if any.

(4) Other assets

Other assets comprising sundry receivables, deposits and prepayments are classified and measured at amortised cost less impairment losses.

(5) Other liabilities

Other liabilities comprise other payables and are measured at amortised cost.

(6) External credits

External credits are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(vii) Identification and measurement of impairment

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

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

No impairment loss is recognised on equity investments.

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

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

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

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

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

Measurement of ECLs

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

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

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

Restructured financial assets

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

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Restructured financial assets (continued)

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Co-operative on terms that the Co-operative would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Credit-impaired financial assets (continued)

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Write-off (continued)

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

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

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

The Co-operative's impairment loss provision requirements, as stipulated by JCCUL, that exceed the IFRS impairment provision are dealt with in a non-distributable loan loss reserve as an appropriation of accumulated surplus.

(b) Property, plant and equipment

(i) Measurement

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

(ii) Subsequent costs

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

4. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in surplus or deficit on the straight-line basis at rates estimated to write-down the relevant assets, over their expected useful lives, to their residual values. Land is not depreciated. The rates used are as follows:

Buildings	2½%
Leasehold improvements	10%
Office furniture and equipment	10% - 25%
Right-of-use assets	12.5 - 50%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(c) Intangible assets

Intangible assets represent software rights and is measured at cost, less accumulated amortisation and impairment losses. Amortisation method, useful life and residual value are reviewed at each reporting date and adjusted if appropriate with the effect of any changes in the estimate being accounted for on a prospective basis.

Amortisation is charged to surplus or deficit on the straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use. The expected useful life of computer software is 10 years.

(d) Employee benefits

(i) General

Employee benefits are all forms of consideration given by the Co-operative in exchange for services rendered by employees. These include current or short-term benefits such as salaries, bonuses, National Insurance Scheme (NIS) contributions, annual vacation leave, and non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave.

4. Significant accounting policies (continued)

(d) Employee benefits (continued)

(ii) Pension benefits

The employees of the Co-operative participate in a defined benefit multi-employer pension plan operated by The Jamaica Co-operative Credit Union League (JCCUL). Effective December 31, 2016, the defined benefit pension plan was closed to new members. New members to the plan participate in a defined contribution multi-employer pension plan operated by JCCUL [see note 26(i)].

Obligations for contributions to the defined contribution plan are recognised as an expense in surplus or deficit as incurred.

Employee benefits asset included in the financial statements has been actuarially determined by a qualified independent actuary, appointed by JCCUL. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuation is conducted in accordance with IAS 19, and the financial statements reflect the Co-operative's employee benefits asset as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The calculation of defined benefit obligation is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Co-operative, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

(e) Investment property

Investment property comprised properties held to earn rentals and/or for capital appreciation, and are measured at cost less any accumulated depreciation and impairment losses.

4. Significant accounting policies (continued)

(e) Investment property (continued)

The gain or loss arising on the disposal or retirement of an investment property is determined as the difference between the sales proceeds and the carrying amount of the property and is recognised in surplus or deficit.

Investment property, other than land, is depreciated on a straight-line basis over its estimated useful life at 2½%.

Rental income on the properties is recognised in surplus or deficit on a straight-line basis over the life of the lease agreement.

(f) Leases

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the Co-operative allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. Therefore, for leases of property, the Co-operative has elected to separate non-lease components and account for these separately.

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Co-operative by the end of the lease term or the cost of the right-of-use asset reflects that the Co-operative will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

4. Significant accounting policies (continued)

(f) Leases (continued)

As a lessee (continued)

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Co-operative is reasonably certain to exercise, lease payments in an optional renewal period if the Co-operative is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Co-operative is reasonably certain not to terminate early.

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

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

The Co-operative presents right-of-use assets that do not meet the definition of investment property in the statement of financial position.

4. Significant accounting policies (continued)

(f) Leases (continued)

Short-term leases and leases of low-value assets

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

As a lessor

At inception or on modification of a contract that contains a lease component, the Co-operative allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Co-operative acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Co-operative makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Co-operative considers certain indicators such as whether the lease is for the major part of the economic life of the asset. In the Co-operative's capacity as a lessor, all its leases are classified as operating leases.

If an arrangement contains lease and non-lease components, then the Co-operative applies IFRS 15 to allocate the consideration in the contract.

The Co-operative recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income'.

(g) Members' shares

(i) Permanent shares

Permanent shares may be transferred by a member to another but are not available for withdrawal. Permanent shares are classified as equity.

(ii) Voluntary shares

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

(h) Provisions

Provisions are recognised when the Co-operative has a present, legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4. Significant accounting policies (continued)

(i) Revenue recognition

(i) Interest income

Effective interest rate

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income

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

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

4. Significant accounting policies (continued)

(i) Revenue recognition (continued)

(i) Interest income (continued)

Effective interest rate (continued)

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

Presentation

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

(ii) Fees and commission

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Co-operative recognises revenue when it transfers control over a service to a customer.

Fee and commission, income including account service fees, are recognised as the related services are performed.

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

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

4. Significant accounting policies (continued)

(i) Revenue recognition (continued)

(ii) Fees and commission (continued)

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms.**	**Revenue recognition under IFRS 15.**
Service fees	The Co-operative provides banking related services to members which give rise to fees for the acquisition of bills of sale, credit checks and letters of undertaking, standing orders, account status letters and account statements.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees such as credit bureau fees are charged to the members' accounts when the transaction takes place.	
	Service fees are charged when the service is delivered and are based on fixed rates determined by the Co-operative. Processing fees relating to loans are a percentage of the principal and charged to the member's account at the time of the transaction.	Service fees are recognised at the point in time when the service is delivered.

(iii) Dividends

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

(j) Interest expense

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

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

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

4. Significant accounting policies (continued)

(j) Interest expense (continued)

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

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

(k) Institutional capital

Institutional capital includes retained earnings reserve and other statutory and legal reserves as set out in article XIV rule 66 of the Co-operative Societies Act. These are set aside in order to strengthen the capital base of the Co-operative and thereby protect the interest of the members. These amounts are not available for distribution.

(l) Statutory reserves

The statutory and legal reserves are maintained in accordance with the provisions of the Co-operative Societies Act which require that a minimum of 20% of surplus before honoraria should be carried to a fund. A registered society may apply to the Registrar to allow the required percentage to be reduced. However, the reduction will not be granted below 10%.

(m) Foreign currency translation

Transactions in foreign currencies are converted at the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates ruling at that date. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in surplus or deficit.

(n) Impairment of non-financial assets

The carrying amounts of the Co-operative's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets and groups. Impairment losses are recognised in surplus or deficit.

(i) Calculation of recoverable amount

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

4. Significant accounting policies (continued)

   (n) Impairment of non-financial assets (continued)

      (ii) Reversals of impairment

      An impairment loss in respect of assets is reversed if there has been a change in the estimates used to determine the recoverable amount.

      An impairment loss is reversed only to the extent that the assets 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.

5. Critical accounting estimates and judgements

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

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

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

   (i) Judgements

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

      (1) Classification of financial assets:

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

      (2) Impairment of financial assets:

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

5. Critical accounting estimates and judgements (continued)

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

(1) Impairment losses on financial assets

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

(2) Employee benefits asset

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

The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Co-operative's obligations; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest tenor security on the market. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

Judgement is also exercised in determining the proportionate share of the defined benefit obligation, plan assets and cost as well as the extent that the surplus or deficit in the plan may affect the future contributions for each individual employer in the plan.

6. Financial risk management

(a) Introduction and overview

By its nature, the Co-operative's activities are principally related to the use of financial instruments, which involves analysis, evaluation and management of some degree of risk or combination of risks. The Co-operative manages risk through a framework of risk principles, organisational structures and risk management and monitoring processes that are closely aligned with the activities of the Co-operative. Risk management policies are designed to identify and analyse the risks faced by the Co-operative, to set appropriate risk limits and controls, and to monitor risks and adherence to limits by means of regularly generated reports. The Co-operative's aim is therefore to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Co-operative's financial performance.

6. Financial risk management (continued)

(a) Introduction and overview (continued)

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors is ultimately responsible for the establishment and oversight of the Co-operative's risk management framework. The Board has established committees for managing and monitoring risks.

Three key committees for managing and monitoring risks are the Supervisory Committee, the Credit Committee and the Finance Committee.

Supervisory Committee

The Supervisory Committee oversees the performance of personnel and systems within the Co-operative and ensures that internal procedures and controls are adhered to. The Supervisory Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of management controls and procedures, the results of which are reported to the Supervisory Committee.

Credit Committee

The Credit Committee oversees the approval of credit facilities and disbursements to members. It is also primarily responsible for monitoring the quality of the loan portfolio.

Finance Committee

The Finance Committee is responsible for managing the Co-operative's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Co-operative.

(b) Credit risk

The Co-operative takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss by being unable to pay amounts in full when due. Credit exposures arise principally in lending and investment activities.

6. Financial risk management (continued)

(b) Credit risk (continued)

For loans, credit decisions are primarily made by the Board of Directors, with some delegation of credit approval authority to the Credit Committee and certain members of executive management. The Co-operative's credit policy forms the basis for all its lending operations. The policy aims at maintaining a high quality loan portfolio, as well as enhancing the Co-operative's mission and strategy. The policy sets the basic criteria for acceptable risk and identifies risk areas that require special attention.

Additionally, the Co-operative is exposed to credit risk in its treasury activities, arising from financial assets that the Co-operative uses for investing its liquidity and managing currency and interest rate risks, as well as other market risks. There is also credit risk in off-balance sheet items, such as loan commitments.

Credit review process

The Co-operative has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

(i) Loans

Management of risk:

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

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

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

***(i) Loans (*continued)**

Credit quality

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

	2020 $'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Performing	11,769,699	204,051	-	11,973,750
Non-performing	-	-	219,066	219,066
	11,769,699	204,051	219,066	12,192,816
Allowance for impairment losses	(70,749)	(6,166)	(134,404)	(211,319)
Carrying amount	11,698,950	197,885	84,662	11,981,497

	2019 $'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Performing	11,896,959	231,832	-	12,128,791
Non-performing	-	-	231,388	231,388
	11,896,959	231,832	231,388	12,360,179
Allowance for impairment losses	(56,315)	(5,754)	(109,076)	(171,145)
Carrying amount	11,840,644	226,078	122,312	12,189,034

(ii) Investments and resale agreements

Management of risk:

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

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(ii) Investments and resale agreements (continued)

Credit quality

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

Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss is based on the instrument's current market price and original effective interest rate.

The following table sets out information about the credit quality of investment securities and resale agreements, based on Moody's credit rating index.

	2020 $'000 **Stage 1**	2019 $'000 **Stage 1**
Financial investments at FVOCI		
Non-investment grade, being total gross carrying amount	219,750	206,929
Loss allowance	708	865
Financial investments at amortised cost		
Non-investment grade	38,469	37,104
Loss allowance	(352)	(939)
Carrying amount	38,117	36,165
Resale agreements at amortised cost		
Non-investment grade	1,125,299	196,987
Loss allowance	(1,161)	(81)
Carrying amount	1,124,138	196,906

(iii) Liquid assets and bank balances

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(iii) Liquid assets and bank balances (continued)

Impairment has been measured at 12-month expected loss basis and reflects the short maturities of the exposures. The Co-operative considers that liquid assets and bank balances have low credit risk. No impairment allowances were recognised for cash and bank balances.

The following table sets out the credit quality of liquid assets:

	2020 $'000 **Stage 1**	2019 $'000 **Stage 1**
Total gross carrying amount	1,833,576	1,341,020
Loss allowance	(104)	(3,448)
Carrying amount	1,833,472	1,337,572

(iv) Credit limits

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

(v) Collateral held and other credit enhancements

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

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

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(v) Collateral held and other credit enhancements (continued)

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

Collateral held for loans

	2020 $'000	2019 $'000
Against past due but not impaired financial assets		
Properties	143,444	386,770
Shares and deposits	71,469	68,152
Liens on motor vehicles	28,980	30,602
	243,893	485,524
Impaired financial assets		
Properties	224,208	11,500
Shares and deposits	48,421	34,028
Liens on motor vehicles	18,168	20,258
	290,797	65,786
Total	534,690	551,310

(vi) Impairment

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 4(a)(vii).

Significant increase in credit risk

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

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

Significant increase in credit risk (continued)

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

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

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

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

Credit risk grades

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

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

- information obtained during periodic review of customer files;
- data from credit reference agencies;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower;
- payment record – this includes overdue status as well as a range of variables about payment ratios; and
- existing and forecast changes in business, financial and economic conditions.

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

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

Determining whether credit risk has been increased significantly:

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

Credit risk is deemed to increase significantly where the credit rating of a security decreased four or more levels on the international credit rating scale since the rating at origination date or the issuer of the instrument is experiencing or is very likely to experience one or more adversities and where there are adverse changes in one or more of the credit risk drivers that could increase the likelihood of default since the origination of loans.

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

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

Determining whether credit risk has been increased significantly (continued):

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

- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

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

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

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

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

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

The definition of default largely aligns with that applied by the Co-operative for regulatory capital purposes.

Incorporation of forward-looking information

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

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

Incorporation of forward-looking information (continued)

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

The economic scenarios used as at December 31, 2020 assumed no significant changes in key indicators for Jamaica within the next year.

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

Measurement of ECLs

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

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

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

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

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

Measurement of ECLs (continued)

EAD represents the expected exposure in the event of a default. The Co-operative derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

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

Loss allowance

The loss allowance recognised is analysed as follow:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Loans				
Balances at January 1, 2020	56,315	5,754	109,076	171,145
New financial assets originated or Purchased Recognised During the Year	43,174	1,943	19,305	64,422
Transfer from Stage 1 to Stage 2	-	469	-	469
Transfer from Stage 2 to Stage 3	-	-	161	161
Transfer from Stage 1 to Stage 3	-	-	173	173
Transfer from Stage 2 to Stage 1	3,170	-	-	3,170
Transfer from Stage 3 to Stage 2	-	24,339	-	24,339
Financial assets derecognised during the period	(31,910)	(26,339)	5,689	(52,560)
Balances at December 31, 2020	70,749	6,166	134,404	211,319

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vi) Impairment (continued)

Loss allowance (continued)

	2019			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Loans				
Balances at January 1, 2019	74,973	8,547	94,520	178,040
New financial assets originated or Purchased Recognised During the Year	17,056	652	12,941	30,649
Transfer from Stage 1 to Stage 2	-	4,636	-	4,636
Transfer from Stage 2 to Stage 3	-	-	16,772	16,772
Transfer from Stage 1 to Stage 3	-	-	74,574	74,574
Transfer from Stage 2 to Stage 1	163	-	-	163
Transfer from Stage 3 to Stage 2	-	86	-	86
Transfer from Stage 3 to Stage 1	48	-	-	48
Financial assets derecognised during the period	(35,925)	(8,167)	(89,731)	(133,823)
Balances at December 31, 2019	56,315	5,754	109,076	171,145

	2020 $'000 **Stage 1**	2019 $'000 **Stage 1**
Financial investments		
Balance at January 1	939	1,217
Recognised during the year	121	(278)
Balance at December 31	1,060	939
Resale agreements		
Balance at January 1	81	8,123
Recognised during the year	1,080	(8,042)
Balance at December 31	1,161	81
Liquid assets		
Balance at January 1	3,448	2,831
Recognised during the year	(3,344)	617
Balance at December 31	104	3,448

(vii) Exposure to credit risk

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

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

6. Financial risk management (continued)

(b) Credit risk (continued)

Credit review process (continued)

(vii) Exposure to credit risk (continued)

Concentration of risk

Loans

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

	2020 $'000	2019 $'000
Construction and real estate	820,058	113,311
Education	2,198	7,260
Personal	6,166,303	8,102,243
Motor vehicle	1,581,060	1,519,733
General	3,623,197	2,617,632
	12,192,816	12,360,179
Less: Allowance for impairment losses	(211,319)	(171,145)
	11,981,497	12,189,034

Debt securities

The following table summarises the Co-operative's credit exposure for debt securities at their carrying amounts, as categorised by the issuer:

	2020 $'000	2019 $'000
Government of Jamaica	211,182	198,257
Financial institutions	1,125,299	196,987
	1,336,481	395,244
Less: Allowance for impairment losses	(1,161)	(81)
	1,335,320	395,163

(c) Liquidity risk

Liquidity risk is the risk that the Co-operative is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequences may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

6. Financial risk management (continued)

(c) Liquidity risk (continued)

The Co-operative's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Co-operative's reputation.

The Co-operative is subject to liquidity limit imposed by JCCUL and compliance is regularly monitored. This limit requires that the Co-operative maintain liquid assets amounting to at least 10% of withdrawable savings and deposits. The liquid asset ratio as at December 31, 2020 was approximately 24% (2019: 13%) which is in compliance with the standard.

Liquidity risk management process

The liquidity risk management process, as carried out within the Co-operative, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding, if required;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Optimising cash returns on investments; and

(iv) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of an analysis of the cash balances and expected investment maturity profiles for the next day, week and month, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Co-operative and its exposure to changes in interest rates and exchange rates.

There was no change in how the Co-operative measures and manages liquidity risk during the year.

6. Financial risk management (continued)

(c) Liquidity risk (continued)

Liquidity risk management process (continued)

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the Co-operative's financial liabilities based on contractual repayment obligations.

	Within 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total cashflow $'000	Total carrying amount $'000
December 31, 2020						
Lease liabilities	-	9,239	10,577	-	19,816	18,156
Members' deposits	4,329,039	354,011	1,311,377	209,400	6,203,827	5,953,102
Members' voluntary shares	6,733,342	-	-	-	6,733,342	6,733,342
External credits	-	-	275	1,458	1,733	1,324
Other liabilities	186,927	-	-	-	186,927	186,927
Total financial liabilities	11,249,308	363,250	1,322,229	210,858	13,145,645	12,892,851
December 31, 2019						
Lease liabilities	-	17,230	8,238	-	25,468	23,722
Members' deposits	4,043,994	330,797	1,201,545	214,833	5,791,169	5,544,835
Members' voluntary shares	6,174,464	-	-	-	6,174,464	6,174,464
External credits	-	-	1,928	554	2,482	1,769
Other liabilities	144,449	-	-	-	144,449	144,449
Total financial liabilities	10,362,907	348,027	1,211,711	215,387	12,138,032	11,889,239

(d) Market risk

The Co-operative takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Finance Committee which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The main currency giving rise to this risk is the US$.

6. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

The Co-operative's exposure to foreign currency risk at the reporting date was as follows:

	2020 US$'000	2019 US$'000
Liquid assets - earning	8	20
Resale agreements	399	369
Financial investments	310	310
	717	699

The exchange rate of the US$ to the J$ at the reporting date was US$1.00 to J$140.7687 (2019: J$129.78).

Foreign currency sensitivity

The effect of a 6% (2019: 6%) strengthening of the United States dollar against the Jamaica dollar at the reporting date would, all other variables held constant, have resulted in an increase in surplus for the year of J$6,056,000 (2019: J$5,443,000). A 2% (2019: 4%) weakening in the exchange rate would, on the same basis, have resulted in a decrease in surplus of J$2,018,000 (2019: J$3,629,000).

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and arises mainly from investments, loans and deposits.

Floating rate instruments expose the Co-operative to cash flow interest risk, whereas fixed interest rate instruments expose the Co-operative to fair value interest risk.

The Co-operative's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments as determined by the Finance Committee. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by the Finance department.

6. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The following tables summarise the exposure to interest rate risk. They include the financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	2020					
	Within 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Assets						
Cash and bank balances	-	-	-	-	51,674	51,674
Liquid assets	544,525	1,338,947	-	-	-	1,883,472
Resale agreements	790,115	334,023	-	-	-	1,124,138
Financial investments	28,984	-	-	219,503	605,550	854,037
Loans	34,440	115,479	5,403,067	6,428,511	-	11,981,497
Other assets	-	-	-	-	109,513	109,513
Total assets	1,398,064	1,788,449	5,403,067	6,648,014	766,737	16,004,331
Liabilities						
Lease liabilities	-	9,239	8,917	-	-	18,156
Members' deposits	4,178,268	333,642	1,239,934	201,258	-	5,953,102
Members' voluntary shares	6,733,342	-	-	-	-	6,733,342
External credits	-	-	63	1,261	-	1.324
Other liabilities	-	-	-	-	186,927	186,927
Total liabilities	10,911,610	342,881	1,248,914	202,519	186,927	12,892,851
Total interest sensitivity gap	**(9,513,546)**	**1,445,568**	**4,154,153**	**6,445,495**	**579,810**	**3,111,480**
Cumulative interest rate sensitivity gap	**(9,513,546)**	**(8,067,978)**	**(3,913,825)**	**2,531,670**	**3,111,480**	**-**

JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Notes to the Financial Statements (Continued)
December 31, 2020

6. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

	2019					
	Within 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Assets						
Cash and bank balances	-	-	-	-	43,152	43,152
Liquid assets	273,676	1,063,896	-	-	-	1,337,572
Resale agreements	196,906	-	-	-	-	196,906
Financial investments	28,229	-	-	197,367	526,381	751,977
Loans	35,753	113,435	5,305,722	6,734,124	-	12,189,034
Other assets	-	-	-	-	74,865	74,865
Total assets	534,564	1,177,331	5,305,722	6,931,491	644,398	14,593,506
Liabilities						
Lease liabilities	-	15,938	7,784	-	-	23,722
Members' deposits	3,898,577	309,358	1,133,747	203,153	-	5,544,835
Members' voluntary shares	6,174,464	-	-	-	-	6,174,464
External credits	-	-	1,215	554	-	1,769
Other liabilities	-	-	-	-	144,449	144,449
Total liabilities	10,073,041	325,296	1,142,746	203,707	144,449	11,889,239
Total interest rate sensitivity gap	**(9,538,477)**	**852,035**	**4,162,976**	**6,727,784**	**499,949**	**2,704,267**
Cumulative interest rate sensitivity gap	**(9,538,477)**	**(8,686,442)**	**(4,523,466)**	**2,204,318**	**2,704,267**	**-**

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables being held constant.

The sensitivity of the surplus is the effect of the assumed changes in interest rates on net income based on the floating rate financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed rate financial assets classified and measured at FVOCI for the effect of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, they have to be on an individual basis. It should be noted that movements in these variables are non-linear.

6. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity (continued)

	2020		2019	
	Effect on surplus $'000	Effect on equity $'000	Effect on surplus $'000	Effect on equity $'000
Change in basis points:				
- 100 (2019: - 100)	(297)	7,875	(297)	8,013
+ 100 (2019: + 100)	297	(8,665)	297	(8,874)

	2020				
	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
Loans	16.76	11.65	13.17	14.13	13.44
Liquid assets	3.86	0.74	-	-	1.64
Resale agreements	3.09	3.15	-	-	3.11
Financial investments	2.70	-	-	6.25	5.83
Members' deposits	3.61	6.11	5.76	4.05	4.26
External credits	-	-	8.00	8.00	8.00

	2019				
	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
Loans	16.53	11.66	13.10	14.64	13.95
Liquid assets	4.16	0.95	-	-	1.61
Resale agreements	2.15	-	-	-	2.15
Financial investments	2.70	-	-	6.42	5.95
Members' deposits	3.73	6.93	5.98	5.75	4.44
External credits	-	-	7.96	8.00	7.97

(e) Operational risk

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

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

6. Financial risk management (continued)

(e) Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of a contingency plan;
- Risk mitigation, including insurance where this is effective.

Compliance with the Co-operative's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the department heads, with summaries submitted to senior management.

(f) Capital management

The Co-operative's objectives when managing institutional capital, which is a broader concept than the "equity" on the face of the statement of financial position are:

(i) To comply with the capital requirements set by the JCCUL for the financial sector in which the Co-operative operates;

(ii) To safeguard the Co-operative's ability to continue as a going concern so that it can continue to provide returns and benefits for members;

(iii) To maintain an 8% ratio of institutional capital to total assets; and

(iv) To maintain a strong capital base to support the development of its business through the allocation of at least 20% of surplus to institutional capital.

Capital adequacy and the use of regulatory capital are monitored by management, based on the guidelines in its Capital Asset Management Policy. The JCCUL currently requires member co-operatives to maintain a minimum level of institutional capital at 8% of total assets. At the reporting date, this ratio was 15% (2019: 14%) which is in compliance with the requirements.

6. Financial risk management (continued)

(f) Capital management (continued)

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

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

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

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

	2020		2019	
	Actual $'000	Required $'000	Actual $'000	Required $'000
Total regulatory capital	2,546,293	1,311,495	2,040,540	1,200,746
Total capital ratio	16%	8%	14%	8%

7. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date and is best evidenced by a quoted market price, if one exists. Many of the Co-operative's financial instruments lack an available trading market. Therefore, these instruments have been valued using other valuation techniques and the values may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

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

The fair value of financial investments is based on quoted market bid prices, when available. Where quoted market bid prices are not available, other valuation techniques are used.

External credits, members' voluntary shares, members' deposits and loans to members are carried at amortised cost, which is deemed to approximate their fair values, as these balances attract rates and terms comparable to market rates and terms for similar instruments.

The fair value of shares held in Jamaica Co-operative Credit Union League and other related entities are determined using the net asset valuation method. There is no available market for these instruments. The Co-operative has no intention to dispose of these investments.

7. Fair value of financial instruments (continued)

Financial instruments that are measured at fair value at the reporting date are grouped into Levels 1, 2 and 3, based on the degree to which the fair value is observable as follows:

(i) Level 1: Fair values are quoted prices (unadjusted) in active markets for identical instruments;

(ii) Level 2: Fair value measurements are those derived from valuation techniques based on inputs other than quoted market prices included within level 1, that are observable for the instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3: Fair value measurements are those derived from valuation techniques using significant inputs for the instrument that are not based on observable market data (unobservable inputs).

Accounting classification and fair values

The following table shows the carrying amount of financial assets measured at fair value, their classification and their levels in the fair value hierarchy. There were no transfer between levels during the year. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximate of fair value.

	2020					
	Carrying amount			Fair value		
	FVOCI $'000	FVTPL $'000	Total $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value:						
Financial investments	219,750	596,878	816,628	816,628	-	816,628
Liquid assets	-	1,333,635	1,333,635	1,333,635	-	1,333,635
	219,750	1,930,513	2,150,263	2,150,263	-	2,150,263

	2019					
	Carrying amount			Fair value		
	FVOCI $'000	FVTPL $'000	Total $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value:						
Financial investments	206,929	508,883	715,812	697,185	18,627	715,812
Liquid assets	-	1,057,485	1,057,485	1,057,485	-	1,057,485
	206,929	1,566,368	1,773,297	1,754,670	18,627	1,773,297

There were no transfers between levels during the year.

7. Fair value of financial instruments (continued)

Valuation techniques

The valuation techniques used in measuring fair value in the level 2 and level 3 hierarchy are as detailed below. There were no significant unobservable inputs used.

Financial assets	Methods
Government of Jamaica J$ securities	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids); • Using this yield, determine price using accepted formula; • Apply price to estimate fair value.
Government of Jamaica US$ Global bonds	• Prices of bonds at reporting date as quoted by broker/dealer
Units in unit trusts	• Obtain prices quoted by unit trust managers
Unquoted equities	• Net asset valuation method

8. Liquid assets

	2020 $'000	2019 $'000
Earning assets at amortised cost:		
Deposits		
National Commercial Bank Jamaica Limited	-	1,532
JMMB Bank Jamaica Limited	531,241	274,109
JCCUL - Cuets settlements	5,312	5,256
Savings account balances		
The Bank of Nova Scotia Jamaica Limited [note 13(a)]	13,388	2,638
	549,941	283,535
Financial assets at fair value through profit or loss		
Units in unit trust funds:		
JCCUL - Cumax money market fund	1,333,635	1,057,485
	1,883,576	1,341,020
Less: Allowance for impairment losses [note 6(b)(vi)]	(104)	(3,448)
	1,883,472	1,337,572

9. Resale agreements

The Co-operative enters into resale agreements collateralised by the Government of Jamaica securities. These agreements may result in a credit exposure in the event that the counter party to the transaction is unable to fulfill its collateral obligations.

	2020 $'000	2019 $'000
Principal	1,125,299	196,987
Less: Allowance for impairment [note 6(b)(vi)]	(1,161)	(81)
	1,124,138	196,906

The fair value of the underlying securities used to collateralise the resale agreements was $1,410,556,000 (2019: $206,875,000).

10. Loans

	2020 $'000	2019 $'000
Balance at beginning of year	12,189,034	10,669,016
Add: disbursements and transfers	3,414,739	5,061,804
	15,603,773	15,730,820
Less: repayments and transfers	(3,410,957)	(3,370,641)
	12,192,816	12,360,179
Less: allowance for impairment losses [note 6(b)(vi)]	(211,319)	(171,145)
	11,981,497	12,189,034

The amounts are expected to be recovered as follows:

	2020 $'000	2019 $'000
Within 12 months	149,919	149,188
Over 12 months	11,831,578	12,039,846
	11,981,497	12,189,034

10. Loans (continued)

(a) The aging of the loans at the reporting date was as follows:

	2020 $'000	2019 $'000
Neither past due nor impaired	11,437,675	11,140,199
Past due but not impaired:		
Less than 2 months	445,992	976,195
2 to 3 months	92,017	89,334
	538,009	1,065,529
Individually impaired	217,132	154,451
	12,192,816	12,360,179
Less: Allowance for impairment losses [note 6(b)(vi)]	(211,319)	(171,145)
	11,981,497	12,189,034

(b) Delinquent loans

The total loan loss provision derived below as at the reporting date is consistent with the loan loss provisioning rules of the JCCUL:

	2020					
Months in arrears	Number of accounts in arrears	Delinquent loans $'000	Savings held against loans $'000	Portion of loans not covered by savings $'000	PEARLS loan loss provision $'000	Provision rate %
Less than 2 months	389	445,993	222,369	223,624	-	-
2 – 3 months	62	92,018	27,296	64,722	9,202	10
4 – 6 months	110	92,069	50,248	41,821	27,621	30
7 – 12 months	102	110,354	37,936	72,418	66,212	60
13 months and over	23	14,710	5,585	9,125	14,710	100
	686	755,144	343,434	411,710	117,745	

	2019					
Months in arrears	Number of accounts in arrears	Delinquent loans $'000	Savings held against loans $'000	Portion of loans not covered by savings $'000	PEARLS loan loss provision $'000	Provision rate %
Less than 2 months	1,146	976,195	574,301	401,894	-	-
2 – 3 months	107	89,334	28,349	60,985	8,933	10
4 – 6 months	117	89,846	39,470	50,376	26,954	30
7 – 12 months	68	56,167	23,583	32,584	33,700	60
13 months and over	12	8,438	1,848	6,590	8,438	100
	1,450	1,219,980	667,551	552,429	78,025	

The interest in respect of non-performing loans which had not been recognised in the surplus for the year was $10,977,000 (2019: $13,766,000). Loans on which interest is suspended amounted to $217,132,000 (2019: $154,451,000).

10. Loans (continued)

(c) Allowance for impairment

The movement in the allowance for impairment determined under the requirements of IFRS is as follows:

	2020	2019
	$'000	$'000
Balance at January 1	171,145	178,040
Charged to surplus during the year	79,704	95,171
Amounts written off during the year	(39,530)	(102,066)
	211,319	171,145

The allowance for impairment under the JCCUL regulatory requirement is below the provision required under IFRS provisioning rules, hence, no amounts have been recognised in loan loss reserve. The excess of the regulatory provision over the IFRS provision is normally dealt with through a transfer between accumulated surplus and loan loss reserve [see note 24(d)].

11. Financial investments

	2020	2019
	$'000	$'000
Investment securities at fair value through other comprehensive income		
Quality Network Co-operative Limited ("QNET") shares [note (a)]	2,472	2,472
Jamaica Co-operatives Insurance Agency Ltd. (JCIA) [note (b)]	3,000	3,000
Credit Union Fund Management Co-operative Limited (CUFMC) [note (d)]	3,200	3,200
Government of Jamaica securities:		
Benchmark Investment Notes	140,151	136,521
Global bonds	70,927	61,736
	219,750	206,929
Investment securities at fair value through profit or loss		
JCCUL shares [note (c)]	9,955	9,955
Units in unit trust funds:		
Units held with JMMB Fund Managers Limited	40,212	41,354
Units held with Barita Investments Limited	464,026	405,511
Units held with Sagicor Investments Limited	82,685	52,063
	596,878	508,883
Sub-total carried forward	816,628	715,812

11. Financial investments (continued)

	2020 $'000	2019 $'000
Sub-total brought forward	816,628	715,812
Investment securities at amortised cost		
JCCUL - Mortgage funds [note (e)]:	9,050	8,826
The Victoria Mutual Building Society Mortgage deposit	29,419	28,278
	38,469	37,104
Less: Allowance for impairment losses [note 6(b)(vi)]	(1,060)	(939)
	37,409	36,165
	854,037	751,977

The amounts are due to be recovered as follows:

	2020 $'000	2019 $'000
Within 12 months	616,238	535,980
Over 12 months	237,799	215,997
	854,037	751,977

(a) The QNET investment represents shares purchased from a private share offering.

(b) This represents shares purchased in JCIA from a share offer underwritten by the JCCUL.

(c) A minimum of 1,000,000 shares, each with a par value of $1.00, must be held with the JCCUL for the Co-operative to retain membership status.

(d) CUFMC investment represents shares purchased from a private share offering.

(e) The rules of JCCUL stipulate that the Co-operative must invest 5% of the net increase in the members' share accounts in the JCCUL Mortgage Fund instruments. These instruments are used to secure joint mortgage facilities, which are extended to the members of the Co-operative.

12. Investment property

	2020 $'000	2019 $'000
Cost		
At beginning and at end of year	12,816	12,816
Depreciation		
At beginning of year	4,906	4,632
Charge for the year	274	274
At end of year	5,180	4,906
Carrying amount	7,636	7,910

12. Investment property (continued)

(a) An independent valuation of the properties was done as follows:

Date of valuation	Surveyor	Location of property	Fair value
November 28, 2019	Oliver's Property Services	North Street	$33.0M
August 18, 2020	Oliver's Property Services	May Pen Shop #26	$ 6.0M
November 12, 2016	Oliver's Property Services	May Pen Shop #25	$ 5.5M

The fair value of real estate was determined by independent, licenced real estate dealers, with appropriate recognised professional qualifications and experience and is classified as Level 3 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation techniques	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Market based approach. This model takes into account: • A willing seller and buyer; • A reasonable period in which to negotiate a sale, taking into account the nature of the property and state of the market; • Values are expected to remain stable throughout the period of market exposure and disposal by sale (hypothetical); • The property will be freely exposed to the market; and • Potential rental value of the property in the current investment climate.	• Judgements if the property can be sold, exchanged, transferred, let, mortgaged or used for any other economic activity, within its use class. • The potential rental value of the property in the current investment climate.	The estimated fair value would increase/(decrease) if: • The potential rental value of the property increased/(decreased). • Judgement about what the property can be sold, exchanged, let, mortgaged, which had been determined to be better/(worse).

(b) The income earned from the properties, one of which is leased under operating lease, amounted to $859,000 (2019: $1,225,000) (see note 25). Direct operating expenses arising from the properties during the year amounted to Nil (2019: $112,900).

13. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash in hand	4,428	2,699
Bank balances	47,246	40,453
	51,674	43,152

(a) Cash and cash equivalents in the statement of cash flows is represented by:

	2020 $'000	2019 $'000
Cash and bank balances (above)	51,674	43,152
Liquid assets – savings account balances (note 8)	13,388	2,638
	65,062	45,790

(b) At the reporting date, cash and cash equivalents included amounts totaling $4,365,000 (2019: $3,880,000) which represent amounts due to the Ministry of Education, Youth & Information, that are not available to the Co-operative for operational use (see note 22).

14. Other assets

	2020 $'000	2019 $'000
Deposits and prepayments (i)	30,221	27,600
Interest receivable	52,189	41,543
Sundry receivables	27,103	5,722
	109,513	74,865

(i) Deposits and prepayments include the sum of $6,665,000 (2019: $2,707,000) which represents deposits on property, plant and equipment (see note 32).

15. Property, plant and equipment

	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Office furniture and equipment $'000	Total $'000
Cost					
December 31, 2018	3,381	82,464	57,634	190,681	334,160
Additions	-	-	2,220	14,364	16,584
Disposals	-	-	-	(186)	(186)
December 31, 2019	3,381	82,464	59,854	204,859	350,558
Additions	-	578	3,516	15,309	19,403
Disposals	-	-	-	(1,282)	(1,282)
December 31, 2020	3,381	83,042	63,370	218,886	368,679
Depreciation					
December 31, 2018	-	12,616	28,617	150,617	191,850
Charge for the year	-	2,062	4,472	9,507	16,041
Disposals	-	-	-	(186)	(186)
December 31, 2019	-	14,678	33,089	159,938	207,705
Charge for the year	-	2,075	4,608	10,270	16,953
Disposals	-	-	-	(1,282)	(1,282)
December 31, 2020	-	16,753	37,697	168,926	223,376
Net book values					
December 2020	3,381	66,289	25,673	49,960	145,303
December 2019	3,381	67,786	26,765	44,921	142,853
December 2018	3,381	69,848	29,017	40,064	142,310

16. Intangible assets

	Software rights $'000
Cost	
December 31, 2018	63,004
Additions	4,800
December 31, 2019	67,804
Additions	5,547
December 31, 2020	73,351
Amortisation	
December 31, 2018	28,877
Charge for the year	6,780
December 31, 2019	35,657
Charge for the year	7,335
December 31, 2020	42,992
Net book values	
December 31, 2020	30,359
December 31, 2019	32,147
December 31, 2018	34,127

17. Employee benefits asset

The Co-operative provides for post-retirement benefit through a defined benefit pension plan, managed by the JCCUL. The plan is funded by contributions from the Co-operative and permanent employees in accordance with the rules of the plan. Under the plan, employees are entitled to retirement benefits based on 1.85% of their final 3-year average salary per year of contributory service. Effective December 31, 2016, the defined benefit pension plan was closed to new members. New employees participate in a defined contribution multi-employer pension plan operated by JCCUL.

(a) The amounts recognised in the statement of financial position are determined as follows:

	2020 $'000	2019 $'000
Present value of funded obligations (note c)	(935,930)	(853,236)
Fair value of plan assets [note d(i)]	1,117,632	1,055,266
Asset in the statement of financial position	181,702	202,030

(b) Movement in the amounts recognised in the statement of financial position

	2020 $'000	2019 $'000
Balance at beginning of year	202,030	173,726
Contributions paid	15,234	15,287
Pension expense recognised in surplus	(11,645)	(13,531)
Remeasurement recognised in other comprehensive income	(23,917)	26,548
Balance at end of year	181,702	202,030

17. Employee benefits asset (continued)

(c) Movement in the present value of funded obligations

	2020 $'000	2019 $'000
Balance at beginning of year	853,236	801,140
Service costs	19,800	19,701
Interest cost	63,544	55,213
Employees' contributions	13,246	13,397
Benefits paid	(25,202)	(38,154)
Actuarial losses/(gains) arising from:		
Experience adjustments	21,245	22,827
Changes in financial assumptions	(9,939)	(28,576)
Changes in demographic assumptions	-	7,688
Balance at end of year	935,930	853,236

(d) (i) Movement in fair value of pension plan assets

	2020 $'000	2019 $'000
Fair value of plan assets at beginning of year	1,055,266	974,866
Employees' contribution	13,246	13,397
Employer's contribution	15,234	15,287
Interest income	79,268	67,909
Benefits paid	(25,202)	(38,154)
Administrative expenses	(7,569)	(6,526)
Actuarial (losses)/gains	(12,611)	28,487
Fair value of plan assets at end of year	1,117,632	1,055,266

(ii) Plan assets consist of the following

	2020 $'000	2019 $'000
Quoted equities	227,465	256,258
Real estate investment trust	12,188	11,036
Government of Jamaica securities	349,698	352,143
Resale agreements	23,126	45,861
Investment in property	271,084	235,025
Global bonds	176,674	49,616
USD certificates of deposit	32,221	30,186
Units in Unit Trust	47,166	125,614
Other	(21,990)	(50,473)
	1,117,632	1,055,266

17. Employee benefits asset (continued)

(e) Expense recognised in surplus

	2020 $'000	2019 $'000
Current service cost	19,800	19,701
Interest cost on obligation	63,544	55,213
Interest income on plan assets	(79,268)	(67,909)
Administrative expenses	7,569	6,526
Net pension expense included in staff costs [note 26]	11,645	13,531

(f) Amounts recognised in other comprehensive income

	2020 $'000	2019 $'000
Remeasured losses on obligation	11,306	1,939
Remeasured losses/(gains) on plan assets	12,611	(28,487)
	23,917	(26,548)

(g) As mortality continues to improve, estimates of life expectancy are expected to increase. The effect on the projected benefit obligation of an increase of one year in the life expectancy is approximately $25.23 million (2019: $22,930,000).

(h) The principal actuarial assumptions (expressed as weighted averages) used were as follows:

	2020	2019
Discount rate	9.0%	7.5%
Expected future salary increases	6.5%	5.0%
Expected future pension increases	4.5%	3.0%

(i) Sensitivity analysis on projected benefit obligation

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarizes how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate would cause some reduction in the medical trend rate.

	2020		2019	
	1% Decrease $'000	1% Increase $'000	1% Decrease $'000	1% Increase $'000
Discount rate	160,985	(126,370)	154,058	(120,103)
Future salary increases	(43,953)	50,801	(45,043)	52,217
Future pension increases	(81,723)	95,746	(74,618)	87,383

17. Employee benefits asset (continued)

(j) Liability duration

	2020 Years	2019 Years
Active members	19.3	20.1
Deferred pensioners	17.8	16.6
Retirees	8.7	8.9
All participants	15.9	16.4

(k) The estimated pension contributions expected to be paid into the plan during the next financial year is $15,090,000 (2019: $14,850,000).

18. Leases

The Co-operative leases office space for its various branches. The leases typically run for a period of 1-5 years. Previously, the leases were classified as operating leases under IAS 17.

Leases as lessee (IFRS 16)

(i) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property.

	2020 $'000	2019 $'000
Balance at January 1	30,879	38,599
New right of use assets	11,403	-
Depreciation charge for the year	(17,927)	(7,720)
Balance at December 31	24,355	30,879

(ii) Lease liabilities:

Undiscounted cashflows of lease liabilities

	2020 $'000	2019 $'000
Less than one year	9,409	17,230
One to five years	12,418	8,238
Total undiscounted lease liabilities	21,827	25,468
Discount	(3,671)	(1,746)
Carrying amount of lease liabilities	18,156	23,722

18. Leases (continued)

Leases as lessee (IFRS 16)

(iii) Amounts recognised in profit or loss

	2020 $'000	2019 $'000
Interest on lease liabilities	2,246	2,549

(iv) Amounts recognised in statement of cash flows

Total cash outflow for leases	19,215	17,426

(v) Extension options

Some property leases contain extension options exercisable by the Co-operative up to one year before the end of the non-cancellable contract period. Where practicable, the Co-operative seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Co-operative and not by the lessors. The Co-operative assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Co-operative reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(vi) Short-term leases

The Co-operative has elected not to recognise right-of-use assets and lease liabilities for leases that are short-term.

19. Members' deposits

	2020 $'000	2019 $'000
Ordinary deposits		
At beginning of year	292,939	329,218
Add: savings and interest	519,498	578,951
	812,437	908,169
Less: withdrawals and transfers	(494,581)	(615,230)
At end of year	317,856	292,939
Golden Harvest Plan	1,562,060	1,523,309
Special fixed deposits	4,073,186	3,728,587
	5,953,102	5,544,835

The amounts are due to be settled as follows:

	2020 $'000	2019 $'000
Within 12 months	4,511,910	4,207,935
Over 12 months	1,441,192	1,336,900
	5,953,102	5,544,835

20. Members' voluntary shares

	2020 $'000	2019 $'000
At beginning of year	6,174,464	5,766,138
Add: Savings	1,730,604	1,657,442
Interest	174,930	274,750
	8,079,998	7,698,330
Less: withdrawals and transfers	(1,346,656)	(1,523,866)
At end of year	6,733,342	6,174,464

21. External credits

	2020 $'000	2019 $'000
JCCUL: Mortgage loans	1,324	1,769

The loans from the JCCUL are secured by registered titles. Interest is repayable at 8% (2019: 7½% to 8%) per annum on the reducing balance method.

The amounts are due to be settled as follows:

	2020 $'000	2019 $'000
Over 12 months	1,324	1,769

22. Other liabilities

	2020 $'000	2019 $'000
Accrued charges	59,664	36,219
Interest payable	16,183	15,172
Withholding tax	5,122	5,196
Ministry of Education, Youth & Information refunds [note 13(b)]	4,365	3,880
JTA Housing savings deposits	8,111	8,108
Youth savings deposits	3,987	3,902
Insurance	12,731	11,374
Other payables	76,764	60,598
	186,927	144,449

23. Institutional capital

	2020 $'000	2019 $'000
Members' permanent shares (a)	87,137	86,610
Statutory reserve (b)		
Balance at beginning of year	1,953,930	1,813,273
Transfer from current year surplus	205,032	140,646
Transfer from prior year undistributed surplus	300,186	-
Entrance fees	8	11
Balance at end of year	2,459,156	1,953,930
	2,546,293	2,040,540

23. Institutional capital (continued)

(a) Permanent shares

Permanent shares are paid in cash and are not redeemable but may be transferred or sold to another member.

(b) Statutory reserve

As required by the Co-operative Societies Act and the rules of the Co-operative, a minimum of twenty (20%) of the annual surplus and amounts collected for entrance fees are transferred to this reserve. For the year ended December 31, 2020, an additional amount was transferred from undistributed surplus, so as to maintain a statutory reserve of 15% (2019: 13%) of total assets, as agreed at the Annual General Meeting.

24. Non-institutional capital

		2020 $'000	2019 $'000
(a)	Accumulated surplus	673,832	788,986
(b)	Employee benefits asset reserve	181,702	202,030
(c)	Fair value reserve	87,249	76,771
(d)	Loan loss reserve [note 10(c)]	-	-
(e)	Revaluation reserve	9,430	9,430
(f)	Permanent share reserve	2,329	2,329
		954,542	1,079,546

(a) Accumulated surplus

This represents undistributed surplus.

(b) Employee benefits asset reserve

The employee benefits asset reserve represents pension surplus arising on the IAS 19 actuarial valuation of the pension plan in which the Co-operative participates. A portion of the annual changes in the value of the plan is shown in the surplus for the year, then transferred to this reserve, while the other portion is shown in other comprehensive income.

(c) Fair value reserve

This represents the unrealised gains or losses on the revaluation of FVOCI investments.

(d) Loan loss reserve

This represents the excess of the regulatory loan loss provision over IFRS 9 requirements. However, no provision has been made as the IFRS 9 provision is in excess of the PEARLS requirements.

(e) Revaluation reserve

This represents surplus arising on revaluation of land and building, prior to December 31, 2001.

(f) Permanent share reserve

This represents an amount set aside from surplus to be ascribed as permanent shares for members.

25. Other income

	2020 $'000	2019 $'000
Fees	36,640	30,062
Bad debt recovery	46,152	33,229
Exchange gains/(losses) on foreign currency deposits	6,724	(652)
Dividend income	353	150
Operating lease income [note 12(b)]	859	1,225
JCCUL grant income	-	3,231
Miscellaneous income	7,166	8,805
	97,894	76,050

26. Salaries and other staff costs

	2020 $'000	2019 $'000
Salaries and wages	257,892	241,976
Payroll taxes	36,712	33,655
Pension expense [note 17(e)]	11,645	13,531
Staff welfare	30,293	29,348
Other staff benefits	86,352	78,409
	422,894	396,919

	2020	2019
The number of persons employed during the year:		
Permanent staff	114	107
Temporary staff	12	19
	126	126

(i) The Co-operative's contribution to the defined contribution pension plan for the year amounted to $4,064,000 (2019: $2,861,000).

JAMAICA TEACHERS' ASSOCIATION CO-OPERATIVE CREDIT UNION LIMITED
(A Society Registered Under the Co-operative Societies Act)

Notes to the Financial Statements (Continued)
December 31, 2020

27. Nature of expenses

	2020 $'000	2019 $'000
Administrative		
ABM	6,155	6,347
Advertising and publicity	46,598	50,767
60th anniversary expense	-	13,811
Amortisation	7,335	6,780
Annual general meeting	5,746	10,174
Auditors' remuneration (inclusive of GCT)	7,698	9,415
Board and committee meetings	11,312	13,556
Board and committees' travelling	11,951	15,305
Ceremonies	1,742	2,147
Consultancy fees	3,281	2,436
Data processing	44,188	38,340
Depreciation	34,568	23,761
Entertainment	89	98
General office	10,307	8,528
Insurance	5,070	4,395
Motor vehicle upkeep for travelling officers	28,537	25,878
Motor cycle repairs	210	240
Postage and telegrams	3,543	5,641
Repairs and maintenance	16,173	8,616
Security	22,708	17,153
Stationery and printing	13,934	14,127
Staff and board retreat	4,859	2,585
Travelling	10,349	15,891
Donations	4,367	6,832
	300,720	302,823
Affiliation		
League fees	24,423	22,523
League and other meetings	-	7,888
Stabilisation dues	11,718	16,583
	36,141	46,994
Establishment		
Cleaning and sanitation	5,485	4,108
Electricity and telephone	33,061	29,577
Janitorial services	7,500	8,109
Rates and taxes	4,718	3,886
Rental	-	247
	50,764	45,927
Members' security		
Loans and savings insurance	80,815	75,703
Golden harvest savings insurance	9,462	8,409
	90,277	84,112
Total other operating expenses	477,902	480,130

28. Dividends

At the Annual General Meeting held on October 2, 2020 (2019: May 11, 2019), the members moved a motion to pay dividends of $4,280,000 (2019: $5,895,000).

29. Insurance

(a) Fidelity insurance coverage

During the year, the Co-operative had fidelity insurance coverage with Jamaica Co-operative Insurance Agency Limited. The total premium for the year was $100,000 (2019: $201,000).

(b) Life savings and loan protection coverage

During the year, the Co-operative had life savings and loan protection coverage with Cuna Mutual Insurance Co-operative Limited. Total premium for the year was $80,815,000 (2019: $75,703,000).

(c) Golden harvest plan insurance coverage

During the year, the Co-operative had Golden Harvest Plan insurance coverage with Cuna Mutual Insurance Co-operative Limited. The total premium for the year was $9,462,000 (2019: $8,409,000).

These policies remained in force throughout the year with all premiums being paid promptly.

30. Related party transactions

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

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

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

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

(iii) is a member of the key management personnel of the Co-operative or of a parent of the Co-operative.

B. An entity is related to the Co-operative if any of the following conditions applies:

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

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

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

30. Related party transactions (continued)

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

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

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

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

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

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

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

Related parties include directors and senior executives, all of whom are referred to as key management personnel. Also entities closely connected to them are related parties. The Co-operative entered into the following transactions with related parties:

(a) Key management personnel:

	2020	2019
	$'000	$'000
Loan balances	10,780	11,062
Members' deposits	23,840	13,662
Permanent Shares	19	230
Voluntary Shares	7,395	4,653
Interest earned from loans	746	589
Interest paid on deposits	643	613

(b) At the reporting date, 15 (2019: 14) members of the Co-operative's Board of Directors and 11 (2019: 17) committee members had balances and transactions with the Co-operative as follows:

	2020	2019
	$'000	$'000
Members' deposits	91,406	106,730
Permanent Shares	228	17
Voluntary Shares	34,347	33,366
Loans including accrued interest	101,487	93,417
Interest paid on deposits	3,100	3,633
Interest earned from loans	11,536	11,129

During the year, no director, committee member or staff received loans which necessitated waiver of the loan policy. At December 31, 2020, all loans to directors, committee members and staff were being repaid in accordance with their loan agreements.

30. Related party transactions (continued)

(c) Compensation of key management personnel

The remuneration of key members of management personnel (included in staff costs) during the year was as follow:

	2020 $'000	2019 $'000
Salaries and other short-term benefits	45,226	39,787
Post-employment benefits (*)	3,171	2,536
	48,397	42,323

*This represents employer's contributions to the multi-employer defined benefit and defined contribution plans.

31. Comparison of ledger balances

The detailed records of balances relating to loans to members, deposits and members' voluntary shares compared with their respective control accounts were as follows:

	Loans to members $'000	Members' deposits $'000	Members' voluntary shares $'000
Balance as per general ledger	12,192,816	5,953,102	6,733,342
Balance as per members' ledger	12,192,816	5,953,102	6,733,342
Variances at December 31, 2020	-	-	-
Variances at December 31, 2019	-	-	-

32. Capital commitment

As at December 31, 2020, the Co-operative entered into contracts for capital expenditure in the amount of $9,798,000 (2019: $4,783,000) in respect of which deposits amounting to $6,665,000 (2019: $2,707,000) have been made [see note 14(i)].

33. Covid-19 impact

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity and business operations. The Co-operative saw reduced levels of business activities during the year, most notably regarding the volume of new loans, which resulted in a reduction of $167 million (1.4%) in the portfolio. Delinquency was not significantly impacted during the year. However, recognising the economic impact on members, the credit union granted moratoria totalling $171 million of principal balances. In addition, the performance of the investment portfolio was negatively affected by the fallout in the financial markets. This resulted in the unit trust investments, which are primarily equity-based, experiencing a loss of $41 million. However, the co-operative's liquidity position was not negatively affected during the year.

33. Covid-19 impact (continued)

The credit union enacted the Disaster Risk Management policy which provided guidance in mitigating the impact of the pandemic. Initiatives taken included: the establishment of a crisis management committee to plan for and respond to the challenges arising, the implementation of safety and sanitisation protocols with respect to the protection of staff and members, preparation for a work from home mandate, enhancement of the technical capacity of the virtual network and the expansion of member online and email services.

There could be further significant negative financial effects on the Co-operative, depending on factors such as (i) the duration and spread of the outbreak, (ii) the restrictions and advisories from Government until the virus is controlled through vaccination, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be estimated reliably at this time.