



Cayman Islands  
Civil Service Association Co-operative  
**Credit Union Limited**

A N N U A L R E P O R T

2018

## CREDIT UNION PRAYER

LORD, make me an instrument of Your peace,  
Where there is hatred, let me sow love;  
Where there is injury, pardon;  
Where there is doubt, faith;  
Where there is despair, hope;  
Where there is darkness, light; and  
Where there is sadness, joy.

O Divine Master, grant that I  
May not so much ask  
To be consoled,  
As to console;  
To be understood as to understand;  
To be loved as to love.

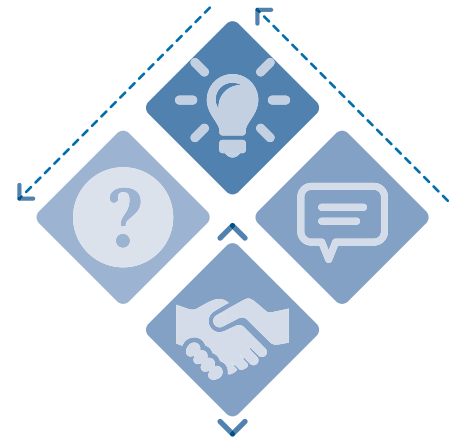
For it is in giving that we receive;  
It is in pardoning that we are pardoned;  
And it is in dying

That we are born to eternal life.  
Bless, O Lord our deliberations  
And grant that whatever we may say and do  
Will have Your blessings and guidance  
Through Jesus Christ Our Lord,

***Amen.***



Cayman Islands  
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**Credit Union Limited**



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## INTRODUCTION

The Cayman Islands Civil Service Association (CICSA) Co-operative Credit Union Limited (the “Credit Union”) was incorporated in the Cayman Islands in 1976 under the provisions of the Cooperative Societies Law and operates as a non-profit organization receiving savings and making loans to members.

Membership in the Credit Union includes persons who have attained 18 years of age and are employed by the Government of the Cayman Islands (including all Statutory Boards/ Bodies of Government) and their immediate family members. At the Annual General Meeting held 25 July 2001 the persons eligible for membership were extended to include employees of utility companies operating in the Cayman Islands and immediate relations thereof.

As a business primarily funded through member deposits, the Credit Union remains very aware that depositors rely on dividends to live and save for the future. However, borrowers are equally faced with the pressure of trying to create security for their families through residential or personal borrowing. As a member-owned and community-focused organisation, the Credit Union tries to meet both sets of demands from borrowers and depositors with equal focus.



The theme for International Credit Union Day (“ICU Day”) was “Dreams Thrive Here” — celebrating the spirit of the Global Credit Union movement. ICU Day is celebrated annually on the third Thursday of October and took place this year on 19 October 2017.

“ICU Day is the opportunity to encourage Credit Union members to get engaged, share their experiences and celebrate how Credit Unions and financial cooperatives have made an impact on their life choices. By placing people before profit, we defend the Credit Union and cooperative financial institution model worldwide,” said Brian Branch, World Council president and CEO.

The 2017 ICU Day theme illustrated how Credit Unions and other financial cooperatives serve as catalysts to make different professions, personal choices, and career paths real.

## STRATEGIC PLAN



### PURPOSE

To provide our members with easier access to financial services, helping them to improve their quality of life.

### VISION

To be the first-choice financial services provider for all eligible members while maximizing their returns.

### MISSION

To offer excellent service to our members enabling them to achieve their financial goals while positively impacting the wider community.

### VALUES

Professional, Respectful, Integrity, Helpful, and Committed.

### OBJECTIVES

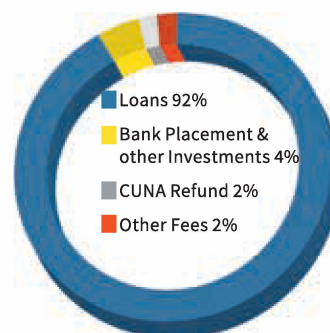
- ▶ Improve member financial education and appreciation
- ▶ Motivate our employees
- ▶ Strengthen risk management
- ▶ Improve technology
- ▶ Emphasize community involvement
- ▶ Deepen member relations and cross sell
- ▶ Increase market penetration and retention
- ▶ Maintain financial health



## THE YEAR AT A GLANCE

Total Membership	13,660
ATM cards issued	6,341
Net Income	\$7.61 Million
New Members in 2018	941
Total assets	\$293 Million
Total Loans disbursed	\$63.8 Million
Total Loans	\$195.95 Million
Membership shares	\$248.69 Million
Dividends paid to Members, 2.8%	\$5.92 Million
Interest rebate to members, 3%	\$267K
Donations	\$29K
Educational Grants	\$200K
Staff	50

### SOURCES OF REVENUE





## KEY PERFORMANCE INDICATORS



**100** First-time home owners' loans were approved



**40** Members transferred their loans to the Credit Union

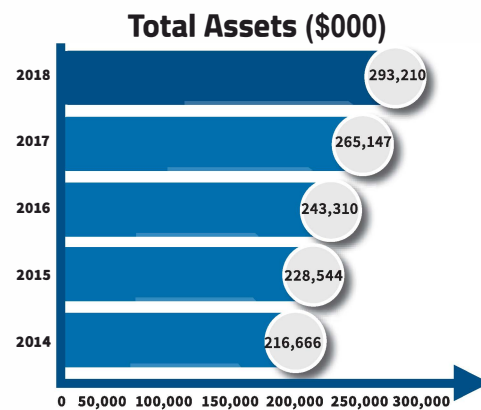
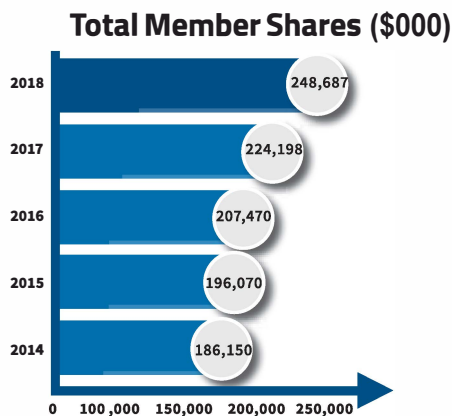
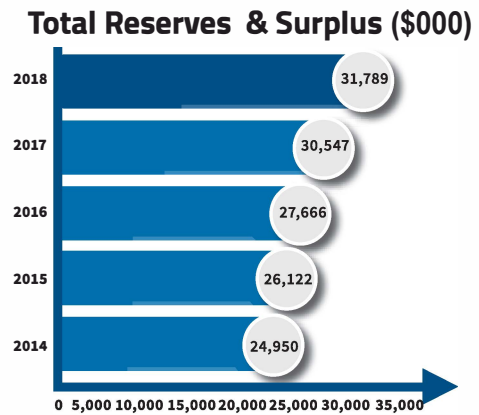
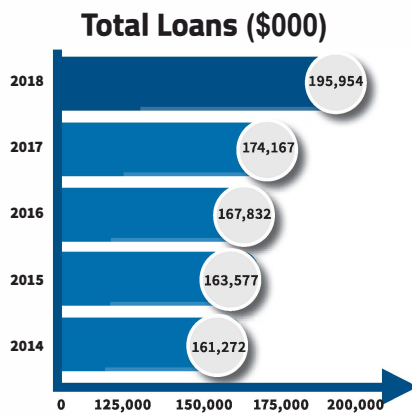
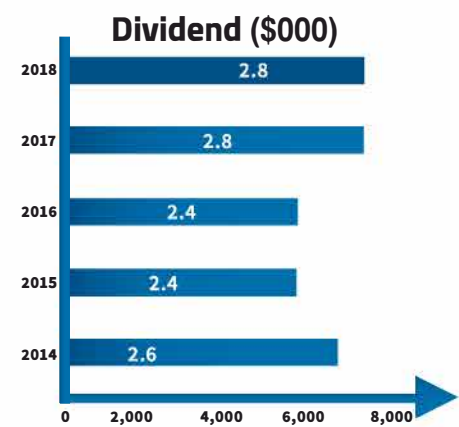
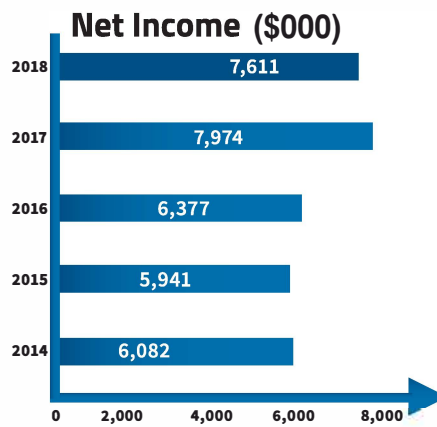


**177** Members purchased new vehicles



**25** Members purchased land

	2018
Earnings Per Share	\$0.06
Dividend Payout Ratio	77.8%
Return On Assets	2.7%
Return On Equity	24%
Efficiency	45%
Dividend Rate Paid / Proposed	<b>2.8%</b>



## BOARD OF DIRECTORS



From left to right, front to back row: Director-Shakira Gourzong, 2nd Vice Chairman-Krishan Welcome, Director-Deanna Lookloy, Secretary-Zena Merren-Chin, 1st Vice Chairman-James Watler, Chairman-Michael Nixon, Treasurer-Christopher Goddard

### **MICHAEL NIXON - CHAIRMAN:**

Mr. Nixon is the Senior Assistant Financial Secretary in the Ministry of Finance and Economic Development. A career civil servant with over 23 years of experience in various aspects of public sector financial management, he has a Bachelor of Business Administration degree from the University of Miami.

Mr. Nixon currently has management responsibility within the Ministry for: the preparation of the Government's Annual Budget; Economics and Statistics Office; Corporate Unit; and the Risk Management Unit. In addition, he serves as the Ministry of Finance representative on the Board of Directors of the Port Authority of the Cayman Islands and Cayman Turtle Farm (1983) Limited.

Mr. Nixon has been a member of the Credit Union since 1996 and has served previously as Member and Chairman of the Credit and Supervisory Committees.

### **JAMES WATLER - 1st VICE CHAIRMAN**

Mr. James Watler has a Master of Education Degree from the University of Bristol which qualifies him as a Counselor/Therapist. A Post Graduate Certificate from the University of London School of Education from which he received a Certificate in 'Leading Change and Management in the Cayman Islands.' Mr. Walter is the Author of a book entitled: 'The Islands Time Forgot, Stories of the Cayman Islands' published in 2000 at University of London School of Education.

Mr. Watler has been a member of the Credit Union's Board of Directors for the past 8 years and holds the post of 1st Vice Chairperson. Mr. Watler also served on the Credit Committee for 15 years and held the position of Chairperson for that committee. Mr. Watler is a current Director on the Public Service Pension Board and past President of Cayman Islands Civil Service Association (CICSA). He has been a civil servant for over 40 years and held several positions in the Education Department; he is currently the Senior Customer Service Manager. He has a passion for service to his community and has over the years demonstrated this as he is committed to reaching out and helping those that are in need.

Mr. Watler has been a member of the Credit Union since 1978.

### **CHRISTOPHER GODDARD - TREASURER**

Mr. Goddard has a Bachelor of Economics and Finance from Barry University and is qualified as a Member of the Society of Trust & Estate Practitioners (STEP). He is a former employee of the Cayman Islands Monetary Authority.

He has been a member of the Credit Union for over 15 years and has served the Credit Union in a number of capacities:

He is a past member of and Chairman of the Credit Committee; former manager of the Loans Department when the incumbent was on maternity leave in 2008; trainer for the annual Anti-Money Laundering training for the Credit Union staff; and has been instrumental in the review of various Credit Union policy documents in the past few years.

Mr. Goddard also attended the Caribbean Confederation of Credit Union Regional Director's Conference in Cuba in 2017 and has participated in other training initiatives for Credit Union volunteers.

He is a successful young Caymanian businessman, Owner/Director of Winner's Circle a retail sporting goods store. He also served on a number of Government committees.

He has been a member of the Board of Directors from 2010 and served as the Treasurer since 2013.

### **DEANNA LOOK LOY - DIRECTOR**

Deanna Look Loy held several positions on the Board including Chairperson. She is a retired Civil Servant with over 33 years of service. Before her retirement, she was the Director of Children & Family Services (Formerly Department of Social Services of the Cayman Island Government). She has a Bachelor of Arts and Diploma in Education from the University of the West Indies, Post Graduate Certificate and Diploma in Human Resources Management and Master of Science in Human Resource Management from Portsmouth University.

She is a qualified Spanish teacher and taught the subject at schools in Jamaica, Grand Cayman and Trinidad. She has spent much of her spare time volunteering for a number of clubs in the Cayman Islands which include The Catholic Women's League, The Business and Professional Women's Club, The Cayman Garden Club, Big Brothers Big Sisters of the Cayman Islands, and the Rotary Club of Grand Cayman. She currently assists the Justice of the Peace Association weekly and the Guardian Ad Litem Panel of the Cayman Islands Judiciary. She is a past Chairperson of the Board and now serve as an ordinary member. She is still very much involved in the community as well as being a small farmer and avid gardener.

### **ZENA MERREN-CHIN - SECRETARY**

Clerk of the Legislative Assembly / Cayman Islands Legislative Assembly

Ms. Merren-Chin has a Bachelor of Science in Law Enforcement and Police Science and a Bachelors of Law (LLB). She also attended Liverpool University in 1995 then went on to Belfast University in 1996 where she completed the Professional Practice Course (PPC).

Ms. Merren-Chin was employed with the Police Service during 1986-1990 then went on to employment as the Deputy Clerk of Courts during 1997-1998. She then ventured on to Appleby as an Attorney at Law during 1998-2009. She is currently the Clerk of the Legislative Assembly from 2009 to present.

Ms. Merren-Chin is on the Board as a Director for the Cayman Islands Crisis Centre and has been a member of the Credit Union since 1987.

### **KRISHAN WELCOME - 2ND VICE CHAIRMAN**

Ms. Krishan Welcome is an attorney currently practising in the Cayman Islands. She obtained a Bachelor of Laws Degree in Law and Politics from The University of Birmingham, and a Master of Laws Degree in International Commercial law from the University of Nottingham. In addition, Krishan is a qualified primary school teacher and holds a Master of Arts in Teaching from Brown University.

Ms. Welcome is called to the bar in England and Wales (not practising), the Cayman Islands, and the British Virgin Islands (not practising). She has been a member of the Credit Union for 17 years, serving on the Board of Directors for 4 years and currently holds the post of 2nd Vice Chair.

### **SHAKIRA GOURZONG - DIRECTOR**

Ms Gourzong is a Senior Client Relationship Officer at Intertrust Corporate Services (Cayman) Limited. Shakira earned a Bachelor of Science degree in Business Administration with a concentration in Economics from UCCI in 2006. She is also a founding member of the UCCI Alumni Board and was in the first group to complete the CeMBA at UCCI in 2008.

She also completed and received the Society of Trust and Estate Practitioners (STEP) Diploma in September 2010 and earned a Master of Business Administration from ICCI in February 2014.

She has been a member of the Credit Union for over 12 years and previously served on the Credit Committee from 30 November 2010 to 31 July 2012 when she resigned due to scheduling conflicts with classes while pursuing her Master's degree. She has been serving on the Board of Directors for the past 3 years and within that period has represented the Credit Union at various international conferences. She also obtained the CARIB DE designation.

# BOARD OF DIRECTORS' REPORT

## Financial and Operating Performance

Another year of solid financial results. Thank you to the Board, Volunteers, Management, employees and members for working together to make it happen.

As of 31 July 2018, the Credit Union had:

- ▶ A net income of \$7.61 million
- ▶ \$293 million in assets
- ▶ Member shares of \$248 million
- ▶ A loan portfolio totalling \$196 million
- ▶ Paid \$5.9 million, or 2.8% in dividends to members

Members, welcome to our 43rd Annual General Meeting.

I take this opportunity on behalf of the Board and other elected and appointed Committees to commend our founders, pioneers and all the members, who have supported and continue to support the Credit Union by participating in its products and service offerings. I appeal to you to be ambassadors of your Credit Union by promoting the high quality of services you have received.

The Cayman Islands Civil Service Co-operative Credit Union Limited (the "Credit Union") recorded net income of \$7.61 million for the year ended 31 July 2018. When the \$7.61 million is compared with the operating net income of 2017 of \$7.97 million, which was positively impacted by two significant one-off items totaling \$1.18 million, the increase is \$821 thousand or 12%

The Loan portfolio grew by 13% in 2018 to \$195.9 million, with deposits and voluntary shares growing by 11% to \$260.4 million. Total assets increased by 11% to \$293.2 million over the same period.

The surplus is as a result of continued focus on managing operating costs and delinquency. Other contributory factors to the 2018 surplus included a successful loan promotion campaign which launched several new loan products. A full discussion of our financial performance can be found in the Treasurer's Report contained on pages 12-13 of this report.

Based on these results, the Board of Directors has proposed a dividend of 2.8% (2017: 2.8%). This dividend, which represents a pay-out ratio of 78% of net income (2017: 74 %), will be paid on 3 December 2018 to all shareholders on record on 31 July 2018.

The Board has also approved a 3% (2017: 3%) interest rebate on loans to recognize all members who borrow from their Credit Union and who have made their loan payments on time. Loans are the core of our business and is our primary source of revenues.

## REGULATION & COMPLIANCE

The Credit Union continues to improve its regulatory compliance framework in line with the changes in laws and regulations and as such employed a Risk and Compliance Manager, Mrs. Onassia Miller, in April 2018. Mrs. Miller has prepared a Compliance Plan for our Credit Union as well as assisted in updating the Anti-Money Laundering Policy and Procedures; this policy was reviewed by the Supervisory Committee and approved by the Board of Directors in October 2018.

The Credit Union has also continued appeals to its members to update their accounts in order to be compliant with the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands. Increased compliance thresholds are the new norm for all financial institutions and are not limited to our Credit Union. I urge all Members to provide information when requested as non-compliance significantly increases the risk of punitive actions against the Credit Union by the regulators.

## Enterprise Risk Management

Enterprise Risk Management (ERM) is a comprehensive, systematic and collaborative process to identify, manage and monitor the Credit Union's risks - both internal and external - to ensure achievement of its strategic objectives and continued financial stability. Our Board-approved policies are designed to ensure that risks are managed within the Credit Union. Directors and management participated in risk assessment workshops during the year which will culminate in a risk register that documents all significant risks across the various business units and facilitates continuous monitoring and assessment of those risks identified. In addition, there are various policies and procedures in place covering all operational areas of the Credit Union to guide management and staff in their daily operations.



## IFRS 9

The Credit Union has commenced preparations for the mandatory adoption of International Financial Reporting Standard No. 9 (Financial Instruments) as of 1 August 2018. This standard changes the way financial instruments are classified and measured and allows for the recognition of expected impairment losses on financial instruments in line with key economic trends, changes in counterparty risk and forecasts over the life of the instrument. The Credit Union will be in a position to quantify the financial impact of adopting this standard well before 31 July 2019.

## CAPITAL AND RESERVES

The equity of the Credit Union is currently held only in reserves with no share capital (equity shares). Reserves consist of the statutory reserves, mortgage fund, development fund, and undistributed surplus.

Share capital is not currently held as all voluntary shares in the Credit Union are recorded as a liability; voluntary shares are recorded in liabilities as they may be withdrawn on demand. Voluntary shares may also be used as collateral for loans.

**Article III, Shares and Liability of the Credit Union's Rules** defines permanent shares as "equity shares and form part of the risk capital of the Credit Union", permanent shares, which may not be withdrawn unless member ceases to be a member of the Credit Union and which may not be held as collateral may be classified as equity or share capital within the Capital & Reserves section of the Comprehensive Statement of Condition (Balance Sheet).

Permanent equity shares will strengthen the capital base of the Credit Union and provide members with an opportunity to earn an enhanced dividend on this type of share. Permanent shares will also improve liquidity management of our Credit Union as they are not withdrawable and will provide additional stability to our strong financial position.

The Directors intend to hold a Special General Meeting in the first quarter of 2019 to further inform our members on permanent shares and how they benefit members and our Credit Union.

## CORPORATE SOCIAL RESPONSIBILITY

The Credit Union's signature Educational Grants programme is one of the primary ways through which we fulfill our social responsibility to develop our community. We provided members and children of members with \$200,000 in educational grants to pursue their educational goals.

During the financial year, the Credit Union assisted charitable entities, events benefitting youth services and older persons, and sponsored educational achievement awards at three high schools in our community. See further details on community involvement on page 20.

## DELINQUENT LOANS

The Board monitors this very critical credit risk area of the Credit Union on a regular basis and daily oversight is provided through the Debt Collection Department. At the end of 2018 delinquency stood at 5.43% compared to 5.44% at the end of 2017. We continue to monitor delinquency and the policy and procedures are currently being reviewed and will be updated in by January 2019. We expect more positive results in 2019 and beyond.

## WRITTEN-OFF LOANS

Accounts that were in arrears for a period in excess of 365 days and for which the accounts reflected a 100% provision for the debts were recommended to the Board by Management for write off. As of 31 July 2018, loans with a combined value of \$590.5K were approved by the Board of Directors as Written-Off Loans. These loans will continue to be managed for collections but will no longer be included as part of the current loan portfolio. We however continue with an aggressive procedure to collect as much of these outstanding loans as we can which will go directly towards our surplus.

## HUMAN RESOURCES

During 2017/18, your Credit Union sought to build on the gains of the previous year by focusing on staff engagement, staff morale, and capacity building. Another key area of focus was on operational efficiency through organizational structure review.

The internal reporting structures were realigned to better support the value chain resulting in improved efficiencies in the loan application and review process, greater focus on excellent and timely service delivery as well as improved accountability and communication.

To boost staff morale and engagement, meaningful adjustments were made to employee benefits with assistance of a market survey performed by a human resource consultant. An Employee of the Quarter award was implemented to recognize staff who go beyond expectations in their role and for the Credit Union overall. Staff development and capacity building remained an area of priority with training sessions for all staff of the Credit Union. The Directors and Volunteers also benefitted from training and development in Anti-Money Laundering/Combating the Financing of Terrorism Seminar; Risk Management; Credit Union Development Education (CaribDe); and the Data Protection Law.

Directors, volunteers and staff as well as representatives from the Cayman Island Civil Service Association participated in a one-day biennial retreat with the theme “Embracing Change” in June of 2018. Presentations were given relevant to the theme by the Deputy Governor, the Honorable Franz Manderson; Joey Ebanks of Dream Big International Training; Director Krishan Welcome; and Melvin Edwards of CaribDe. Their messages captured the essence of continuing to improve and grow in a changing environment while remaining rooted in the Credit Union philosophy.

The Employee Handbook (formerly, Personnel Policy) was also reviewed by management and amendments were approved by the Board reflecting the Credit Union’s personnel policies, procedures, and benefits. Changes included those relevant to the Pension Law revisions, dress code, employment contract terms, anti-money laundering, data protection, and other general policies and benefits.

## CORPORATE GOVERNANCE

The Credit Union was incorporated under the provisions of the Co-operative Societies Law (2001 Revision). The Credit Union files an annual report with the General Registry after the Annual General Meeting updating its directors and elected volunteers. While the Credit Union is not a licensee of the Cayman Islands Monetary Authority (CIMA), it is regulated and inspected by CIMA and expected to comply with relevant laws, regulations and statements of guidance. It is also subject to administrative fines for non-compliance with certain laws and regulations.

The Credit Union is also governed by a set of Rules approved by the members at annual general meetings. The Rules were last revised in 2016 and a sub-committee has been established to conduct a further review of the rules in 2019.

The Governance of the Credit Union is further strengthened by a Supervisory Committee and a Credit Committee. The Risk and Compliance Manager as well as the Internal Auditor report directly to the Supervisory Committee with administrative reporting to the Chief Executive Officer of the Credit Union. A representative from the Loans Department sits in on all Credit Committee meetings. This year, the Credit Union implemented an Internal Credit Committee which vets all loans before submission to the Credit Committee.

Annual external audits are also part of our corporate governance. PwC who have been our external auditors for decades, performed their last audit for the financial year ended 31 July 2018 and issued another unqualified opinion on the financial statements of the Credit Union. The Supervisory Committee tendered the external audit service during the year and E&Y is in the process of being appointed as the next external auditor for the Credit Union for the financial year August 2018 to July 2019. The Supervisory Committee recommended, and the Board approved that the external audit service should be tendered every 5 years in line with best practice and to improve corporate governance.

Our members also contribute to corporate governance as we provide a process for all members to give constructive feedback on our products and services. The Internal Auditor receives feedback from members, which is given to the appropriate manager and the CEO for timely response. All feedback including complaints, suggestions, and compliments along with action taken is presented to the Board of Directors on a monthly basis.

The Board of Directors continue to place great emphasis on corporate governance and conducted appraisals of the operations of the Credit Union through its monthly meetings and as well as special Board Meetings and subcommittee meetings. The Board met monthly from August 2017 to July 2018, except for December 2017, as well as an additional **5 special meetings** for strategic planning, budget review and approval, credit policy review and approval. See table below:

DIRECTOR	MONTHLY BOARD MEETINGS	SPECIAL BOARD MEETINGS	TOTAL
	11	5	16
Michael Nixon	10	5	15
James Watler	10	3	13
Krishan Welcome	9	4	13
Zena Merren-Chin	11	3	14
Christopher Goddard	10	4	14
Deanna Look Loy	8	5	13
Shakira Gourzong	8	4	12

Directors tendered apologies for all meetings not attended.

## THE WAY FORWARD

### Proposed Credit Union Rules change

The trend of members' shareholdings increasing substantially more than members' borrowings continues; this trend impacts our ability to increase the dividend rate going forward and results in the build up of excess funds that are placed in lower yielding fixed deposits with other banks.

The Board and Management recognizes that the excess funds not loaned to members are yielding less than earnings on funds loaned to members and has proposed an amendment to the Investment Policy to add additional options for investments of excess. The primary objective of the Investment Policy will remain principal preservation, and secondly, to increase the yield. The amendment to the current Investment Policy requires members to amend Article XV, section 70iia of the Credit Union Rules, such that investments in non-Credit Union institutions are allowed. See resolution on page 61.

### Upgrade our Information Technology Systems

A project has been activated to upgrade the Core Financial System - In a continued effort to use technology to drive growth, improve the member service delivery channels and better serve our membership, we initiated a project to replace the existing Core Financial System in the 2019 financial year.

We will also increase service delivery channels by installing at least one additional ATM during the next year as part of the upgrade to the Core Financial System.

### Improve Member Experience

The Credit Union exists to provide financial services to its Members while simultaneously building and enhancing our communities. We will continue our efforts to improve the Member Experience and to work with members regarding their individual concerns. We will seek feedback from our members and ensure that issues are properly addressed. Major areas of focus will include:

- ▶ Development of and adherence to a Service Level Agreement and Charter;
- ▶ Implementation of Member Service Training for all staff to assist in raising the engagement and service levels to our members;
- ▶ Strengthening the accountability structure within the organization to improve member satisfaction both internally and externally; and
- ▶ Improved communication via social media and periodic member service surveys to determine satisfaction levels of our members.

### Development Committee

A Development Committee consisting of one director and two members has been established by the Board to recommend best use for the existing properties owned by the Credit Union at Huldah Avenue and Smith Road in Grand Cayman. The Committee is gathering relevant information on the use of the property to construct a commercial building for rent as well as residential townhouses for sale. The Board believes that this development will provide a significant return to members not only in rental and sales income, but in financing loans to purchase the townhouses.

### Education Committee

The Credit Union is keen to inform our members on the benefits of being a member, on the Credit Union principles and philosophy as well as on financial planning to help improve their lives. As such the Committee's mandate will be to:

- ▶ Be in charge of publicity, education and training programmes and the holding of seminars and conferences;
- ▶ Provide educational material for use by members; and
- ▶ Prepare and submit regular reports to the Board of Directors on the activities of the Committee and its outcomes.

## APPRECIATION

We wish to record our appreciation to our loyal volunteers, management and staff, and all who have assisted the Credit Union in the conduct of its affairs over the past year. We thank you, our members for your dedication and support; as well as the confidence you have placed in us as we strive to serve The Cayman Islands Civil Service Co-operative Credit Union Limited.

For, and on behalf of the Board of Directors,

**Michael Nixon, Chairman**

# TREASURER'S REPORT

I am pleased to report another profitable financial year ending 31 July 2018. The Credit Union is strong and profitable.

## PERFORMANCE SUMMARY

Our **net income** for the year was \$7.61 million, represents an increase of 12% in income from operations when compared to the 2017 results adjusted for one-off items.

The increase in net income was mainly because of 8% growth in net interest income and 1% increase in non-interest income, offset by provision for loan losses of \$538K (2017: -82K) and a 10% increase in total expenses.

**Net Interest Income** grew by 8% due to 7% growth in loan interest income, 4% increase in fees on cash advances and 111% growth in interest earned on fixed deposits; interest on fixed deposits was positively impacted by the increase in the Prime Interest Rate at commercial banks as well as proactively negotiating competitive rates each time a deposit matured.

The increase in **non-interest income** was mainly due to non-compliant fees, dormant account fees, mail-returned fee, loan late fees and loan application fees. Many of these fees may be avoided by members by keeping their account active (save monthly), keeping their identification current (updating passport and drivers' licences information), ensuring that you collect your mail or have a valid mailing address, and paying your loan on time.

CUNA refund received during 2017 included premiums paid net of claims and fees for three years, normally, one-year in refunds are received annually.

LOAN PROVISIONS	2018	2017
Specific provision	432,952	657,296
General (inherent) provision	105,856	- 740,045
TOTAL	538,808	- 82,749

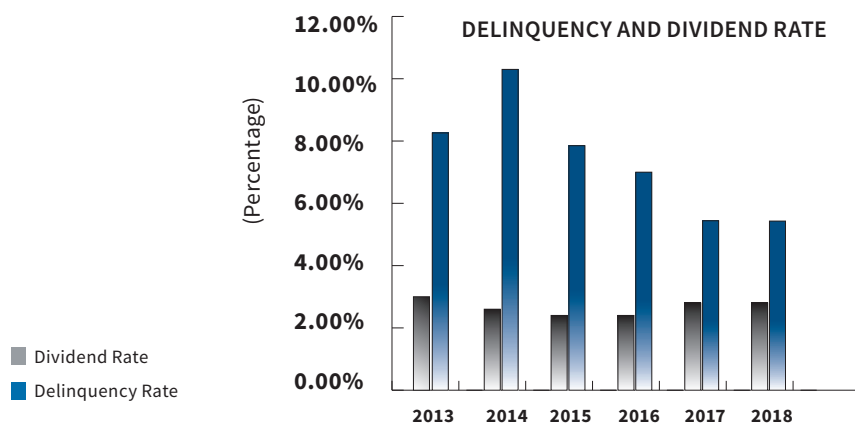
**Loan provisions** are comprised of:

The specific provision is based on delinquent loans past due 60 days or more and impaired, whereas, the general provision is based on all loans not impaired ('good book' of loans). The good book of loans was at 98% of gross loans as of 31 July 2018 compared to 97% at the end of 2017.

A robust assessment of the good loan book in 2017 resulted in the reduction of general provision by \$740K (from \$1.9M to \$847K). In 2018, the general provision review reflected an increase of \$106K bringing the inherent provision to \$954K, which was mainly due to the overall growth in the loan book.

The specific provision for loans past due and impaired, net of loans written-off was \$433K or a 34% drop from 2017 of \$657K. Loans written off increased from \$443K to \$590K in 2018 due to a number of sales of delinquent properties with residual amounts (excess of amount due over the sales price plus cost to sell). Diligent collection procedures continue for these written-off loans.

The delinquency ratio of 5.44% in 2017 declined again in 2018 to 5.43% due to the continued efforts of our team; see graph below:



The chart above shows a declining trend in the delinquency rate and the positive impact on the dividend rate.

**Total Expenses** increased by 10% overall mainly due to salaries and other personnel costs. This was due mainly to a salary review that was conducted in late 2016 and implemented at the beginning of the financial year in August 2017. The last market salary review performed was in 2008.

In addition, included in salaries and other personnel costs are: consultancy fees to revise our lending policy and procedures and provide training to the lending team; new positions were filled for a manager of credit risk and a manager of risk and compliance; temporary staff to assist with the increase in demand for loans; retirement payments to two former long standing employees; the cost for the bi-annual retreat which was attended by employees, directors and other elected volunteers; and, a dress code allowance which is awarded every two years.

**Total assets** of \$293 million (2017: \$265 million), increased by 11%. Total Assets increased due to a 13% growth in loans to our members and a 9% growth in excess funds placed in fixed deposits with commercial banks.

A growing economy and the rising Prime Interest Rates for commercial banks along with our successful loan promotions were the main drivers for the 13% growth in the loan book. Our members responded overwhelmingly to our loan promotions for first-time home owners and for existing borrowers to transfer their loans home to our Credit Union. They truly saw the Credit Union Difference in our low fees, special interest rates, and (without comparison) our cash back or interest rebate.

As a result of members commitment to our Credit Union, gross loans approved (internally and by the Credit Committee) for the year was \$80M compared to \$49M in 2017; loans undisbursed as of 31 July 2018 of \$24M will be booked in the financial year 2018/19 adding to our surplus.

Members continued confidence in our Credit Union is shown in the growth in **member deposits**; members' shares grew by 11% or \$24M and members' deposits grew by 21% or \$2M.

We continue to build and retain our statutory **reserves** at 20% of annual Net Income in accordance with our Rules.

These are excellent results and they confirm our strong financial position upon which we continue to build on. We thank our members for their patronage of saving and borrowing with our Credit Union.

We will continue to promote the Credit Union Philosophy of "People helping people" which I believe is as important today as when the Credit Union movement was established.

I take this opportunity to thank the Directors, the Supervisory and Credit Committees, management, staff, and members for all their hard work this year. We have a dedicated team who continue to work enthusiastically for the benefit of members and to ensure the Credit Union's continued success.

**Christopher Goddard, Treasurer**

## SUPERVISORY COMMITTEE REPORT



Photo caption from left to right, front: Member, Kim France, Secretary Jennifer Smith, (back) Chairman-Andre Scott, Member-Ravi Persad. (Missing from photo Deputy Chairman-Vaughn McLean, Member-Jenesha Simpson)

### Introduction

The **2017/2018** financial year has been another successful year for our Credit Union. As we anticipate an uptick in the local economy we proceed with cautious optimism and strive to position our Credit Union to benefit from new opportunities.

The success of our Credit Union is due to the commitment of our members; volunteers; staff; management; and the leadership and guidance of the Board of Directors.

### Membership and Attendance

Following our election on **29 November 2017**, the Committee held a number of meetings to review the work of Credit Union.

In addition, representatives from the Supervisory Committee attended most Board of Directors' meetings and a number of meetings of the Credit Committee. Below is the attendance and activity record of the Committee.

## Supervisory Committee Meetings Held 1 August 2017 to 31 July 2018

Members	Position	Meetings Attended	Comments
André Scott	Chairman	7	Attended Board & Credit Committee Meetings
Vaughn McLean	Deputy Chairman	6	Attended Board & Credit Committee Meeting
Jennifer Smith	Secretary	7	Attended Board & Credit Committee Meetings
Jenesha Simpson	Member	4	Attended Board & Credit Committee Meetings
Kim France	Member	5	Attended Board, Credit Committee Meetings & CCCU Convention
Ravi Persad	Member	6	Attended Board, Credit Committee Meetings & CCCU Convention

### Activities

Under Section 54 of the Credit Union Rules, the Supervisory Committee is charged with the responsibility for auditing the books of the Credit Union and dealing with complaints from members.

The Credit Union continues to grow in size and complexity and **it was expedient that a Compliance and Risk Manager be hired; on 16 April 2018, this new manager joined the Credit Union team.**

Therefore, the Supervisory Committee continued to focus its attention on reviewing a number of internal audits conducted by the existing Internal Audit Manager **along with reviewing the in-depth compliance and risk assessments conducted by the newly-appointed Compliance and Risk Manager.** We are happy to report that no material breaches in our policies and procedures were found.

**The combined presence of these two independent, competent managers significantly strengthen and enhance** the ability of the Supervisory Committee to conduct thorough, timely and accurate ongoing audits, and due diligence assessments on various operations and internal control mechanisms within the Credit Union.

We can report the following matters were addressed:

- ▶ **Development of an AML and Compliance Program**
- ▶ **Completion of update to AML Policy**
- ▶ Completion of four major internal audits – IT, Cayman Brac Branch, AML Compliance, and Banking Fees
- ▶ Completion of four special investigations
- ▶ Continued management of complaints process

Thank you for the opportunity given to us to serve on the Supervisory Committee.

**Andre Scott**  
Chairman

## CREDIT COMMITTEE REPORT



(from left to right): (Front) Secretary-Jane Ebanks, Member-Louise Burke-Richardson, Deputy Chairman-Linda McLean, Member-Jenny Powery. (Back) Member-George Fullerton, Chairman-Matthew Tibbetts, Member-Beverley McField-Walters

### Overview Perspective of the Credit Committee:

The Credit Committee held 50 meetings during the financial year 1 August 2017 to 31 July 2018 and granted 542 (2017: 455) loans totalling \$60,491,404 (2017: \$21,399,042).

The gross Loan Portfolio ended at \$197,857,734 up from the previous year of \$176,039,089.

The table below gives the categories of Out of Share Loans granted in the year ended 31 July 2018 and the prior year.



## Out of Share Loans

Type of Loans	1 August 2017 - July 2018		1 August 2016 - July 2017	
	Qty.	\$ Amount	Qty.	\$ Amount
Land & Building Purchase	158	31,104,842	51	5,373,477
Debt Consolidation / Refinance	79	15,590,888	81	5,356,190
MV Purchase / Repair	177	5,379,767	190	5,208,694
Construction	22	2,656,232	33	1,588,559
Property / Home Repairs	34	1,520,059	39	2,448,738
Commercial	2	1,201,117	-	-
Medical Expenses	16	805,232	1	4,230
Boat Purchase / Repair	7	582,633	1	35,400
Loan Refinancing	13	486,109	5	520,655
Furniture / Appliances	15	444,399	-	-
Business Investment	5	254,300	10	299,501
Domestic / Misc. *	6	250,400	27	393,338
Education	6	193,750	7	118,262
Vacation / Travel	2	21,675	10	51,998
<b>Grand Total</b>	<b>542</b>	<b>60,491,404</b>	<b>455</b>	<b>21,399,042</b>

Motor Vehicle Purchase/Repair again had the largest number of loans granted with 163 total loans totaling \$5.0 million and representing 30% of all loans granted.

Property related loans (Land & Building Purchase, Construction, and Property/Home Repairs) totalled \$35.3 million and represents 54% of all loans granted.

Members	Postion	# of Mtgs Attended
<b>Type of Loans</b>	<b>Qty.</b>	<b>\$ Amount</b>
Matthew Tibbetts	Chairman	37
Linda McLean	Deputy Chairman	40
Jane Ebanks	Secretary	42
Jenny Powery	Member	40
George Fullerton	Member	47
Beverley McField-Walters	Member	40
Brad Conolly	Member	4
Louise Burke-Richardson*	Member	27

\*Ms. Louise joined the Credit Committee in December 2017

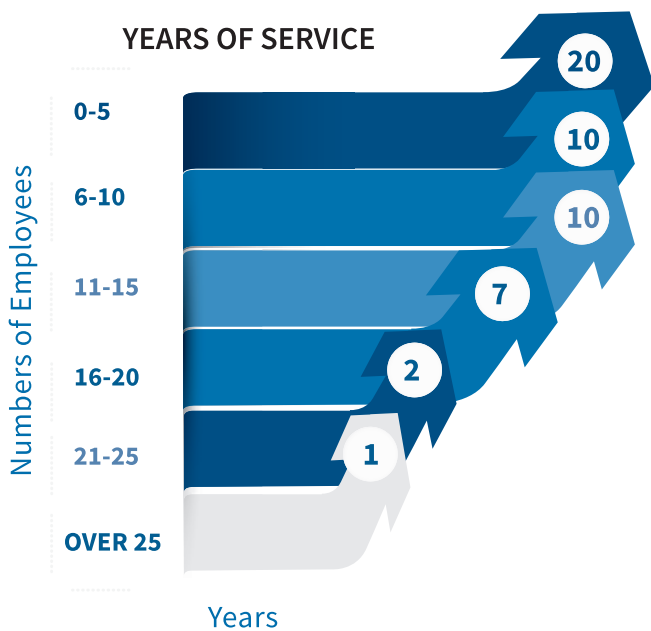
**Matthew Tibbetts**  
Chairman

# ABOUT US



From left to right, front to back row: Nicholas Ebanks, Faylene Ebanks-Suckoo, Karen Smith, Deloris Wood, Adrian Rowe, Aniya Anderson, Brigette Christian, Patricia Dixon, Tiffany Ebanks, Joshua Ebanks-Brown, Patricia Estwick, Dorothy Jackson, Hayley Powell-Chisholm, Brittney Rose, Michael Gocul, Bridgette Powery, Onassia Miller, Christopher Ebanks, Basil Scott, Anita Twinn, Megan Anderson, Valerie Powery, Ingrid Simms, Nancy Whittaker, Carla Martin, Jason Hydes, Shirley Chambers, Jeniece Powell, Zandria Ebanks, Tinicia Tibbetts, Karlene Minzett, Lilly Bodden, Yolanda Ebanks, Angelita Small, Janneth Needham, Rosita Harper, Kevin Connolly, Patrice Beersingh, Tasha McKenzie, Autrey Rolle, Toni Cruz, Burke Connolly, Theodora Bodden (Missing from picture, Wendy Ebanks).

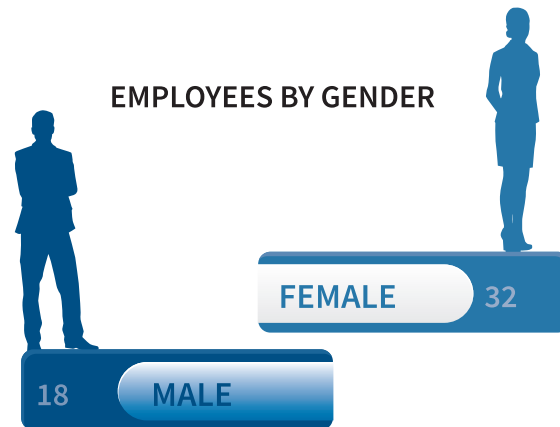
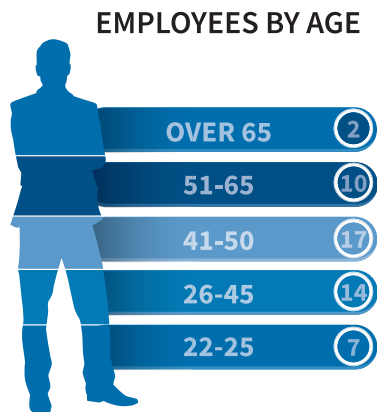
## OUR TEAM MEMBERS



The Credit Union employed 50 team members as of 31 July 2018. Our team is committed to continuous improvement to meet and exceed the expectations of our members within the rules, policies, and procedures of the Credit Union.

The employees' years of service, loyalty, commitment to training and development have enabled them to enhance relationships with our members and provide excellent and professional service.

The chart below shows 10 out of 50 employees have maintained their working relationship for more than 15 years:



## TRAINING AND DEVELOPMENT

The Credit Union has a responsibility to train and develop its employees as well as its Directors and other volunteers, so that they are equipped to carry out their respective duties. Annual training for employees, directors and volunteers during 2017/2018 included:

- ▶ **Staff Retreat “Embracing Change”** – All members of staff along with Directors and Committee members spent a day teambuilding and learning about the benefits of change.
- ▶ **Carib-DE Training** - 6 Employees and 2 Directors attended the regional sessions in St. Lucia, Barbados, Trinidad & Jamaica in 2017/2018. Our Caribbean Development Educators (Carib-DEs) also participated in a development workshop with Founding CaribDE Member Melvin Edwards.
- ▶ **Credit Risk Training** – 2 of our lending personnel travelled to Antigua to participate in the CCCU’s Credit Risk Training in April 2018.
- ▶ **Management Training** -- All Managers and Assistant Managers participated in Labour Law Training, Team Building & Risk Management Workshops. Managers & Assistant Managers also participated in 5 leadership, team building & motivational workshops.
- ▶ **Customer Service Training** – Dream Big International developed and facilitated 20 customer focused workshops for our frontline and supervisory personnel.
- ▶ **CCCU Annual Conference** - 7 employees, 2 directors and 4 other volunteers attended this annual conference in June 2018 in Trinidad. The 2017 AGM Prize Winner also accompanied the delegation.
- ▶ **Annual World Credit Union Conference** - 4 directors traveled to Singapore in July 2018 to represent our Credit Union.
- ▶ **Cyber Security Awareness Training** -- all employees participated along with 4 directors in September 2017.
- ▶ **Security Training** -- all employees participated in workshops facilitated by the Security Centre in October 2017. Security & Operations Manager also participated in an International Security Conference (ISC West) in April 2018.
- ▶ **Specialised I.T. Training** – I.T. Personnel continued to enhance their skills in areas such as SQL, VmWare and CompTIA Network+.
- ▶ **Anti Money Laundering training** -- Employees participated in our 2017 & 2018 AML Training. Audit, Compliance & Member Services Managers and Board personnel were also among those who participated in local & international AML & Compliance Conferences. Directors & Managers participated in an advanced AML Workshop held in November 2017.
- ▶ **Audit** – Internal Audit Manager attended continued professional courses on “Critical Thinking in the Audit Process” and “Financial Auditing for Internal Auditors”.
- ▶ **Human Resources Training** – 2 Managers and 2 employees benefitted from various HR related courses facilitated by CISHRP approved personnel. 1 employee also joined the Cayman Islands Delegation for the Annual SHRM Conference that was held in Chicago in June 2018.
- ▶ **Microsoft Office Training** – Over 40 Staff participated in the Microsoft Excel & Word Introduction and Intermediate classes that were facilitated by E Solutions. Training in this area will continue in the coming months.
- ▶ **CYB & GCM Cross Training** – In February 2018, 1 CYB Manager benefitted from 1 month of cross-training in GCM. During that time 2 GCM Member Services Representatives were allowed to cross-train in our CYB Branch Office.
- ▶ Employees continue to utilize CUNA Professional Development online training programmes which offers approximately 300 courses relevant to the Credit Union.

We sincerely thank the directors and members for the allocation of additional training funds from the annual surplus.



## ► OUR COMMUNITY

Community support is a very important aspect of what credit unions do. Your Credit Union supports the community in various ways but in particular through educational grants, celebrating with our members on International Credit Union Day (“ICU Day”), and sponsorship of various charitable events and school programmes. In 2017/2018, a total of \$229,000 was given to support our community; this amount was offset by \$5,365 in donations from members to assist hurricane victims in the Eastern Caribbean in 2017 and from staff contributions for Dress-down Fridays.

\$200,000 in educational grants for local and overseas training was provided to 166 student-members to assist with expenses in pursuit of their educational goals. The Credit Union takes pride in providing this financial assistance and wishes the recipients every success in their future endeavours.

ICU Day was celebrated on Thursday, 18 October 2018 with an annual member appreciation event at the Credit Union’s headquarter and Brac branch which was enjoyed by all.

Other sponsorships amounted to \$29,000 to various schools, charities and programmes benefitting older persons and youths:



## DONATIONS

Cayman Islands Cadet Corps

Cayman Islands Government - Youth Services Unit

Cayman Islands Veterans Association

Clifton Hunter High School - Graduation Award, Spanish Department of Children and Family Services

DG 5K- Feed our Future

DG 5K- Kiwanis Club of Grand Cayman's "Buy a kid Breakfast" programme

DG 5K-Meals on Wheels

Hurricane Relief Fund-CCCU

John Gray High School- Graduation Award, Accounting

Lions Club of Tropical Gardens

National Children Festival of the Arts

National Council of Volunteer Organizations (NCVO)

NCVO-Nadine Andreas Daycare

Pines Retirement Home

Prospect Primary PTA

Rotary Central

Swanky Kitchen Band

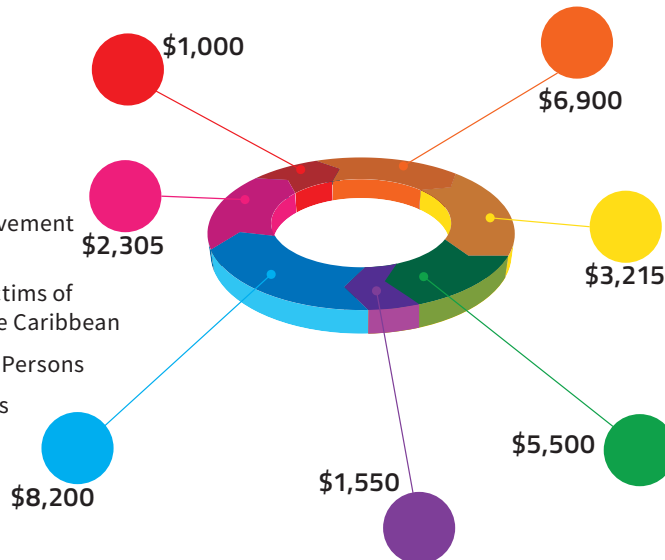
Triple C High School-Graduation Award, Business Studies

University College of the Cayman Islands



## Chart Title

- Chartities
- Culture
- Educations Achivment Awards
- Assistance to victims of Hurricanes in the Caribbean
- Events for Older Persons
- Events for Youths
- Veterans



**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**JULY 31, 2018**



## **Independent auditor's report**

### **To the Board of Directors of The Cayman Islands Civil Service Association (CICSA) Co-operative Credit Union Limited**

#### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects the financial position of The Cayman Islands Civil Service Association (CICSA) Co-operative Credit Union Limited (the Credit Union) as at July 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### ***What we have audited***

The Credit Union's financial statements comprise:

- the statement of financial position as at July 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in reserves for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Credit Union in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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#### **Responsibilities of Management and Those Charged with Governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

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*PricewaterhouseCoopers, 18 Forum Lane, Camana Bay, P.O. Box 258, Grand Cayman, KY1-1104, Cayman Islands, T: +1 (345) 949 7000, F: +1 (345) 949 7352, [www.pwc.com/ky](http://www.pwc.com/ky)*



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### **Auditor's 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 auditor's 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 scepticism throughout the audit. We also:

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

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

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### **Other Matter**

This report, including the opinion, has been prepared for and only for the Credit Union in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

October 18, 2018



**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**

**STATEMENT OF FINANCIAL POSITION**

(Expressed in Cayman Islands dollars)

	<b><u>2018</u></b>	<b><u>July 31,</u></b>	<b><u>2017</u></b>
<b>ASSETS</b>			
Cash on hand and at bank (Note 3)	10,768,898		10,570,976
Fixed deposits (Note 3)	75,586,742		69,624,276
Securities at fair value through profit or loss (Note 4)	2,556,420		2,379,736
Mortgage and personal loans including interest receivable, net of loan loss provision (Note 5)	195,954,094		174,166,523
Receivable and other assets	397,301		256,596
Fixed assets (Note 6)	6,113,294		6,314,928
Investment property (Note 7)	<u>1,833,496</u>		<u>1,833,496</u>
Total assets	<u>\$ 293,210,245</u>		<u>\$ 265,146,531</u>
<b>LIABILITIES AND RESERVES</b>			
Liabilities			
Members' deposits (Note 8)	11,688,700		9,699,332
Members' shares (Note 9)	248,687,243		224,198,362
Accounts payable and accrued expenses	<u>1,045,739</u>		<u>701,360</u>
Total liabilities	<u>261,421,682</u>		<u>234,599,054</u>
Reserves			
Statutory Reserve (Note 10)	23,473,291		21,941,633
Mortgage Fund (Note 11)	1,598,374		1,598,374
Development Fund (Note 12)	627,904		627,904
Undistributed Surplus	<u>6,088,994</u>		<u>6,379,566</u>
Total reserves	<u>31,788,563</u>		<u>30,547,477</u>
Total liabilities and reserves	<u>\$ 293,210,245</u>		<u>\$ 265,146,531</u>

Approved for issue on behalf of The Cayman Islands Civil Service Association (CICSA)  
Co-operative Credit Union Limited's Board of Directors by:

Michael Nixon      Christopher Goddard ) Directors

18 October 2018.....) Date

The accompanying notes are an integral part of these financial statements.

**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

(Expressed in Cayman Islands dollars)

	<b>Year ended</b>	
	<b>July 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Interest income</b>		
Interest on loans (Note 24)	12,425,713	11,647,758
Service fees – cash advances (Note 16)	404,116	388,897
Bank deposit interest	480,635	227,626
Total interest income	13,310,464	12,264,281
<b>Interest expense</b>		
Interest expense on member deposits	(59,970)	(39,403)
Net interest income	13,250,494	12,224,878
(Increase)/decrease in provision for loan losses and interest receivables (Note 5)	(538,808)	82,749
Net interest income after provision for loan losses	12,711,686	12,307,627
<b>Non-interest income</b>		
CUNA Mutual Insurance premium refund (Note 17)	311,917	625,077
Dividend income	123,376	117,486
Recovery of loans previously written off	68,395	46,113
Other	502,323	206,525
Total non-interest income	1,006,011	995,201
<b>Other non-operating income</b>		
Change in unrealized gain of securities (Note 4)	73,307	293,370
<b>Non-interest expenses</b>		
Salaries and other personnel costs (Notes 18 and 19)	4,211,932	3,373,900
CUNA Mutual Insurance premiums (Note 17)	463,302	594,271
General and administrative	604,872	630,494
Depreciation (Note 6)	375,001	454,820
Premises costs (Note 20)	236,967	209,818
Impairment of investment property (Note 7)	-	11,000
Audit fees	96,000	110,000
CCCU & WOCCU convention	14,475	16,635
Annual general meeting	24,178	28,831
Computer expenses	121,813	164,031
Bank charges	12,704	13,531
International Credit Union Day	18,520	14,412
Total non-interest expenses	6,179,764	5,621,743
<b>Net income for the year</b>	<b>\$ 7,611,240</b>	<b>\$ 7,974,455</b>

The accompanying notes are an integral part of these financial statements.

**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**  
**STATEMENT OF CHANGES IN RESERVES**

(Expressed in Cayman Islands dollars)

	<u>Statutory Reserve</u>	<u>Mortgage Fund</u>	<u>Development Fund</u>	<u>Undistributed Surplus</u>	<u>Total Reserves</u>
Balance at July 31, 2016	20,338,067	1,598,374	627,904	5,101,384	27,665,729
Net income for the year	-	-	-	7,974,455	7,974,455
Transfer to Statutory Reserve (Note 10)	1,594,891	-	-	(1,594,891)	-
Scholarship Grants (Note 13)	-	-	-	(150,000)	(150,000)
Training (Note 13)	-	-	-	(43,541)	(43,541)
Honoraria – Treasurer (Note 19)	-	-	-	(4,000)	(4,000)
Dividends 2016 (Note 14)	-	-	-	(4,743,938)	(4,743,938)
Loan Interest Rebate 2017 (Note 15)	-	-	-	(159,903)	(159,903)
Entrance fees (Note 10)	<u>8,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,675</u>
Balance at July 31, 2017	\$ 21,941,633	\$ 1,598,374	\$ 627,904	\$ 6,379,566	\$ 30,547,477
Net income for the year	-	-	-	7,611,240	7,611,240
Transfer to Statutory Reserve (Note 10)	1,522,248	-	-	(1,522,248)	-
Scholarship Grants (Note 13)	-	-	-	(200,000)	(200,000)
Training (Note 13)	-	-	-	(251,847)	(251,847)
Honoraria – Treasurer (Note 19)	-	-	-	(4,000)	(4,000)
Dividends 2017 (Note 14)	-	-	-	(5,923,717)	(5,923,717)
Entrance fees (Note 10)	<u>9,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,410</u>
Balance at July 31, 2018	<u>\$ 23,473,291</u>	<u>\$ 1,598,374</u>	<u>\$ 627,904</u>	<u>\$ 6,088,994</u>	<u>\$ 31,788,563</u>

The accompanying notes are an integral part of these financial statements.

**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**

**STATEMENT OF CASH FLOWS**

(Expressed in Cayman Islands dollars)

	<b>Year ended</b>	
	<b>July 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Dividends received	20,000	20,000
Interest received	12,989,069	12,007,303
Interest paid	(48,859)	(39,098)
Loan originations, net of principal collected on loans to members	(22,409,101)	(6,384,063)
Recoveries on loans previously written off	68,395	46,113
Net increase in members' shares	18,565,164	11,824,225
Net increase in members' deposits	1,989,368	1,993,224
Cash payments for non-interest expenses	(5,927,342)	(5,119,990)
Fees, premium refunds and charges received	682,945	661,249
Service fees - cash advances	404,116	388,897
Fixed deposit placements, original terms greater than 3 months	<u>(16,706,432)</u>	<u>(20,178,366)</u>
Net cash flows provided by operations	<u>(10,372,677)</u>	<u>(4,780,506)</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(173,367)	(179,262)
Purchase of investment property (Note 7)	-	-
Disposal of Land (Note 7)	<u>-</u>	<u>14,482</u>
Net cash flows (used in) investing activities	<u>(173,367)</u>	<u>(164,780)</u>
<b>Net decrease in cash and cash equivalents</b>	(10,546,044)	(4,945,286)
<b>Cash and cash equivalents, beginning of year</b>	<u>27,551,706</u>	<u>32,496,992</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 17,005,662</u>	<u>\$ 27,551,706</u>
<b>Cash and cash equivalents include:</b>		
Cash on hand and at bank (Note 3)	10,768,898	10,570,976
Fixed deposits (Note 3)	<u>6,236,764</u>	<u>16,980,730</u>
	<u>\$ 17,005,662</u>	<u>\$ 27,551,706</u>
<b>Non-cash transactions:</b>		
Investment of dividend income (Note 4)	\$ (103,376)	\$ (97,486)
Increase in fair value of securities (Note 4)	\$ (73,307)	\$ (293,370)

Dividends on members shares of \$ 5,923,717 (2017: \$4,743,938) (Note 14) are credited directly to members' shares accounts.

Loan interest rebate on members shares of \$267,435 (2017: \$159,903) (Note 15) are credited directly to members' shares.

The accompanying notes are an integral part of these financial statements.

**THE CAYMAN ISLANDS CIVIL SERVICE ASSOCIATION (CICSA)**  
**CO-OPERATIVE CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**1. Incorporation and activities**

The Cayman Islands Civil Service Association (CICSA) Co-operative Credit Union Limited (the "Credit Union") was incorporated in the Cayman Islands under the provisions of the Cooperative Societies Law (the "Law") and operates as a non-profit organization making loans to and receiving savings from members.

The Credit Union's registered office is 58 Huldah Ave., George Town, Grand Cayman, Cayman Islands.

Membership in the Credit Union has historically been limited to persons who have attained 18 years of age and are employed by the Government of the Cayman Islands (including all Statutory Boards/Bodies of Government) and/or their immediate family members. At the Annual General Meeting ("AGM") held July 25, 2001 the persons eligible for membership were extended to include employees of Utility Companies operating in the Cayman Islands and/or immediate relations thereof.

The number of persons employed by the Credit Union as of July 31, 2018 is 50 (2017: 48).

**2. Accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation:** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention modified by the revaluation of investments to fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in this note.

**New standards, amendments and interpretations issued, but not effective, for the financial year beginning August 1, 2017 and not early adopted**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. The standard is effective for accounting periods beginning on or after January 1, 2018 and early adoption is permitted.

IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. Management is in the process of performing the initial assessment on how the Credit Union's business model will impact the classification and measurement of these financial assets under IFRS 9. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The new standard is not expected to impact the Credit Union's financial liabilities.

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**2. Accounting policies (continued)**

**Basis of Preparation (continued)**

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date.

In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The Credit Union has yet to assess the full impact of the impairment requirements of IFRS 9.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Credit Union is assessing the impact of IFRS 15.

IFRS 16, 'Leases' was issued in January 2017 and effective for annual periods on or after January 1, 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Credit Union is currently assessing the impact of the new standard on its financial statements.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Credit Union.

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**2. Accounting policies (continued)**

**Functional and presentation currency**

Items included in the financial statements of the Credit Union are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Cayman Islands Dollars, which is the Credit Union’s functional and presentation currency.

**Mortgage and personal loans and provision for loan impairment**

All loans are originated by the Credit Union and are initially recognised at fair value, which is the cash consideration to originate the loan, and then subsequently measured at amortised cost using the effective interest rate method less, where applicable, a provision for loan losses. Interest on loans is recognised over the term of the loan and is calculated using the effective yield method, interest ceases to be recognised on loans that are over 60 days in arrears.

In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the Statement of Comprehensive Income as an ‘Increase in provision for loan losses and interest receivable’.

The Credit Union assesses at each reporting date whether there is objective evidence that a loan is impaired. A loan is impaired and impairment loss is recognised only if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset (a ‘loss event’), and that loss event (or events) has an impact on the estimated future cash flows from the loan that can be reliably measured.

The criteria that the Credit Union uses to determine whether there is objective evidence of an impairment loss include, *inter alia*, the following:

- a) significant financial difficulty of the member;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the Credit Union, for economic or legal reasons relating to the member’s financial difficulty, granting to the member a concession that the Credit Union would not otherwise consider;
- d) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, although the decrease cannot yet be identified within the individually assessed loans assets in the portfolio, including:
  - (i) adverse changes in the payment status of members in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management to be a period from 60 days in arrears. The Credit Union first assesses whether objective evidence of impairment exists individually for each loan which is individually significant, and individually or collectively for loans that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in the remainder of the loan portfolio and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan’s original effective interest rate. The carrying amount of the loan asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income.

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**2. Accounting policies (continued)**

**Mortgage and personal loans and provision for loan impairment (continued)**

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in the loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Credit Union and historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for loans assessed collectively for impairment should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Credit Union and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the member's financial status, or increase in collateral value), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

**Other Provision**

Provisions for legal claims costs are recognised when the Credit Union has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**Investment in securities**

All investments in securities are initially recognised at fair value and are classified as securities at fair value through the profit and loss. Such investments are subsequently re-measured at fair value with gains and losses arising in the



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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**2. Accounting policies (continued)**

**Investment in securities (continued)**

year included in the Statement of Comprehensive Income. Securities which are listed are fair valued by reference to the price as quoted on the principal exchange on which they are traded. The Credit Union has elected to recognize the gains and losses through the Statement of Comprehensive Income as they arise. Dividends are recognised on the ex-dividend date.

Purchases and sales of investments are accounted for on a trade date basis. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Credit Union has transferred substantially all the risks and rewards of ownership. Realized gains or losses arising from the sale of investments are calculated using on gross proceeds less the average cost of securities sold. Unrealized gains or losses are included in other non operating income.

**Investment Property**

Property that is held for capital appreciation or which the Credit Union has an undetermined purpose is classified as investment property. Investment property comprises principally of land which is not depreciated. Investment properties are measured initially at cost, including transaction costs and are subsequently measured at depreciated cost less any accumulated impairment losses. Valuations will be performed every three years for disclosure purposes with any impairment losses being recognized in the Statement of Comprehensive Income.

**Foreign exchange**

Monetary assets and liabilities denominated in foreign currencies are translated into Cayman Islands dollars at the exchange rate prevailing on the balance sheet date. Revenue and expense items denominated in foreign currencies are translated into Cayman Islands dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the Statement of Comprehensive Income.

The Credit Union translates its United States dollars to Cayman Islands dollars at a fixed rate of CI\$0.82 to US\$1.00.

**Fixed assets**

Fixed assets are carried at historical cost less accumulated depreciation and are depreciated on the straight line basis at the following rates and estimated useful lives:

Building	2.5%	(40 years)
Computer equipment	25%	(4 years)
Furniture & fittings	12.5% to 20%	(8 years to 5 years)
Motor vehicles	20%	(5 years)

Freehold land is not depreciated.

Assets under construction relate to assets which are in the process of being constructed or developed and are currently not in use. No depreciation is charged on such assets. Upon completion, these assets will be transferred to their appropriate asset category and depreciation will commence on the first day that the assets become available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately

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**JULY 31, 2018**

**2. Accounting policies (continued)**

**Fixed assets (continued)**

to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

**Interest income and expense**

Interest income and expense are recognized on a time-proportion basis using the effective interest method.

**Service fees**

Service fees arising on cash advances are recognised on a time proportion basis over the period (of up to one month) of the cash advance.

**Dividends on members' shares**

Dividends on members' shares are discretionary. Dividends, if any, are proposed by the Board of Directors and are subject to ratification by the members at their AGM at which time an accrual is recognized. The obligation to pay the dividend arises on ratification by the members and accordingly no provision for dividends in respect of the results for the year ended July 31, 2018 has been made in these financial statements.

**Employee benefit plans**

The Credit Union's employees participate in a defined contribution pension plan. The cost of Credit Union's contributions to the defined contribution pension plan is expensed as incurred. The Credit Union has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and at bank, fixed deposits with original maturities of 3 months or less.

**Operating lease**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

**Members' Shares**

Member shares are generally redeemable at the option of the holder of the shares, subject to certain conditions. As a result, member shares are presented as financial liabilities and are not reclassified to equity as all reclassification criteria within IAS 32 and IFRIC ("International Financial Reporting Interpretations Committee") 2 are not met.

**Critical Accounting Estimates and Judgments**

The Credit Union makes estimates and assumptions that affect the reported amounts of assets within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**2. Accounting policies (continued)**

**Critical Accounting Estimates and Judgments (continued)**

**Impairment losses on loans and advances**

The Credit Union reviews its loan portfolio to assess impairment at least on a quarterly basis or when an indicator of impairment is present. In determining whether an impairment loss should be recorded in the statement of comprehensive income on these loans, the Credit Union makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the Credit Union.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. If the fair value of collateral held in respect of loans classified as past due by 60 days (2017: 60 days) and not specifically provided for were to decrease by 5% an additional impairment provision of approximately \$ 96,542 (2017: \$20,325) would have been recorded at July 31, 2018.

Additionally, the Credit Union periodically reviews its provisions for losses incurred in the performing loan portfolio but not specifically identifiable at year end. In determining the provision for loan losses management makes certain judgments regarding the extent to which historical loss trends and current economic circumstances impact their best estimate of losses that exist in the performing loan portfolio at the statement of financial position date.

**3. Cash on hand and at bank and fixed deposits**

The composition of cash on hand and at bank is as follows:

	<b><u>2018</u></b>	<b><u>July 31,</u></b>	<b><u>2017</u></b>
Cash on hand	1,102,187		1,358,723
Cash at bank	<u>9,666,711</u>		<u>9,212,253</u>
	<b><u>\$ 10,768,898</u></b>		<b><u>\$ 10,570,976</u></b>

The composition of fixed deposits is as follows:

	<b><u>2018</u></b>	<b><u>July 31,</u></b>	<b><u>2017</u></b>
Fixed deposits			
Original terms to maturity of 3 months or less	6,236,764		16,980,730
Original terms to maturity of greater than 3 months	<u>69,349,978</u>		<u>52,643,546</u>
	<b><u>\$ 75,586,742</u></b>		<b><u>\$ 69,624,276</u></b>

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**4. Securities at fair value through the profit or loss**

The Credit Union's investments are carried at fair value through profit or loss as described in Note 2.

The Credit Union ranks its investment securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Credit Union's market assumptions. These two types of inputs lead to the following fair value hierarchy:

*Level 1:* Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date;

*Level 2:* Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

*Level 3:* Inputs that are unobservable.

The investment in securities as at July 31, 2018 and 2017 are as follows:

	<b>Year Ended July 31, \$</b>
<b>2018</b>	
<i>Level 2</i>	
Caribbean Utilities Company, Ltd.	2,064,420
Cayman National Corporation, Ltd.	<u>492,000</u>
<b>Total</b>	<b>\$ <u>2,556,420</u></b>
<b>2017</b>	
<i>Level 2</i>	
Caribbean Utilities Company, Ltd.	1,953,736
Cayman National Corporation, Ltd.	<u>426,000</u>
<b>Total</b>	<b>\$ <u>2,379,736</u></b>

There were no transfers between levels during the year.

On an annual basis the investment in the Caribbean Utilities Company Ltd declares and pays dividends. Credit Union's dividends are automatically reinvested. In 2018 the reinvestment of dividend income was \$103,376 (2017: \$97,486).

	<b>Year ended July 31,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Opening balance at August 1	2,379,737	1,988,881
Additions	103,376	97,486
Change in unrealized gain	<u>73,307</u>	<u>293,370</u>
Closing balance at July 31	<b>\$ <u>2,556,420</u></b>	<b>\$ <u>2,379,737</u></b>

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**5. Mortgages and personal loans**

The composition of loans to members is as follows:

	<b><u>2018</u></b>	<b><u>July 31,</u></b> <b><u>2017</u></b>
Mortgage loans	123,837,103	104,885,054
Personal loans	<u>74,020,631</u>	<u>71,154,035</u>
Total loans	197,857,734	176,039,089
Loan interest receivable	<u>764,513</u>	<u>847,235</u>
Total loans including interest receivable	198,622,247	176,886,324
Less: Provision for loan losses		
- Specific provision	(1,714,648)	(1,872,153)
- Inherent risk provision	<u>(953,505)</u>	<u>(847,648)</u>
	<u>(2,668,153)</u>	<u>(2,719,801)</u>
Total	\$ <u>195,954,094</u>	\$ <u>174,166,523</u>

**Term and interest rates**

Generally the maximum repayment period of mortgage loans is up to 35 years (2017: up to 25 years) and personal loans is less than 10 years (2017: 10 years) and all assets held as security for such loans are located in the Cayman Islands. Loans attract interest at rates which are fixed at the time of credit origination. For the year ended July 31, 2018, the effective yield on the loan portfolio is 6.90% (2017: 7.0%).

**Loans to related parties**

All loans to employees and elected volunteers are subject to the same terms and conditions as those applicable to other members of the Credit Union. Interest rates for employees and elected volunteers vary between 4.50% and 12% (2017: 4.5% to 12%).

Included in mortgage and personal loans are loans of \$9,326,987 (2017: \$7,858,120) to directors, employees and committee members of the Credit Union (Note 19), of which the scheduled repayments on none of the loans (2017: none) were past due at July 31, 2018 (2017: none).

An analysis of the loan portfolio (excluding interest receivable) at year end, summarized by degree of credit status is as follows:

As at July 31, 2018:

	<b><u>Mortgage</u></b> <b><u>loans</u></b>	<b><u>Personal</u></b> <b><u>loans</u></b>	<b><u>Total</u></b>
Neither past due nor impaired	102,249,875	68,422,286	170,672,161
Past due but not impaired			
Up to 30 days	12,696,928	4,278,733	16,975,661
31 to 60 days	2,645,122	374,504	3,019,626
61 to 89 days	252,813	147,375	400,188
90 to 180 days	893,777	35,696	929,473
181 to 365 days	92,515	30,343	122,858
366 + day	<u>1,866,881</u>	<u>4,477</u>	<u>1,871,358</u>
	\$ 18,448,036	\$ 4,871,128	\$ 23,319,164

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**5. Mortgages and personal loans (continued)**

Impaired			
Up to 30 days	35,608	98,241	133,849
31 to 60 days	-	4,626	4,626
61 to 89 days	216,679	91,568	308,247
90 to 180 days	886,784	190,239	1,077,023
181 to 365 days	207,503	222,165	429,668
366 + days	<u>1,792,618</u>	<u>120,378</u>	<u>1,912,996</u>
	\$ 3,139,192	\$ 727,217	\$ 3,866,409
<b>Gross</b>	<b>123,837,103</b>	<b>74,020,631</b>	<b>197,857,734</b>
Less: allowance for impairment	<u>(1,687,087)</u>	<u>(981,066)</u>	<u>(2,668,153)</u>
<b>Net</b>	<b><u>\$ 122,150,016</u></b>	<b><u>\$ 73,039,565</u></b>	<b><u>\$ 195,189,581</u></b>
As at July 31, 2017:			
	<b><u>Mortgage</u></b>	<b><u>Personal</u></b>	<b><u>Total</u></b>
	<b><u>loans</u></b>	<b><u>loans</u></b>	
Neither past due nor impaired	86,763,321	66,895,281	153,658,602
Past due but not impaired			
Up to 30 days	9,773,220	3,053,990	12,827,210
31 to 60 days	1,570,453	459,356	2,029,809
61 to 89 days	434,438	18,824	453,262
90 to 180 days	139,207	7,576	146,783
181 to 365 days	36,030	1,012	37,042
366 + day	<u>1,878,118</u>	<u>16,454</u>	<u>1,894,572</u>
	\$ 13,831,466	\$ 3,557,212	\$ 17,388,678
Impaired			
Up to 30 days	40,486	111,270	151,755
31 to 60 days	-	14,427	14,427
61 to 89 days	765,167	231,110	996,277
90 to 180 days	81,101	105,565	186,666
181 to 365 days	62,236	121,280	183,516
366 + days	<u>3,341,277</u>	<u>117,890</u>	<u>3,459,167</u>
	\$ 4,290,267	\$ 701,542	\$ 4,991,809
<b>Gross</b>	<b>104,885,054</b>	<b>71,154,035</b>	<b>176,039,089</b>
Less: allowance for impairment	<u>(1,860,988)</u>	<u>(858,813)</u>	<u>(2,719,801)</u>
<b>Net</b>	<b><u>\$ 103,024,066</u></b>	<b><u>\$ 70,295,222</u></b>	<b><u>\$ 173,319,288</u></b>

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**5. Mortgages and personal loans (continued)**

A summary of the activity in the provision for loan losses is as follows:

As at July 31, 2018:

	<b><u>Mortgage loans</u></b>	<b><u>Personal loans</u></b>	<b><u>Total</u></b>
Balance, beginning of year	1,860,988	858,813	2,719,801
Provision charged to income	118,570	420,238	538,808
Loans credited/written off	<u>(292,472)</u>	<u>(297,984)</u>	<u>(590,456)</u>
Balance, end of year	\$ <u>1,687,086</u>	\$ <u>981,067</u>	\$ <u>2,668,153</u>

As at July 31, 2017:

	<b><u>Mortgage loans</u></b>	<b><u>Personal loans</u></b>	<b><u>Total</u></b>
Balance, beginning of year	2,369,165	876,382	3,245,547
Provision charged to income	(341,610)	258,861	(82,749)
Loans credited/written off	<u>(166,567)</u>	<u>(276,430)</u>	<u>(442,997)</u>
Balance, end of year	\$ <u>1,860,988</u>	\$ <u>858,813</u>	\$ <u>2,719,801</u>

A summary of the gross loan portfolio by nature of loan product is as follows:

	<b><u>2018</u></b>	<b><u>July 31, 2017</u></b>
<b>Personal loans</b>		
Out-of-share loans	19,364,601	19,393,058
Within-share loans	38,191,271	35,643,028
Unsecured:		
Overdrafts and cash advances	16,464,759	16,117,949
Staff loans	<u>-</u>	<u>-</u>
Total personal loans	\$ <u>74,020,631</u>	\$ <u>71,154,035</u>
<b>Mortgage loans</b>		
Out-of-share loans:		
less than 10 year loans	15,599,883	14,554,546
10 to 15 year loans	53,800,206	55,480,827
15 to 35 year loans	<u>54,437,014</u>	<u>34,849,681</u>
Total mortgage loans	<u>123,837,103</u>	<u>104,885,054</u>
Total loans	\$ <u>197,857,734</u>	\$ <u>176,039,089</u>

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**5. Mortgages and personal loans (continued)**

An estimate of the fair value of the collateral held against individually impaired loans is as follows:

	<b><u>2018</u></b>	<b><u>July 31,</u></b>	<b><u>2017</u></b>
Mortgage loans	2,056,684		2,932,253
Personal loans	<u>101,324</u>		<u>187,403</u>
	<u>\$ 2,158,008</u>		<u>\$ 3,119,656</u>

**Loans written off**

During the year ended July 31, 2018, the Board approved to write off \$590,456 (2017: \$442,997) of loans which related to loans due from 81 (2017: 106) members. These loans were written off after careful consideration by the Board of Directors because they had been delinquent for a significant period of time, and all efforts to secure repayment were exhausted and proved unsuccessful. The members involved have been recorded in the Register of Loans Written Off, and these members may not avail of future lending facilities of the Credit Union, until such time as their previously outstanding indebtedness is repaid.

**Loans renegotiated that would otherwise be past due or impaired**

Loans may be renegotiated at the request of the Credit Union or the member for commercial purposes, where there is evidence of the continuing ability of the member to meet renegotiated payment obligations. The Credit Union will generally only issue a new loan to a member if the previous indebtedness has been cleared and the member can present sufficient collateral in accordance with the standard terms and considerations in line with the established credit policy. Members who are in arrears are not eligible to avail of additional lending facilities until the passage of a specified period of time during which the member must have demonstrated his repayment capacity and fulfilled his obligations in line with the contractual agreement. It is not the practice of the Credit Union to extend credit to members where the repayment capacity is in doubt. Notwithstanding this, the Credit Union, in limited circumstances may agree to temporarily revised repayment schedules on loans which are past due. Where loans that are past due or impaired are renegotiated, it is the Credit Union's standard practice to retain these loans in the past due or impaired classifications until the member has brought his account up to date.

**Limitations on lending to one borrower and significant loans**

The Credit Union does not have any 'loan-to-one' borrower limitation, nor is there any legal/regulatory imposed lending limit calculation. As at July 31, 2018, the largest loan issued to a member is \$846,823 (2017: \$878,298). The total value of loans held by members who hold total loans in excess of \$300,000, as at July 31, 2018 is \$25.3 m in 59 loans (2017: \$14.4m in 34 loans).



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**6. Fixed assets**

As at July 31, 2018:

	<b><u>Freehold Land</u></b>	<b><u>Building</u></b>	<b><u>Assets under Construction</u></b>	<b><u>Computer Equipment</u></b>	<b><u>Furniture &amp; Fittings</u></b>	<b><u>Motor Vehicles</u></b>	<b><u>Total</u></b>
<b>Cost</b>							
Balance July 31, 2017	227,775	7,180,062	-	1,402,997	1,182,336	49,105	10,042,275
Additions	-	25,062	18,790	62,341	67,174	-	173,367
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(29,900)	(29,900)
Balance July 31, 2018	<u>227,775</u>	<u>7,205,124</u>	<u>18,790</u>	<u>1,465,338</u>	<u>1,249,510</u>	<u>19,205</u>	<u>10,185,742</u>
<b>Depreciation</b>							
Balance July 31, 2017	-	1,492,725	-	1,226,755	965,744	42,123	3,727,347
Charge for the year	-	184,698	-	109,928	73,393	6,982	375,001
Disposals	-	-	-	-	-	(29,900)	(29,900)
Balance July 31, 2018	<u>-</u>	<u>1,677,423</u>	<u>-</u>	<u>1,336,683</u>	<u>1,039,137</u>	<u>19,205</u>	<u>4,072,448</u>
<b>Net book value July 31, 2018</b>	<u>\$ 227,775</u>	<u>\$5,527,701</u>	<u>\$ 18,790</u>	<u>\$ 128,655</u>	<u>\$ 210,373</u>	<u>\$ -</u>	<u>\$6,113,294</u>
<b>Net book value July 31, 2017</b>	<u>\$ 227,775</u>	<u>\$5,687,338</u>	<u>\$ -</u>	<u>\$ 176,242</u>	<u>\$ 216,591</u>	<u>\$ 6,982</u>	<u>\$6,314,928</u>

As at July 31, 2017:

	<b><u>Freehold Land</u></b>	<b><u>Building</u></b>	<b><u>Assets under Construction</u></b>	<b><u>Computer Equipment</u></b>	<b><u>Furniture &amp; Fittings</u></b>	<b><u>Motor Vehicles</u></b>	<b><u>Total</u></b>
<b>Cost</b>							
Balance July 31, 2016	227,775	7,180,062	8,324	1,339,537	1,058,209	49,105	9,863,012
Additions	-	-	-	63,460	115,803	-	179,263
Transfers	-	-	(8,324)	-	8,324	-	-
Disposals	-	-	-	-	-	-	-
Balance July 31, 2017	<u>227,775</u>	<u>7,180,062</u>	<u>-</u>	<u>1,402,997</u>	<u>1,182,336</u>	<u>49,105</u>	<u>10,042,275</u>
<b>Depreciation</b>							
Balance July 31, 2016	-	1,308,027	-	1,085,166	843,191	36,144	3,272,528
Charge for the year	-	184,698	-	141,589	122,553	5,979	454,819
Disposals	-	-	-	-	-	-	-
Balance July 31, 2017	<u>-</u>	<u>1,492,725</u>	<u>-</u>	<u>1,226,755</u>	<u>965,744</u>	<u>42,123</u>	<u>3,727,347</u>
<b>Net book value July 31, 2017</b>	<u>\$ 227,775</u>	<u>\$5,687,337</u>	<u>\$ -</u>	<u>\$ 176,242</u>	<u>\$ 216,592</u>	<u>\$ 6,982</u>	<u>\$6,314,928</u>
<b>Net book value July 31, 2016</b>	<u>\$ 227,775</u>	<u>\$5,872,035</u>	<u>\$ 8,324</u>	<u>\$ 254,371</u>	<u>\$ 215,018</u>	<u>\$ 12,961</u>	<u>\$6,590,484</u>

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**7. Investment property**

During the year ended December 31, 1999, at two separate Special General Meetings the membership approved both an amendment of the Credit Union Rules (the "Rules") to allow for the investment of funds in real estate and the purchase of two parcels (at a cost of \$1,175,870) of land adjoining the Credit Union's current premises at 58 Huldah Ave. As of July 13, 2018 this property was valued at \$3,115,000. The Cayman Islands Government completed a road widening project on Smith Road in 2017 and this resulted in the Credit Union having to sell a small portion of this property. The Credit Union received \$24,289 for the property recorded at cost of \$4,196 (net of impairment) which resulted in a gain of \$20,093 in the year 2017.

During the year ended July 31, 2005, the Credit Union purchased land in Cayman Brac at a cost of \$126,308. This land was valued based on market data, by an independent appraiser with a relevant and recognized professional qualification as of July 13, 2018 at \$228,000.

During the year ended July 31, 2010, the Credit Union purchased additional land on Smith Road, Grand Cayman, at a total cost (including acquisition costs) of \$455,297. A building that was situated on the property was demolished during the year ended July 31, 2012 leading to the fall in value of the property and as a result an impairment loss of \$215,297 was recognized in the Statement of Comprehensive Income for the year ended July 31, 2012. As of July 13, 2018 this property was valued at \$229,000, as a result an impairment loss of \$11,000 has been recognized in the Statement of Comprehensive Income for the year 2017. The Cayman Islands Government completed a road widening project on Smith Road in 2017 and this resulted in the Credit Union having to sell a small portion of this property. The Credit Union received \$10,542 for the property recorded at cost of \$10,286 (net of impairment) which resulted in a gain of \$255.

During the year ended July 31, 2014 the Credit Union purchased land on Huldah Avenue for \$376,401. This land was valued based on market data, by an independent appraiser with a relevant and recognized professional qualification as of May 3, 2015 at \$316,000, as a result an impairment loss of \$60,401 has been recognized in the Statement of Comprehensive Income for the year 2015. This land had a market value as of July 13, 2018 of \$316,000.

In accordance with IAS 40 Revised "*Investment Property*", management have determined it appropriate to account for these investments in land at cost less impairment, as the land is currently being held for an 'undetermined future use'.

As at July 31, 2018:

	<b><u>Investment Property</u></b>
Balance, beginning of year	1,833,496
Impairment charge	-
Additions/ (Disposals)	<u>-</u>
Balance, end of year	\$ <u>1,833,496</u>

As at July 31, 2017:

	<b><u>Investment Property</u></b>
Balance, beginning of year	1,858,978
Impairment charge	(11,000)
Additions/ (Disposals)	<u>(14,482)</u>
Balance, end of year	\$ <u>1,833,496</u>

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**8. Members' deposits**

Members' deposits comprise the following:

	<b><u>2018</u></b>	<b><u>July 31,</u></b> <b><u>2017</u></b>
Regular savings	10,382,390	9,150,521
Term deposits	<u>1,306,310</u>	<u>548,811</u>
	<b><u>\$ 11,688,700</u></b>	<b><u>\$ 9,699,332</u></b>

Included in members' deposits are deposits of \$222,790 (2017: \$157,811) placed by directors, employees and committee members of the Credit Union (Note 19).

**9. Members' shares**

The members' equity in the Credit Union is unlimited and is divided into shares of a par value of \$2 each. The liability of each member, in case of liquidation, is limited to the value of the shares held by the member at the par value. Per Article III of the Rules, the maximum amount of shares which may be held by any one member shall not exceed 20% of total members' shares. Unless provided as collateral for loans, money paid in on shares, or instalments of shares, may be withdrawn in whole or in part on any day when the Credit Union is open for business. However, the Board of Directors have the right to require a member to give up to six months notice of intention to withdraw.

Members' shares are non-interest bearing, but may attract a dividend. Article XIV of the Rules provides that a dividend may be paid to members out of the net surplus of the Credit Union after the transfer to the Statutory Reserve (Note 10). However, the Cooperative Societies Law prescribes that the dividend paid to each member may not exceed six percent per annum on the lowest balance of fully paid shares outstanding during each month (Note 14).

Included in members shares are shares of \$3,637,721 (2017: \$3,057,280) placed by directors, employees and committee members of the Credit Union (Note 19).

**10. Statutory Reserve**

The Law and Article XIII of the Rules require that 20% of the net surplus (before dividends on member shares) (Note 20) of each financial year be set aside to the Statutory Reserve. During the year ended July 31, 2018, Credit Union transferred 20% (2017: 20%) or \$1,522,248 (2017: \$1,594,891) of the Statutory Reserve from the Undistributed Surplus.

Article XIII of the Rules also requires that all entrance fees (\$10 per member) and transfer fees be credited to this reserve. During the year ended July 31, 2018 the total entrance fees credited to this reserve was \$9,410 (2017: \$8,675).

The Statutory Reserve is the property of the Credit Union and may not be distributed, except on liquidation or in accordance with the Law and Rules. It may be applied, with the sanction of the Registrar of Cooperative Societies, to meet losses on loans to members and such other losses as authorised in accordance with the Law and Rules.

**11. Mortgage Fund**

The Credit Union established this fund in 1993 by appropriation from the Undistributed Surplus to enable the Credit Union to set aside funds to provide longer-term mortgage loans to members.

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**12. Development Fund**

The Credit Union established this fund in 1992 by appropriation from Undistributed Surplus for future development of the Credit Union.

**13. Scholarship/Training Fund**

On November 30, 2017 at the AGM in respect of the year ended July 31, 2017, the members resolved to transfer an amount of \$200,000 (2017: \$150,000) to the Scholarship fund and \$251,847 (2017: \$43,541) to training of the volunteers and staff. This was satisfied by way of appropriation of funds from the Undistributed Surplus in accordance with Article XIII of the Rules (Note 21).

**14. Dividends paid/payable**

On November 30, 2017 at the AGM in respect of the year ended July 31, 2017, the members resolved to pay a dividend of 2.8% or \$5,923,717 (2016: 2.4% or \$4,743,938) This was satisfied by way of appropriation of funds from the Undistributed Surplus and was recorded in the financial statements for the year ended July 31, 2018.

**15. Loan Interest Rebate/payable**

On November 30, 2016 at the AGM in respect of the year ended July 31, 2016, the members resolved to pay for the first time a loan interest rebate of 2% or \$159,903. This was satisfied by way of appropriation of funds from the Undistributed Surplus and was recorded in the financial statements for the year ended July 31, 2017. In 2017 the loan interest rebate of 3% was accrued in Statement of Comprehensive income with a debit to loan interest income of \$267,435 and corresponding credit to accounts payable and accrued expenses. In 2018 a 3% loan interest rebate was accrued in amount of \$295,200 and is recorded as a debit to loan interest income and a credit in accounts payable and accrued expenses.

**16. Services fees – cash advances**

The Credit Union offers cash advances to members whereby members can obtain an unsecured payroll advance, which are repayable in full within one month from date of grant. Subject to certain qualifying criteria and conditions, the members are permitted to obtain a cash advance up to 50% of their monthly salary less any loan payments to be repaid in the following month.

The Credit Union does not charge any interest on cash advances, but levies a service fee of 10% of the total value of the sum advanced. During the year ended July 31, 2018 the cash advance fees earned was \$404,116 (2017: \$388,897) and is included within interest income – service fees cash advances, in the Statement of Comprehensive Income.

**17. CUNA Mutual Insurance premiums & refund**

Until May, 2018, the Credit Union paid for life insurance coverage at a rate of US\$0.37 per US\$1,000 per month on member savings (shares and deposits) (“Life Savings”), up to a maximum of US\$20,000 held in members savings per member, and loans (“Loan Protection”) up to a maximum of US\$40,000 in loans per member, through the Credit Union National Association Mutual Insurance Society (“CUNA”), based in the United States of America. Subject to qualifying criteria and terms and conditions, the maximum value of the insurance on member’s savings is US\$20,000 or equivalent, and the maximum value of the insurance on loans is US\$40,000 or equivalent. During the year, the Credit Union paid \$463,302 (2017: \$594,271) in insurance premiums. In addition, the Credit Union received an ‘experience refund’ from CUNA of \$311,917 (2017: \$625,077). This refund is recognized as income in the Statement of Comprehensive Income only upon receipt. The program with CUNA was discontinued at end of May 2018. The Credit Union will continue to provide the same Life Savings and Loan Protection benefits based on profitability and as approved by the Board on a case by case basis.

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**18. Pension plan**

The Credit Union and its employees make contributions (7% and 3% respectively) to a defined contribution pension plan regulated in the Cayman Islands. During the year, the Credit Union made \$204,936 (2017: \$178,899) in pension contributions and this amount is included in salaries and other personnel costs in the Statement of Comprehensive Income.

**19. Related party transactions and balances**

As a co-operative society the Credit Union only receives deposits from and lends money to members (Note 1). All staff and individuals involved with the governance structures of the Credit Union are members. The Credit Union has considered this fact pattern in the light of relevant accounting standards and has determined that related parties include directors, employees and committee members. All transactions with related parties are subject to the same terms and conditions and rates as those applicable to other members of the Credit Union.

Total remuneration earned by key management during the year was as follows:

	<b>Year ended</b>	
	<b><u>July 31,</u></b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Salaries and other short-term benefits	173,904	145,289
Defined contributions pension costs	<u>11,333</u>	<u>9,920</u>
	\$ <u>185,237</u>	\$ <u>155,209</u>

All of the members of the Board of Directors and Committees are voluntary and do not receive any remuneration or benefits for services rendered except as described below.

An honorarium of \$2,500 (2017: \$2,500) was paid to the Treasurer of the Grand Cayman office, and an honorarium of \$ 1,500 (2017: \$1,500) was paid to the Assistant Treasurer of the Cayman Brac office. The granting of these honoraria is subject to the ratification of the members at the AGM and is shown as an appropriation from the Undistributed Surplus in accordance with Article XIII of the Rules (Note 21).

Related party balances are disclosed in Notes 5, 8 and 9.

**20. Commitments**

As at July 31, 2018 the Credit Committee had approved a number of commitments for undrawn loans to a value of \$24,540,587 (2017: \$1,483,052).

The Credit Union leased premises for its storage. The lease term was five years with two years remaining at July 31, 2018. The Credit Union currently pays \$2,100 (2017: \$2,100) per month. The Credit Union continued to occupy this leased premises through the date of approval of these financial statements. During the year ended July 31, 2018 the Credit Union incurred rental expense for this property of \$25,200 (2017: \$24,200), which is included within premises costs in the Statement of Comprehensive Income.

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**21. Capital management**

The Credit Union's objective when managing capital is to safeguard the Credit Union's ability to continue as a going concern in order to provide a return in the form of dividends to members. The Credit Union accepts deposits and shares from members for various periods, and seeks to earn reasonable interest margins by investing these funds in loans to members. In addition, the Credit Union seeks to maintain sufficient liquidity by investing excess funds in cash deposits and short term fixed deposits in order to meet all claims that might fall due in the ordinary course of operations.

As per Article XIV of the Rules, the net surplus of the Credit Union shall be applied as follows:

- i. at least 20% of net income shall be carried to the Reserve Fund in accordance with Article XIV (Note 10);
- ii. the remainder shall be utilized as the AGM may decide in any one or more of the following ways:
  - a. to pay to members a dividend not exceeding what is prescribed by Law (at present six percent per annum) on fully paid shares provided that fully paid shares for any one month may include payment received within the first 7 days of that month;
  - b. to pay a bonus to members in proportion to the amount of interest on loans paid by them to the Credit Union; provided that the dividend and bonus due to any member shall be placed to the credit of his share capital account in any case in which there is any unpaid balance due and owing on the shares for which such member has subscribed, until such balance is paid off;
  - c. to promote co-operative education among members; and for any social, charitable or cultural purposes, subject to Section 36 of the Law;
  - d. to create any Special Reserve;
  - e. to pay Honoraria.
  - f. to create and maintain a Share Transfer Fund to be used as prescribed in Rule 15 and the By-Laws.

In order to maintain or adjust the capital structure, the Credit Union may, by way of resolution of the members at the AGM, adjust any of the matters specified in (ii) above.

Management consider that the Credit Union has complied with these requirements during the years ended July 31, 2018 and 2017.

The capital of the Credit Union is defined as the Reserves as shown on the Statement of Financial Position.

**22. Financial risk management**

The Credit Union's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risk and geographic concentration risk.

**i. Introduction and overview**

The business of the Credit Union is overseen by the Board of Directors. The Board along with its various committees (Supervisory and Credit) is responsible for the adherence with the Law, the Rules, and established policies and procedures. All committees report regularly to the Board on their activities. The Board has the general direction and control of the affairs of the Credit Union and more particularly, act for the Credit Union and provide for the management and development of the Credit Union. The Board meets as often as the business of the Credit Union may require, and in any case not less frequently than once per month.

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**22. Financial risk management (continued)**

**i. Introduction and overview (continued)**

The Supervisory Committee is responsible for the monitoring of any deviations from the Rules, established policies and procedures. The activities of the Supervisory Committee include the inspections of securities, cash and accounts of the Credit Union, examination of the affairs of the Credit Union and investigating any complaints made by members affecting the proper running of the Credit Union. In the process of its examinations and audits, the Committee can examine all applications for loans made during the period under examination and satisfy itself that the loans have been issued in accordance with the established policies and procedures. The Supervisory Committee is required to send a report of its activities to the Board quarterly.

The Credit Committee is given the responsibility for the oversight of the Credit Union's credit risk and the development of credit policies. The Credit Committee through the Loans Officer shall enquire into the character and financial position of each applicant for loan and his sureties, if any, to ascertain his ability to repay fully and promptly the obligations incurred by him and to determine whether the loan sought is for a provident or productive purpose and will be of probable benefit to the member. The Credit Committee shall also determine the amount of each loan and the period of repayment based on the form and value of the security. The Credit Committee shall endeavour diligently to assist applicants in solving their financial problems.

The Credit Committee shall hold meetings as the business of the Credit Union may require, and not less frequently than once per month. Presently, the Credit Committee meets on a weekly basis. The Credit Committee records the actions of each meeting through minutes which are forwarded to the Chief Executive Officer. The Chief Executive Officer shall send a report of the activities of the Credit Committee to the Board of Directors each month.

All Committee members are elected at the AGM of the Credit Union, where the supreme authority of the Credit Union is vested in the General Meeting of members at which every member has a right to attend and vote on all issues. All Board and Committee members come from a wide range of highly experienced positions within the Government, Statutory bodies and the private sector.

**ii. Credit risk**

Financial assets that potentially expose the Credit Union to credit risk consist principally of cash at bank, fixed deposits, and loans.

The extent to which the Credit Union is exposed to credit risk in respect of these financial assets approximates their carrying value as reflected in the Statement of Financial Position.

***Cash at bank and fixed deposits***

The Credit Union seeks to mitigate its credit risk by placing its cash at banks and fixed deposits with reputable financial institutions. At July 31, 2018 all of the cash at bank and fixed deposits are placed with two unrated financial institution who holds Class A banking licenses, being Cayman National Bank and Butterfield Bank (Cayman) Limited which in the opinion of management are stable financial institutions and in addition are regulated by the Cayman Islands Monetary Authority. The Credit Union manages the exposure by placing its funds on deposit across the two different financial institutions. In 2018, the Board approved the banking relationship with CIBC FCIB in order to further mitigate credit risk.

***Loans to Members***

All of the Credit Union's business activity is with its members, who are employees or former employees, or relations thereof, of the Government of the Cayman Islands and Statutory Authorities/Boards or Utility Companies operating

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**22. Financial risk management (continued)**

**ii. Credit risk (continued)**

***Loans to Members (continued)***

in the Cayman Islands, which gives rise to a concentration of risk in respect of geographical area, as both members and assets pledged as security are based exclusively in the Cayman Islands.

All members are eligible for loans provided they meet the conditions specified in the Rules and the Credit Policy. However, to meet the interest of individual members as well as that of total membership as a whole, the ability to repay, type of security offered and the availability of funds (management of liquidity risk) assume paramount significance.

The management of credit risk in respect of loans to members is executed by the management of the Credit Union. All significant loan applications and credit terms are reviewed and authorised respectively by the Credit Committee. The Credit Union follows lending policies and guidelines approved by the Board of Directors, as set out in the Credit Policy, which guides the Credit Union's credit process. The amount of other collateral obtained is based on the Credit Committee's credit evaluation of the member.

The Credit Union does not make use of an automated credit scoring or rating system. It is the Credit Union's policy to extend borrowing facilities to members that are within the member's capacity to repay and not to rely exclusively on security pledged or offered.

The granting of loans to members is based on a number of criteria generally including, *inter alia*, the following:

- Loan be made to members only, for provident and productive purposes only;
- Satisfactory proof of employment or income to support members repayment capacity;
- Limit of debt service ratio to generally 50% of members income for regular out of share loan products.
- Completion of the required loan application forms and approval by Manager of Loans and Credit Committee;
- Loans to officers, members of the Board or Committees require approval by the Board of Directors and Supervisory Committee in conjunction with the Credit Committee;
- Certain repayment requirements on pre-existing loans prior to approval for additional loans;
- Loans are not granted to delinquent members, or only to former delinquent members after a period of 6 - 12 months during which time their accounts must have been maintained satisfactorily;
- Completion of satisfactory credit checks at all local financial institutions for any amount at Credit Union's discretion;
- Significant loans in excess of \$350,000 (2017: \$350,000) require the formal approval of the Board of Directors, in addition to that of the Credit Committee;
- The period of the loan shall generally not exceed 35 years (2017: 25 years);
- The extension of credit is generally limited to 80% of the value of the collateral obtained (in the case of land and structure) or 100% in the case of raw land, in addition to the other conditions of lending as discussed above.



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**22. Financial risk management (continued)**

**ii. Credit risk (continued)**

***Collateral required for loans***

The Credit Union holds collateral against loans to members in a variety of forms, including, but not limited to mortgage interests over property, lien over motor vehicles, other registered securities over assets, hypothecation of shares, other savings held in the Credit Union and guarantees. Estimates of fair values are based on values of collateral assessed (by approved and recognized qualified appraisers) at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired.

The amount of other collateral obtained is based on the Credit Committee's credit evaluation of the member. However, the extension of credit is generally limited to 80% of the value of collateral obtained (with the exception of raw land which is 100%) in addition to other conditions of lending as described above.

In order to ensure continued safeguard of the value of the collateral offered, buildings and motor vehicles are required to hold valid comprehensive insurance policies in order to ensure that the collateral is not comprised after the initial grant of the loan. For all insurances at the time of credit origination, the Credit Union registers its interest in the property with the insurance provider.

The Credit Union only accepts collateral in the form of assets located in the Cayman Islands.

Notwithstanding the requirement for collateral, the Credit Union does offer loans to members which are unsecured, which are termed "Character Loans".

These loans are only granted to members subject to the satisfaction of strict lending criteria including assessment of borrower's past credit history, ability to repay, confirmation of employment status. The maximum value of the unsecured element on any one loan is limited to \$15,000.

In addition to the "Character Loans", the Credit Union also offer overdrafts and cash advances to members which are also unsecured. Cash advances are issued for a period of 1 month. In February 2017, the repayment term for overdraft loans were extended, by Board approval, to 36 months. These lending products are only offered to members after careful consideration of the members' repayment ability and assessment of credit status.

***Management of credit risk, post credit origination***

Loans to members constitute the Credit Union's principal asset and source of income and as such must always be protected against loss, by firm, decisive and quick action. The prompt identification of delinquent loans and quantification of credit risk, coupled with a detailed action plan, are essential to ensure full collection and to ensure the Credit Union is maintaining adequate reserves for possible credit and settlement losses.

The Board has established effective Delinquency Control and Collections policies in order to minimize the risk associated with default. The application and implementation of these policies affect the cash receipts and ultimately the amount of cash available for new loans and other purposes including undistributed surplus from which dividends are paid. By establishing and enforcing a firm credit and delinquency policy the Credit Union teaches members to respect both their obligations and the founding principle of the Credit Union. Failure to apply these policies would significantly increase the risk of default and could lead to serious financial problems for the Credit Union, and therefore its membership as a whole.

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**ii. Credit risk (continued)**

***Management of credit risk, post credit origination (continued)***

The Credit Union has established a number of different functions in order to manage the level of delinquent loans, including, a Debt Collection Department (“DCD”) and a team of debt collection officers (collectively, the “debt collection team”).

The debt collection officer will make collection strategy recommendations based on the facts as they are verified and developed, in order to return the loan to a current status as soon as possible. Loans lacking a defined strategy, for whatever reason or, credit relationships where the borrower is not fully cooperating, are referred to the DCD for further action. The supervision of the DCD is controlled by the Chief Financial Officer.

On a monthly basis, the DCD prepares a report on all delinquent loans in excess of 15 days delinquent, which in turn is presented to the Chief Executive Officer, Board of Directors, and the Chairpersons for the Credit and Supervisory Committees. This report summarizes the totals of the various delinquency classes, the delinquency rate and the current exposure. The Board, Chairpersons of the two committees and the various other functions established review the reports and ascertain whether satisfactory effort is being made on all delinquent accounts.

A review of the schedule of delinquent loans is essential to the Board in making certain that its policies and procedures are being carried out. It is an invaluable aid to the Treasurer and the Chief Executive Officer as they cannot carry out their managerial responsibilities and take appropriate action unless they know what loans are delinquent for how long and what efforts have been made to collect them.

The debt collection team regularly monitor a variety of sources of information in assessing the credit worthiness of the borrower, including reference to court judgements and information available in the public domain.

The collection efforts include making initial contact with the member to regularize their accounts, followed by up to three reminder letters, up to and including legal action in the event of significant default.

During and after the reminders are sent to delinquent borrowers and their co-makers or guarantor(s), every effort is made to collect the debt. In the event of significant default, where the loan is secured by securities such as a Bill of Sale or mortgage (charge on property) the Credit Union can take the necessary action so that the security maybe realised. If efforts to regularise the members’ loans fail, the ultimate action is referral of the matter to the Credit Union’s attorney, in respect of loans secured on property, who in turn take legal proceedings against the member. These proceedings can include action for foreclosure, and possession of property served as security for the loan. With respect to consumer loans, the loan may be referred for further collection efforts to the Cayman Islands National Credit Bureau.

Any dividends earned on delinquent members’ shares must be credited against his outstanding obligations, first to the outstanding interest, then towards reducing the outstanding principal.

Upon initial recognition for loans and advances, the fair value of collateral is based on valuation techniques commonly used for corresponding assets and include valuations provided by reputable local property valuation specialists. In subsequent periods, the fair value is updated periodically from time to time depending on market conditions and/or when collateral values approximate the carrying value of the loan.

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**ii. Credit risk (continued)**

The carrying value of impaired loans is generally determined by reference to the fair value of collateral held in respect of such loans. Accordingly, any change in the fair value of collateral held in respect of impaired loans will have a direct impact on the carrying value of impaired loans. In addition, the assessment if whether a loan is classified as past due but not impaired is also generally made by reference to the fair value of collateral held.

**iii. Market risk**

The market risk to which the Credit Union's financial assets are exposed to include currency risk, equity price risk and interest rate risk.

**iv. Currency risk**

The Credit Union is exposed to currency risk in relation to monetary assets and liabilities denominated in foreign currencies. The Credit Union holds a small portion of its cash at bank and fixed deposits denominated in United States dollars, in addition to the two securities held as investments (Note 4), which are also denominated in United States dollars. The value of such monetary assets will fluctuate because of changes in the exchange rates at which these are converted into Cayman Islands dollars. Management considers this risk to be minimal as all foreign currency holdings are denominated in the United States dollar, which has a fixed rate of exchange to the Cayman Islands dollar.

**v. Equity price risk**

The Credit Union's investment in securities exposes it to equity price risk. The investments consist of publicly traded shares of Caribbean Utilities Company, Ltd. and Cayman National Corporation Ltd. The primary goal of the Credit Union is to achieve capital growth and dividend income from these investments. Management considers that equity price risk is not material as this risk is mitigated by restricting the value of funds invested to two different holdings, which management consider are relatively stable over time. Management regularly monitors the movements in the share prices of these equities in order to minimize the risk of significant loss to the Credit Union.

The table below illustrates the sensitivity of the Credit Union's net income of a reasonably possible +/-10% change in equity prices for the investments held at the year end:

	<b><u>2018</u></b>	<b><u>2017</u></b>
<u>Change in equity price of investments</u>		
+ 10%	255,642	237,974
- 10%	(255,642)	(237,974)

**vi. Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cash at bank, fixed deposits, members' deposits and loans are subject to interest rate risk. To mitigate this risk, the Credit Union places its fixed deposits for periods of less than six months at prevailing rates of interest. The Credit Union manages its cash flow interest rate risk on its loan book, by issuing all loans at fixed rates of interest. The Credit Union's overall exposure to interest rate risk is low due to the fact that its 'Members' shares' liabilities are non-interest bearing (Note 9) but may attract a discretionary periodic dividend proposed by the Board of Directors based on the income of the Credit Union. The maximum dividend level is limited as described in Note 9.

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**vi. Interest rate risk (continued)**

The table below illustrates the sensitivity of the Credit Union's net income of reasonably possible changes in interest rates for loans, deposits placed with banks, and members' deposits (comprising regular saving and term deposits). Since loans to members are issued at fixed rates, the sensitivity to interest rates on loans are based on the variation in the composition of the loan book as the Credit Union issues different types of loans based on collateral specific criteria, rather than variations in interest rates.

	<b><u>2018</u></b>	<b><u>2017</u></b>
<b><u>Interest earned on loans:</u></b>		
+ 0.05%	96,996	85,524
- 0.05%	(96,996)	(85,524)

Note if interest rates change the interest rates are fixed therefore the Credit Union has the ability to changes these rates at their own discretion.

<b><u>Interest earned on fixed deposits:</u></b>		
+ 0.10%	75,887	52,644
- 0.10%	(75,887)	(52,644)

<b><u>Interest paid on member deposits:</u></b>		
+ 0.50%	(58,443)	(48,497)
- 0.50%	58,443	48,497

The tables below summarize the Credit Union's exposure to interest rate risk, as of July 31, 2018 and 2017. Included in the tables are the financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date.

<b><u>July 31, 2018</u></b>	<b><u>Under six months</u></b>	<b><u>Six months to one year</u></b>	<b><u>One year to five years</u></b>	<b><u>Five years to ten years</u></b>	<b><u>Over ten years</u></b>	<b><u>Non-interest bearing</u></b>	<b><u>Total</u></b>
<b>Assets:</b>							
Cash on hand and at bank	-	-	-	-	-	10,768,898	10,768,898
Fixed deposits	40,294,224	35,292,518	-	-	-	-	75,586,742
Securities at fair value through P&L	-	-	-	-	-	2,556,420	2,556,420
Mortgages and personal loans	<u>13,182,365</u>	<u>10,936,405</u>	<u>65,120,872</u>	<u>50,566,506</u>	<u>58,816,100</u>	-	<u>198,622,247</u>
	<u>\$ 53,476,589</u>	<u>\$ 46,228,923</u>	<u>\$ 65,120,872</u>	<u>\$ 50,566,506</u>	<u>\$ 58,816,100</u>	<u>\$ 13,325,318</u>	<u>\$287,534,307</u>

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**vi. Interest rate risk (continued)**

<u>July 31, 2018</u>	<u>Under six months</u>	<u>Six months to one year</u>	<u>One year to five years</u>	<u>Five years to ten years</u>	<u>Over ten years</u>	<u>Non-interest bearing</u>	<u>Total</u>
<b>Liabilities:</b>							
Accrued expenses	-	-	-	-	-	1,045,739	1,045,739
Members shares	-	-	-	-	-	248,687,243	248,687,243
Members' deposits							
- Regular savings	10,382,390	-	-	-	-	-	10,382,390
- Term deposits	<u>672,530</u>	<u>633,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,306,310</u>
	<u>\$ 11,054,920</u>	<u>\$ 633,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,732,982</u>	<u>\$ 261,421,682</u>

<u>July 31, 2017</u>	<u>Under six months</u>	<u>Six months to one year</u>	<u>One year to five years</u>	<u>Five years to ten years</u>	<u>Over ten years</u>	<u>Non-interest bearing</u>	<u>Total</u>
<b>Assets:</b>							
Cash on hand and at bank	354,150	-	-	-	-	10,216,826	10,570,976
Fixed deposits	69,624,276	-	-	-	-	-	69,624,276
Securities at fair value through P&L	-	-	-	-	-	2,379,736	2,379,736
Mortgages and personal loans	<u>11,831,401</u>	<u>10,248,393</u>	<u>62,960,144</u>	<u>47,385,657</u>	<u>44,460,729</u>	<u>-</u>	<u>176,886,324</u>
	<u>\$ 81,809,827</u>	<u>\$ 10,248,393</u>	<u>\$ 62,960,144</u>	<u>\$ 47,385,657</u>	<u>\$ 44,460,729</u>	<u>\$ 12,596,562</u>	<u>\$ 259,461,312</u>

<u>July 31, 2017</u>	<u>Under six months</u>	<u>Six months to one year</u>	<u>One year to five years</u>	<u>Five years to ten years</u>	<u>Over ten years</u>	<u>Non-interest bearing</u>	<u>Total</u>
<b>Liabilities:</b>							
Accrued expenses	-	-	-	-	-	701,360	701,360
Members shares	-	-	-	-	-	224,198,362	224,198,362
Members' deposits							
- Regular savings	9,150,521	-	-	-	-	-	9,150,521
- Term deposits	<u>513,748</u>	<u>35,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>548,811</u>
	<u>\$ 9,664,269</u>	<u>\$ 35,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,899,722</u>	<u>\$ 234,599,054</u>

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**22. Financial risk management (continued)**

**vii. Liquidity risk**

Liquidity risk is that the Credit Union will not be able to meet its financial obligations as they fall due. The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

The Credit Union's liquidity management process includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by members;
- Maintaining a minimum level of cash on hand and at bank, and placement of term deposits for varying periods of time which can be easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of loan maturities.

The Credit Union also monitors unmatched medium-term assets, the level and type of undrawn lending commitments and the usage of overdraft facilities.

On a monthly basis, the Chief Financial Officer prepares a liquidity report, which compares total loans to total deposits (including shares) placed by members, cash on hand and cash at bank, including the funds placed on term deposits with other financial institutions. This report is shared with the Chief Executive Officer and to the Board of Directors. Furthermore, on a daily basis, management regularly reviews the total funds drawn down under loans, including loan commitments compared to available funds to ensure that sufficient liquid resources are available. An important element of the credit policies is a review of funds available to ensure that loan applications are not approved without first considering the level of liquid resources available prior to entering into that commitment with the member. The report also includes a summary of those members with significant amounts placed on deposit (balances in excess of \$100,000). As at July 31, 2018, approximately 10 percent (2017: 10 percent) of the member shares are held by 24 (2017: 25) members.

Of these 24 members, only a small portion of the funds on deposit (in the form of members' shares) approx. 1.3 percent (2017: 1.3 percent) of total loans) serve as collateral against those members' loans. This represents a significant concentration of liquidity risk arising from monies from these members.

The Credit Union is exposed to daily demands on its available cash resources from members' shares and deposit accounts. The Credit Union does not maintain cash resources to meet all of these needs, as experience has shown that trends for withdrawals can be predicted with a high level of certainty. If withdrawals are significantly in excess of expectations and available resources, then this can increase the liquidity risk of operations.

The Credit Union seeks to minimize the level of cash on hand and at bank (in the form of call accounts), through effective budgeting and cash flow monitoring processes. Excess funds are placed with banks on term deposits at higher yields of interest in order to maximize the return to the Credit Union. The terms of placement of the fixed deposits vary and are staggered to ensure that the funds mature or roll over at varying dates to minimize the mismatching of cash flows arising from loan repayments, future loan disbursements, taking into consideration anticipated withdrawals from member's deposits.

The loan portfolio comprises loans, issued at varying terms from 3 months to 35 years (2017: 1 month to 25 years). As outlined above, all loans generally require a minimum level of members shares (loan to share ratio). For all members with loans, access to members' shares is generally restricted where the loan balance exceeds the members share balance. The members' shares available for withdrawal are limited to the amount of shares in excess of that members' loan. Notwithstanding this, there are a significant number of members with no loans, which represents the most significant risk from a liquidity perspective. In the normal course of business

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**vii. Liquidity risk (continued)**

these funds are available on demand. However, as described in Note 9 the Board of Directors have the right to require members to provide up to six months notice prior to withdrawal of those funds.

The table below presents the undiscounted cash flows payable and receivable by the Credit Union from the financial instruments by remaining contractual maturities at the year-end.

<u>July 31, 2018</u>	<u>Under six months</u>	<u>Six months to one year</u>	<u>One year to five years</u>	<u>Five years to ten years</u>	<u>Over ten years</u>	<u>No fixed maturity</u>	<u>Total</u>
<b>Cash inflows:</b>							
Cash at bank	10,768,898	-	-	-	-	-	10,768,898
Fixed deposits	75,586,742	-	-	-	-	-	75,586,742
Investment in securities	-	-	-	-	-	2,556,420	2,556,420
Mortgage and personal loans	<u>19,594,731</u>	<u>17,065,938</u>	<u>101,485,752</u>	<u>76,901,777</u>	<u>83,700,913</u>	-	<u>298,749,111</u>
	<u>\$105,950,371</u>	<u>\$ 17,065,938</u>	<u>\$101,485,752</u>	<u>\$ 76,901,777</u>	<u>\$ 83,700,913</u>	<u>\$ 2,556,420</u>	<u>\$387,661,171</u>
<b>Cash outflows:</b>							
Accounts payable and accrued expenses	1,045,739	-	-	-	-	-	1,045,739
Members' shares	183,823,730	3,292,053	19,726,890	17,524,203	24,320,367	-	248,687,243
Members' deposits							
- Regular savings	10,382,390	-	-	-	-	-	10,382,390
- Term deposits	<u>672,530</u>	<u>633,780</u>	-	-	-	-	<u>1,306,310</u>
	<u>\$195,924,389</u>	<u>\$ 3,925,833</u>	<u>\$ 19,726,890</u>	<u>\$ 17,524,203</u>	<u>\$ 24,320,367</u>	<u>\$-</u>	<u>\$261,421,682</u>
<b>Off-balance sheet</b>							
<b>Cash outflows:</b>							
Loan commitments	24,540,587	-	-	-	-	-	24,540,587
<b>Net Exposure</b>	<u>\$ (114,514,605)</u>	<u>\$13,140,105</u>	<u>\$ 81,758,862</u>	<u>\$ 59,377,574</u>	<u>\$ 59,380,547</u>	<u>\$ 2,556,420</u>	<u>\$101,698,902</u>

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**JULY 31, 2018**

**22. Financial risk management (continued)**

**vii. Liquidity risk (continued)**

<u>July 31, 2017</u>	<u>Under six months</u>	<u>Six months to one year</u>	<u>One year to five years</u>	<u>Five years to ten years</u>	<u>Over ten years</u>	<u>No fixed maturity</u>	<u>Total</u>
<b>Cash inflows:</b>							
Cash at bank	10,570,976	-	-	-	-	-	10,570,976
Fixed deposits	69,624,276	-	-	-	-	-	69,624,276
Investment in securities	-	-	-	-	-	2,379,736	2,379,736
Mortgage and personal loans	<u>17,708,110</u>	<u>15,801,720</u>	<u>94,658,541</u>	<u>68,886,805</u>	<u>59,524,599</u>	<u>-</u>	<u>256,579,775</u>
	<u>\$ 97,903,362</u>	<u>\$ 15,801,720</u>	<u>\$ 94,658,541</u>	<u>\$ 68,886,805</u>	<u>\$ 59,524,599</u>	<u>\$ 2,379,736</u>	<u>\$ 339,154,763</u>
<b>Cash outflows:</b>							
Accounts payable and accrued expenses	701,360	-	-	-	-	-	701,360
Members' shares	162,072,464	3,040,584	19,692,489	16,922,082	22,470,743	-	224,198,362
Members' deposits							
- Regular savings	9,150,521	-	-	-	-	-	9,150,521
- Term deposits	<u>516,780</u>	<u>35,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>552,741</u>
	<u>\$172,441,125</u>	<u>\$ 3,076,524</u>	<u>\$ 19,692,489</u>	<u>\$ 16,922,082</u>	<u>\$ 22,470,743</u>	<u>\$ -</u>	<u>\$ 234,602,963</u>
<b>Off-balance sheet</b>							
<b>Cash outflows:</b>							
Loan commitments	1,483,052	-	-	-	-	-	1,483,052
<b>Net Exposure</b>	<u>\$ (75,234,108)</u>	<u>\$ 12,647,840</u>	<u>\$ 74,961,969</u>	<u>\$ 51,964,723</u>	<u>\$ 37,053,856</u>	<u>\$ 2,379,736</u>	<u>\$ 103,068,748</u>



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**JULY 31, 2018**

**23. Financial instruments and other – fair values**

Fair values approximate amounts at which financial assets and liabilities could be exchanged between willing parties and are determined using judgement and after consideration of uncertainties. Therefore, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The main assumptions and valuation techniques used at arriving at fair values are outlined below.

The carrying value of cash and cash equivalents approximates their carrying value as they are placed for periods of three months or less. Securities at fair value through profit and loss are held at market value on the Statement of Financial Position. Mortgage and personal loans are at fixed rates of interest. The directors consider that the carrying value of loans approximate fair value as the fixed interest rates on these loans approximate current market rates, and due to the inherent characteristics of the loan book and the linkage of certain members shares which act as collateral against those members' loans. However, the lack of any formal secondary market for these types of assets means that in practice, it may not be feasible to liquidate or exchange such assets for consideration which approximates carrying value.

As noted in Note 9 members shares are non-interest bearing, however, they may attract dividends. The directors consider that the carrying value of members' shares approximate their fair value due to the inherent characteristics of the instruments for the years ending July 31, 2018 and 2017. As outlined above, members shares are non-interest bearing, may attract a dividend and an element of those members shares act as collateral against members' loans. Members' savings accounts are available on demand. Members' term deposits are at rates that re-price on each roll over date.

IFRS 13 requires the Credit Union to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Credit Union. The Credit Union considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The carrying amounts of the Credit Union's financial assets and liabilities at the balance sheet date approximated their fair value due to the relative short term nature of the balances and/or fact that interest rates on loans reflect rates for new similar loans. Per the fair value hierarchy of IFRS 13, all financial assets and liabilities are classified as level 2. The fair value of the investment property is disclosed in note 7, and is based upon prices for similar properties, and is considered a level 2 fair value.

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**NOTES TO FINANCIAL STATEMENTS**

**JULY 31, 2018**

**24. Interest Income**

Interest income comprises of the following:

	<b><u>2018</u></b>	<b><u>Year ended July 31, 2017</u></b>
Mortgage loans	6,982,572	6,629,569
Personal loans	<u>5,443,141</u>	<u>5,018,189</u>
Total interest on loans	\$ <u>12,425,713</u>	\$ <u>11,647,758</u>

**25. Contingent Liabilities**

The Credit Union is intermittently involved in a number of claims or potential claims arising from its operations. Where appropriate, management establishes provisions after taking into consideration the advice of attorneys and other specialists. It is management's policy to rigorously assert its position in such cases. Management has assessed that there is no requirement for a provision for year ending July 31, 2018 and July 31, 2017.

**26. Taxation**

The Cayman Islands Government does not currently levy taxes on income or capital gains; consequently no tax liability or expense has been recorded in these financial statements.

**27. Subsequent Events**

During September 2018, the Board of Directors recommended a dividend payment of 2.8% which is subject to approval at the Annual General Meeting in November 2018.

# NOMINATING COMMITTEE REPORT

Acting in accordance with the provision of Credit Union Rule 65 (i), the Board of Directors appointed the undersigned members to nominate qualified persons for each vacant post for the purpose of elections at this Annual General Meeting.

## BOARD OF DIRECTORS

The following Directors are retiring:

1. Michael Nixon
2. James Watler
3. Christopher Goddard
4. Deanna Look Loy

We are pleased to nominate the following members in good standing to serve in compliance with Rule 31 (ii):

- |                        |                 |                            |                        |
|------------------------|-----------------|----------------------------|------------------------|
| 1. Michael Nixon       | - two-year term | 4. Deanna Look Loy         | - two-year term        |
| 2. James Watler        | - two-year term | 5. <b>Jose Hernandez</b>   | - <b>two-year term</b> |
| 3. Christopher Goddard | - two-year term | 6. <b>Oneisha Richards</b> | - <b>two-year term</b> |

The remaining Directors continuing to serve the second year of a two-year term are:

1. Zena Merren-Chin
2. Krishan Welcome
3. Shakira Gourzong

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## CREDIT COMMITTEE

The following persons are retiring:

1. Linda McLean
2. Jenny Powery
3. Beverley McField-Walters
4. Matthew Tibbetts

We are pleased to nominate the following persons to serve a two-year term in compliance with Rule 44 (ii):

1. Linda McLean
2. Jenny Powery
3. **Brad Conolly**
4. Matthew Tibbetts

The remaining members continuing to serve the second year of a two-year term are:

1. Gilbert George Fullerton
2. Ida Jane Ebanks
3. Louise Burke-Richardson

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## SUPERVISORY COMMITTEE

The Committee is elected annually; therefore, all members are retiring as follows:

1. Andre Scott
2. Jenesha Bhoorasingh Simpson
3. Jennifer Smith
4. Vaughn McLean
5. Ravi Persad
6. Kim France

We are pleased to nominate the following persons to serve for one year in compliance with Rule 52 (ii):

1. Andre Scott
2. Jenesha Bhoorasingh Simpson
3. Jennifer Smith
4. Ravi Persad
5. Kim France
6. **Rhys Ebanks**

All nominees have agreed to serve if elected.

**Shakira Gourzong**  
**Chairperson**

**Eziethamae Bodden**

**Pierre Foster**  
**Member**

\* At the Special General Meeting held on 9 June 2009, the Board of Directors accepted a recommendation from the floor to include a written biographical sketch on new members being nominated to serve. Below are the biographical sketches on the new nominees:



**Jose Hernandez**

### Jose Hernandez

Jose Hernandez is Manager IP & TV Services of OfReg. He has responsibility for internet protocol (IP) and Television (TV) services across the ICT sector.

Previously, Mr. Hernandez was an independent consultant who provided information technology thought leadership and worked on a number of projects in the public and private sectors in the period between 2010 to 2016. Areas of focus included information technology strategy, infrastructure development, business solutions architecture, business process management and project management.

Prior to the above period, Mr. Hernandez spent 19 years at Cable and Wireless (Cayman Islands) Limited. During this time, Mr. Hernandez held several leadership roles, including Information Technology Manager, Information Technology Architect - Caribbean, Vice President Information Technology and Senior Vice President Information Technology – Caribbean.

Mr. Hernandez Joined Cable and Wireless (Cayman Islands) Limited in 1991 after completing university where he studied Computer Science.



**Brad Conolly**

### Brad Conolly

Brad Conolly is a Manager of Ogier's Global Corporate Administration function in the Cayman Islands.

His main responsibilities are to provide leadership, direction and support to Corporate Administrators in relation to the provision of corporate administrative services to local and international clients. He also focuses on the intake and client relationship aspects of the corporate book.

Brad has over 9 years' industry experience and has held management positions in two large organisations in Cayman. He previously worked at the Credit Union for over three years and held the role as a Loans Officer for a period of this time. He has also served on the Credit Union Credit Committee for one and one-half years.

Brad is currently pursuing his ICSA Level 4 Certificate in International Finance and Administration. He is also a Notary Public of the Cayman Islands and has been a member of the Credit Union for over 15 years. He is actively involved in many local sporting activities in capacity as a player and coach.



**Rhys Ebanks**

### Rhys Ebanks

Rhys Ebanks is currently employed at Maples and Calder as Head of Operations. He holds a Bachelors of Science in Business Administration with Concentrations in Operations Management and Management Information Systems. He has over 18 years of Operations and Technical experience, nine (9) of which have been in senior management (Chief Technology Officer and Operations Manager). Rhys has over 10 years experience in various areas of management – project, financial, operations, performance, records, general administration, marketing and customer service.

Rhys is motivated by new challenges as they can provide opportunities for personal positive growth and contribute to an improved bottom line for the business.



**Oneisha Richards**

### Oneisha Richards

*Deputy Director, International Marketing and Promotions*

Oneisha Richards is currently the Deputy Director, International Marketing and Promotions for the Cayman Islands Department of Tourism (CIDOT). Mrs. Richards has over 20 years' experience in strategic marketing and tourism policy development.

As Deputy Director, International Marketing & Promotions, Mrs. Richards assists the Director of Tourism with the development, coordination and monitoring of Cayman Islands Tourism brand globally and locally on strategic marketing and promotions. Her responsibilities include oversight of the global marketing budget, the creation and implementation of annual advertising & promotions plans; public relations, brand management, partnership & affinity marketing, as well as digital marketing and social media. Mrs. Richards has management oversight of DOT's marketing teams in Canada, the United States, Latin America and the United Kingdom.

Previous roles held by Mrs. Richards were Business Development Manager with Walkers Global and Deputy Chief Officer for Tourism with the Ministry of Tourism and Transport.

She possesses a Bachelor's degree in Tourism & Travel Management from Florida International University and a Masters' degree in Marketing and E-Commerce from the University of Maryland.

She believes in building winning strategies through research and a collaborative leadership style.

*If you want to go fast go alone, If you want to go far you need a team ~ John Wooden*

# RESOLUTIONS TO THE 43RD AGM

## RESOLUTION NO. 1

WHEREAS the Annual General Meeting of Members has both the right and responsibility to sanction the appropriation and distribution of any surplus; and

WHEREAS the surplus of the Credit Union, after statutory reserve, shall be utilised as the Annual General Meeting may decide to, among other things, pay to members a dividend not exceeding 6 percent per annum on fully paid shares; and

WHEREAS the undistributed surplus of the Credit Union as ascertained by the Audit at 31 July 2018 is CI\$7,611,240; and

WHEREAS the Credit Union maintains a mortgage fund of CI\$1,598,374 comprised of monies [allocated by the membership for the purposes of granting mortgages to members] and whereas the Credit Union has sufficient funds to grant mortgages to members; and

WHEREAS the payment of the Statutory Reserve shall be CI\$1,522,248 representing 20% of the Undistributed Surplus; and

WHEREAS the undistributed surplus, before dividends, and after deduction of the required statutory reserve of the Credit Union, as ascertained by the Audit at 31 July 2018 is CI\$6,088,992;

BE IT RESOLVED that this Annual General Meeting approve the transfer of CI\$693,400 from the mortgage fund of the Credit Union to the payment of dividends.

BE IT RESOLVED that this Annual General Meeting approve the payment of a dividend of 2.8% (comprised of CI\$6,088,992 in undistributed surplus and CI\$693,400 from the mortgage fund) and thereafter the following distribution of CI\$6,782,392, after payment to the Statutory Reserve.

(a)	Payment of Dividend	2.8%	\$6,471,563
(b)	Payment of Honoraria – Treasurer & Assistant Treasurers		
	Grand Cayman		\$ 2,500
	Cayman Brac		\$ 1,500
(c)	Educational Grants to members for July 2018		\$ 200,000
(d)	Remaining balance to training of members, volunteers and staff		\$ 106,829

Proposed by: The Board of Directors

## RESOLUTION NO. 2

As a requirement of the Co-operatives Societies Law<sup>®</sup> and Article XVI of the Credit Union Rules (2012 Revision) (the “Rules”), BE IT RESOLVED that this Annual General Meeting of CICSA Co-operative Credit Union Limited, approve the maximum liability of CI\$5,000,000.00 for the financial year 1 August 2018 to 31 July 2019.

Proposed by: The Board of Directors

## RESOLUTION NO. 3

It is hereby resolved that in accordance with the provisions of Article XXII, Rule 81 of the Rules, Article XV, Rule 70. ii of the Rules be and is hereby amended by adding the following as new sub-rules e, f and g:

- e) In loans to the Cayman Islands Government, but not exceeding 10% of the Credit Union’s total assets;
- f) In money market funds, but not exceeding 2% of the Credit Union’s total assets; and
- g) In investment equity shares of local companies listed on a stock exchange, not exceeding 2% of the Credit Union’s total assets.

## RESOLUTION NO. 4

WHEREAS the mortgage fund was created as a result of members’ resolutions at previous AGMs, such resolutions approving the allocation of such funds for the purposes of the Credit Union granting loans to members for home ownership;

WHEREAS the Credit Union has sufficient funds available to grant loans to members for home ownership purposes;

WHEREAS the balance in the mortgage fund after adjusting for Resolution 1 will be CI\$904,974; and

WHEREAS it is proposed that the amount of CI\$904,974 of the mortgage fund be repurposed and allocated for information technology advancements in the Credit Union.

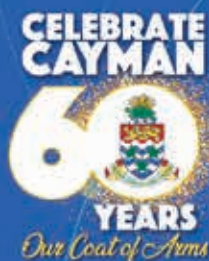
BE IT RESOLVED that this Annual General Meeting approve the re-purposing of CI\$904,974 from the mortgage fund for information technology advancements at the Credit Union.





In 2018 Celebrate Cayman honours the 60th anniversary of the Coat of Arms. Ordered by Her Majesty Queen Elizabeth II on 14 May 1958, the Coat of Arms represents the Royal Warrant assigning "Armorial Ensigns for the Cayman Islands". This solidified our ties to the United Kingdom.


To mark the milestone Celebrate Cayman is hosting a yearlong commemoration, which includes activities, events, and public education campaigns. The celebrations will serve to build goodwill, and create better internal and external relations.



*Join us in a national celebration of our culture, history and community as we commemorate 60 years of our Coat of Arms.*

**Celebrate Cayman**  
Government Administration  
Building Box 105  
Grand Cayman KY1-9000  
Cayman Islands  
Tel: (345) 244-5753

 [CelebrateCayman.ky](http://CelebrateCayman.ky)

 [#CelebrateCayman](https://www.facebook.com/CelebrateCayman)