Cayman Islands
Civil Service Association Co-operative
Credit Union Limited

ANNUAL REPORT 2019

CREDIT UNION PRAYER

LORD, make me an instrument of Thy 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 seek
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

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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.

The Credit Union was formed by seven civil servants who were members of the Cayman Islands Civil Service Association (CICSA). The seven founding members, Mr. Gilbert McLean, Mr. Louis Moncrieffe, Mr. John (Lemuel) Hurlston, Mr. Colford Scott, Mr. Ray Miller (deceased), Ms. Rachael Ebanks, and Mr. George McCarthy assisted by the "Matron" of the Credit Union, Mrs. Cicely Delapenha (deceased), started with $35 ($5 each); their vision, 44 years later with over 14,000 members and assets in excess of $300M, is still shared today.

The Credit Union is governed by the Cooperative Societies Law as well as a set of Rules approved by members at general meetings.

Our governance structure is strengthened internally by:

- The role and functions of an elected Credit Committee;
- The role and functions of an elected Supervisory Committee; and
- The control functions performed by an Internal Auditor and a Risk & Compliance Manager.

Governance of our Credit Union is further enhanced by:

- Annual external audits performed by a "Big Four" accounting Firm; and
- Regulation by the Cayman Islands Monetary Authority (CIMA)

Our Credit Union forms part of the global credit union organization with membership in the Caribbean Confederation of Credit Unions (CCCU), which in turn is a member of the World Council of Credit Unions (WOCCU). As such we endeavour to uphold the cooperative principles of:

- Voluntary membership;
- Democratic member control;
- Member economic participation;
- Autonomy and independence;
- Financial education, training, information;
- Cooperation among cooperatives; and
- Concern for the Community.

Membership in the Credit Union includes employees and their immediate family members as well as pensioners of the:

- The Credit Union;
- The Cayman Islands Government;
- Government owned entities; and
- Utility companies operating in the Cayman Islands.

As a financial institution 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.

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.

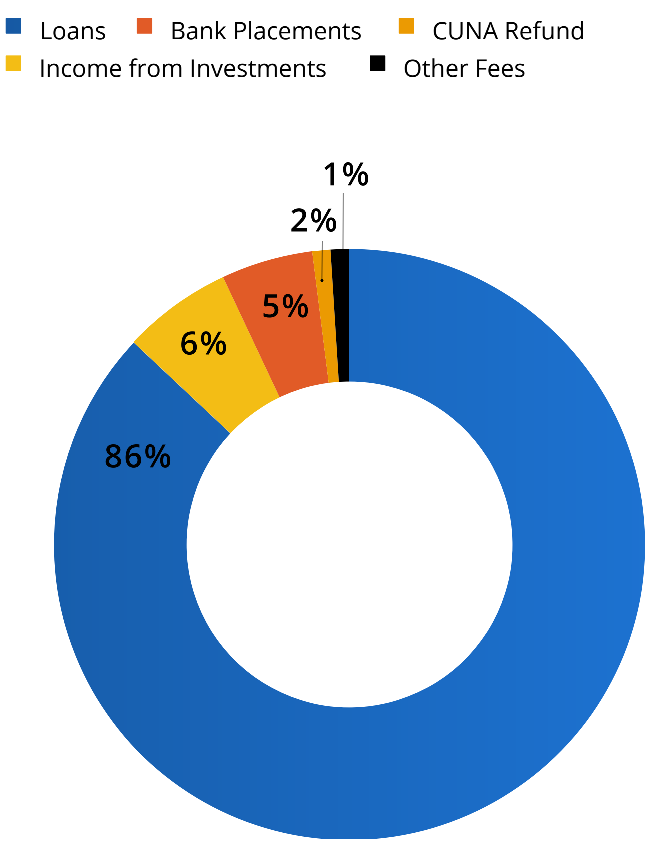
OBJECTIVES
- Motivate our employees
- Improve member financial education and appreciation
- Strengthen risk management
- Improve technology
- Emphasize community involvement
- Deepen member relations and cross sell
- Increase market penetration and retention
- Maintain financial health

THE YEAR AT GLANCE

QUICK FACTS

Total Membership	14,208
ATM cards issued for the year	2,447
New Members for the year	1,379
Net Income	$11.5M
Total assets	$325M
Total Loans disbursed	$110M
Total Loans	$263M
Member shares	$273M
Dividends paid to Members in 2018	2.8%
Interest rebate to members in 2018	3%
Educational Grants	$200K
Staff	55

REVENUE SOURCES



2019 KEY PERFORMANCE INDICATORS

131
FIRST-TIME HOME OWNER LOANS APPROVED

150
MEMBERS “COMING HOME”

OVER 5,000
WITHIN SHARE LOANS APPROVED

138
MEMBERS PURCHASED NEW VEHICLES

55
MEMBERS PURCHASED LAND

	2019	2018
Earnings Per Share	$0.08	$0.06
Dividend Payout Ratio	56.0%	77.8%
Return On Assets	4.0%	2.7%
Return On Equity	33.0%	24.0%
Efficiency	36.0%	45.0%

From left to right: Director-Deanna Look Loy, Chairman-Michael Nixon, 2nd Vice Chairman-Krishan Welcome, Director-Christopher Goddard, Treasurer-Shakira Gourzong, Director-Jose Hernandez, Director-Oneisha Richards, 1st Vice Chairman-James Watler. Not pictured: Secretary-Zena Merren-Chin

OUR LEADERS

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 24 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 The Cayman Turtle Conservation and Education Centre LTD.

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 9 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 Manager, Communications and Customer Service Manager for the Education Department. 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.

OUR LEADERS

KRISHAN WELCOME - 2ND VICE CHAIRMAN

Ms. 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 since 2001, serving on the Board of Directors for 5 years and currently holds the post of 2nd Vice Chair.

SHAKIRA GOURZONG - TREASURER

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 since 2006 and previously served on the Credit Committee. She has been serving on the Board of Directors for the past 4 years and within that period has represented the Credit Union at various international conferences. She also obtained the CARIB DE designation.

ZENA MERREN-CHIN - SECRETARY

Ms. Merren-Chin has been Clerk of the Legislative Assembly/ Cayman Islands Legislative Assembly since 2009.

Ms. Merren-Chin has a Bachelor of Science in Law Enforcement and Police Science and Bachelor 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.

DEANNA LOOK LOY - DIRECTOR

Ms. Deanna Look Loy held several positions on the Board including Chairperson.

Ms. Look Loy 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 West Indies, Post Graduate Certificate and Diploma in Human Resource 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 assists the Justice of the Peace Association weekly. She has been a member of the Credit Union since 1983.

CHRISTOPHER GODDARD - DIRECTOR

Mr. Goddard has been a member of the Board of Directors from 2010, served as the Treasurer since 2013, and a member of the Credit Union since 1995. He 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, 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, previous 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.

He is a successful young Caymanian businessman and owner/director of Winner's Circle, a retail sporting goods store. He also served on several Government committees.

JOSE HERNANDEZ - DIRECTOR

Mr. 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.

He has been a member of the Credit Union since 2017.

ONEISHA RICHARDS - DIRECTOR

Ms. Richards is currently the Deputy Director, International Marketing and Promotions for the Cayman Islands Department of Tourism (CIDOT). Ms. 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. Ms. Richards has management oversight of DOT's marketing teams in Canada, the United States, Latin America and the United Kingdom.

Previous roles held by Ms. 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.

Ms. Richards has been a Credit Union member since 1999

BOARD OF DIRECTORS' REPORT

FINANCIAL AND OPERATING PERFORMANCE

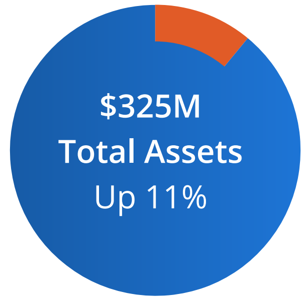
On behalf of your Board of Directors, I present to you our Annual Report and Accounts for the year ended 31 July 2019. I am delighted to report that our Credit Union is making a positive difference to the lives of our Members and in our Community. This year, I am pleased to tell you that we are recommending a dividend of 3.5% while also maintaining a loan interest rebate of 3%. These results reflect the success of the strategy of the Board to focus on growth through increasing the loan book and the membership.

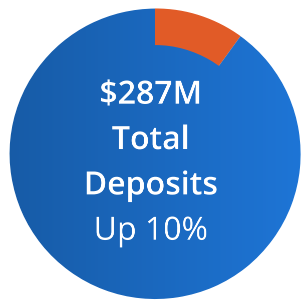
I take this opportunity on behalf of the Board and other elected and appointed Committees to commend our founders, pioneers and all the members, who have supported and continue to support the Credit Union by participating in its products and service offerings. I appeal to you to be ambassadors of your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

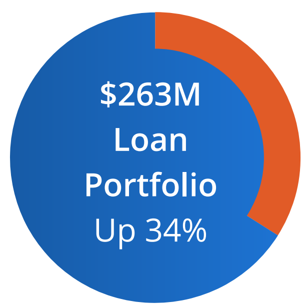
The financial year 2018/19 has been challenging for our Credit Union as we continually had to balance improving the efficiency of member services while managing the increased demand for our loan products due to the increase in interest rates at commercial banks. In addition, we also faced increased regulatory pressures from implementing IFRS 9, preparations for the Data Protection Law, and complying with requirements from an Inspection by our Regulator, CIMA.

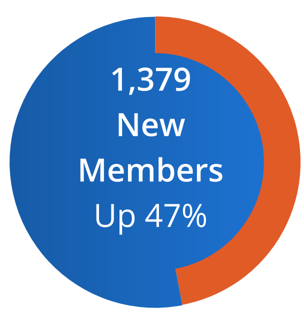
Despite the above challenges, our Credit Union made a profit of $11.5M, an increase of $51%. This was achieved mainly through a 34% growth in our loan portfolio based on targeted marketing efforts to our members on the benefits of borrowing from our Credit Union. The increase in the Prime Interest Rate used by banks also increased the return on fixed deposits held with banks.

HIGHLIGHT OF KEY OPERATING STATISTICS









Another significant boost to net income for the financial year arose out of the sale of Cayman National shares which realized a net gain of $437K. Other notable achievements were as follows:

- Loan approvals by the Credit Committee and Management of $130M, a first in our history;
- Total new members of 1379 including reactivation of 175 previously closed accounts;

During the year we continued to enhance our marketing efforts in order to attract new members and further engage existing members. We continued direct marketing which enhanced our visibility, particularly in social media, resulting in record levels of loan disbursements and member recruitment.

Core Banking System-Smart Solution.

In September 2019, the Board agreed to commence contract negotiations with Smart Solutions. This was after a year of searching for a core system that would meet our current and future needs. The Smart Solution software, Universa, will transition our Credit Union from the Ovation software which was in use since 2000. When implemented, the new software will generate significant savings in costs and allow for greater information gathering, which will enable the management of our member data more effectively and efficiently to expand our products and services.

OPERATIONS RISK & COMPLIANCE

The Credit Union continues to enhance its risk and compliance program to ensure compliance with the increasing changes in legislation and regulatory standard.

Cooperative Societies Law

In August 2019, the Cooperative Societies Law (the Law) was amended to enhance the reporting obligation of the Credit Union's auditors and enhance the regulatory powers of CIMA in its oversight of the Credit Union. See further detail in the Supervisory Committee Report on page 17.

Cayman Islands Monetary Authority (CIMA) Inspection

In February 2019, CIMA conducted a regulatory inspection of the Credit Union. Implementation of the requirements outlined by CIMA in their final inspection report is ongoing and the Credit Union continues to enhance its policies, procedures, and internal controls. See further detail in the Supervisory Committee Report on page 17.

Data Protection Law

In September 2019, the Data Protection Law came into effect. This law increases the Credit Union's obligations as it relates to a member's personal data. The Credit Union's compliance with the Data Protection Law is ongoing. See further detail in the Supervisory Committee Report on page 17.

IFRS 9

The Credit Union has adopted International Financial Reporting Standard No. 9 as of 1 August 2018. This standard changed 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.

BOARD OF DIRECTORS' REPORT

As of 31 July 2019, our Credit Union has successfully implemented this standard as seen in Note 5 of the audited financial statements. The new core banking system will be equipped with the required technology to complement our implementation of this standard.

CAPITAL AND RESERVES

The equity of the Credit Union is currently held only in reserves with no share capital (equity shares). Reserves consists of the statutory reserves, IT 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.

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 Credit Union Rules were amended in 2012 to include permanent shares, however, these Rules were not implemented at the time. We have commenced an information campaign on permanent shares to ensure our members understand how permanent shares work and how it impacts the capital of the Credit Union.

To implement the current Rules relating to permanent shares, the Directors proposed a resolution for a permanent share dividend to all shareholders of record as of 31 July 2019. See Resolutions on pages 33-34.

CORPORATE SOCIAL RESPONSIBILITY

The Credit Union's signature Educational Grants programme is one of the primary ways 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 two high schools in our community. See further details on community involvement on on page 26.

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 2019 delinquency stood at 2.77% compared to 5.43% at the end of 2018. We continue to monitor delinquency and the policy and procedures are currently being reviewed and will be updated by January 2020.

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 the Management for write off. As of 31 July 2019, loans with a combined value of $537K 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 loans' 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

The Credit Union expansion of its staff compliment by 5 employees to 55, together with increased health insurance premiums, contributed to the increase in personnel costs for the financial year.

The successful loan promotions resulted in a surge in the number of loans. This placed additional pressure on our employees, despite the hiring of additional employees to alleviate the increase in demand for our products and services. Additional hours worked by the loans team to meet these demands also impacted personnel costs.

Staff development remained an area of priority with training sessions for all staff of the Credit Union. The Directors and Volunteers also benefitted from training in Anti-Money Laundering/Combatting the Financing of Terrorism Seminar and credit risk management.

Significant focus was placed on our IT strategy to ensure that our resources, infrastructure, and security are suitable for current and future needs.

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 gathered 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.

CORPORATE GOVERNANCE

The Board of Directors worked diligently throughout the year on your behalf and met 15 times to discharge their fiduciary and regulatory duties. The focus areas for the Board continue to be: Financial Strength, Risk Management, Compliance, Strategy and Sound Governance Practice. The Board met monthly from August 2018 to July 2019, except for December 2018, as well as an additional 4 special meetings for strategic planning, budget review and approval, policy and audit report review and approval. See table on page 11. Increased regulation and understanding of legislation place a significant responsibility on these volunteers in relation to discharging their duties effectively. With continued training and learning, the Board performed their credit union roles most effectively.

THE WAY FORWARD

In 2020 we will continue to strengthen our compliance framework while we transform our management and information systems. The Board has agreed to invest in a new core banking system along with additional ATMs.

We will:

- Focus on retaining the gains we made in the growth of our loan book, despite the recent reduction in the Prime Interest Rate, as we continue to enhance our member services and to highlight the other unique benefits of being a credit union member;

- Continue to strengthen compliance and regulatory framework by completing the requirements in the CIMA Inspection report and enhancing and monitoring our data protection policies and procedures;

- Hold a Special General Meeting in early 2020 to review and discuss proposed changes to the Credit Union Rules; and

- Transform the way in which we manage and leverage data to enhance efficiency and reduce costs as we migrate from a legacy banking system to a system that will meet our current and future needs.

APPRECIATION

As we look to the future of our organisation, it is our goal to continue to work with you hand in hand to provide relevant

BOARD OF DIRECTORS' REPORT

and efficient services, albeit when faced with changes in technologies, regulations, and the needs of our members. The Credit Union is aware of the need to remain relevant, competitive and accessible, and as members of the Board of Directors, we give you the assurance that we stand by our slogan "Members helping Members."

Fellow members, you are in the right place, for it is in this organisation that we strive to ensure that your financial goals are met, that you are supported in your endeavours and that you can reach out to us, in times of difficulty.

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.

Michael Nixon
Chairman

BOARD OF DIRECTORS ATTENDANCE 1 AUGUST 2018 TO 31 JULY 2019

Director	Monthly Meetings (11)	Special Meetings (4)	Total (15)
Michael Nixon	9	4	13
James Watler	9	4	13
Krishan Welcome	8	3	11
Shakira Gourzong	8	3	11
Zena Merren-Chin	9	3	12
Deanna Look Loy	11	2	13
Christopher Goddard	9	4	13
Jose Hernandez*	6	2	8
Oneisha Richards*	5	1	6

*Elected 28 November 2018

TREASURER'S REPORT

I am pleased to report another profitable financial year ending 31 July 2019. The Credit Union is strong and profitable.

PERFORMANCE SUMMARY

Our Credit Union has had significant financial results within the 2018/19 financial year which resulted in our Credit Union achieving a net income of $11.5M (2018: $7.6M), an increase of 51%.

The increase in net income was mainly due to:

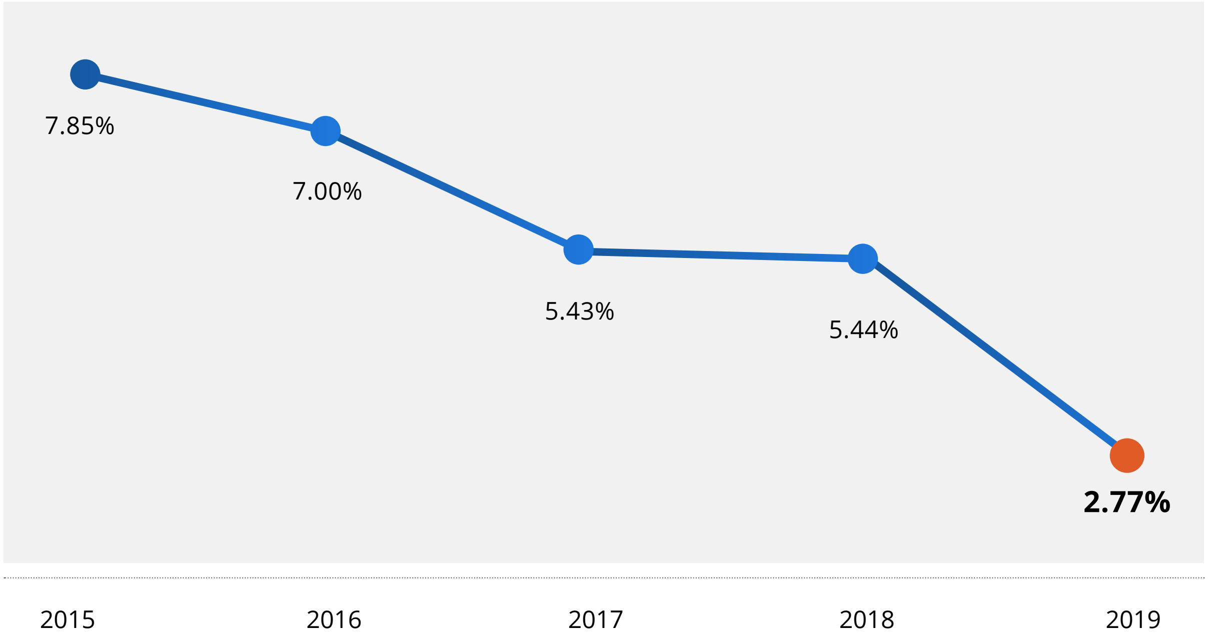
- 25% (2018: 8%) growth in net interest income which was boosted by 34% increase in loans net of provision;
- 47% increase in non-interest income mostly due to gain on sale of securities and loan application fees;
- Significant increase in fair value of securities from $73K in 2018 to $568K in 2019 mainly based on increases in the value of local investment shares; and
- Offset by a 3% (2018: 10%) increase in total expenses which was due mostly to a 7% increase in personnel expenses.

See Table, Analysis of Change in Income & Expenditure 2019 vs 2018 on page 13:

DELINQUENCY MANAGEMENT

The delinquency ratio of 2.77% (2018: 5.43%) declined by 49% due to the continued efforts of our team and to some extent due to the growth of the loan book. See graph below:

DELINQUENCY RATE



TREASURER'S REPORT

ANALYSIS OF CHANGES IN INCOME & EXPENSES

	($000) 2019	($000) 2018	($000) VARIANCE	% CHANGE
INTEREST INCOME				
Members' Loans	15,624	12,830	2,794	22%
Deposits	925	480	445	93%
TOTAL INTEREST INCOME	**16,549**	**13,310**	**3,239**	**24%**
INTEREST EXPENSE				
Members' Deposits	72	60	12	20%
TOTAL INTEREST EXPENSE	**72**	**60**	**12**	**20%**
NET INTEREST INCOME	**16,477**	**13,250**	**3,227**	**24%**
NON-INTEREST INCOME				
CUNA Mutual Insurance premiums refund	221	312	-91	-29%
Dividends on Equity Shares	125	123	2	2%
Increase in fair value of securities	568	73	495	678%
Gain on sale of securities	437	0	437	100%
Other Income	692	571	121	21%
TOTAL NON-INTEREST INCOME	**2,043**	**1,079**	**964**	**89%**
Gross margin before provision & expenses	18,520	14,329	4,191	29%
Less Operating Expenses	6,395	6,180	-215	-3%
Surplus for the year before provision	**12,125**	**8,149**	**3,976**	**49%**
Provisions:				
Allowance for loan losses	600	539	-61	-11%
TOTAL SURPLUS	**11,525**	**7,610**	**3,915**	**51%**

ASSETS

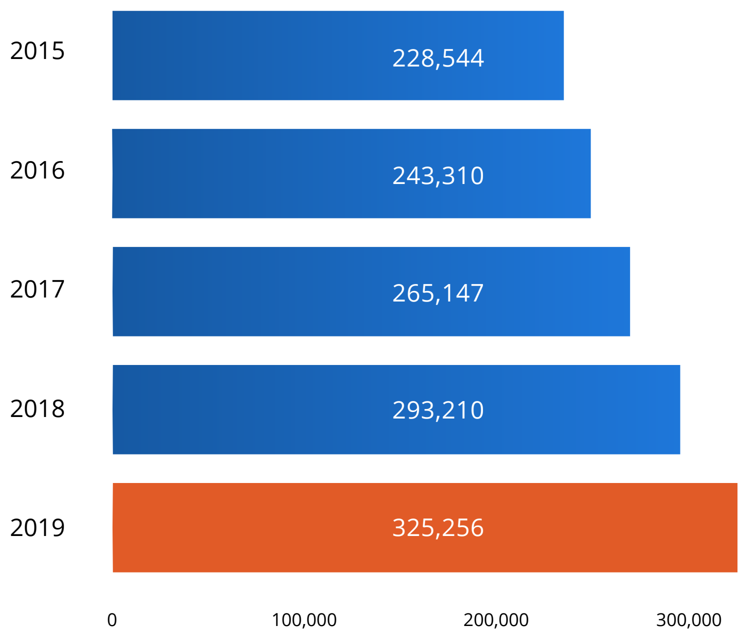
Total assets of $325 million (2018: $293 million), increased by 11%. Total Assets increased due to a 34% growth in loans to our members.

LOANS

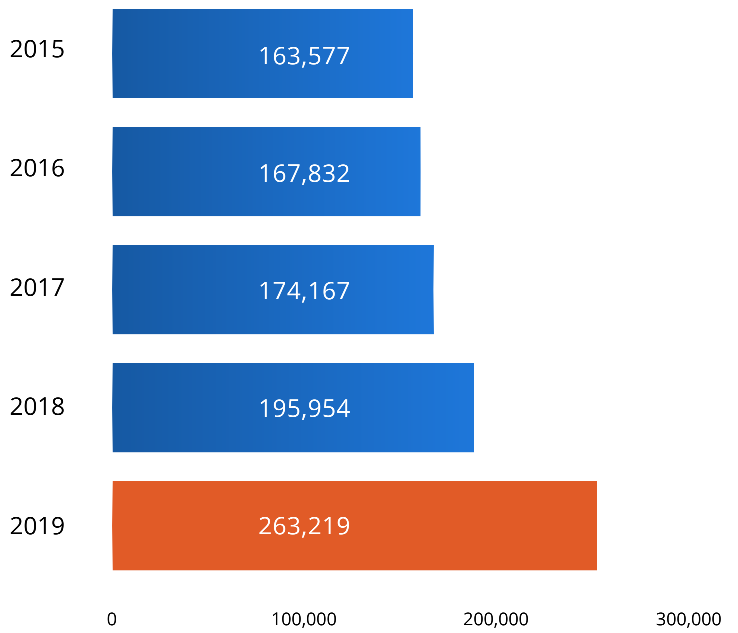
A growing economy and the rising Prime Interest Rates for commercial banks along with our successful loan promotions were the main drivers for the 34% growth in the loan book. Disbursements exceeded $110M as our members responded overwhelmingly to our loan promotions for first-time homeowners and for existing borrowers to transfer their loans home to our Credit Union from other financial institutions. 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 by management and by the Credit Committee for the year was $123M (2018: $80M); loans undisbursed as of 31 July 2019 of $35M (2018: $24M) will be booked in the financial year 2019/20.

TOTAL ASSETS ($000)



TOTAL LOANS ($000)



TREASURER'S REPORT

PROVISIONS

Total loan provision of $2.134M (2018: $2.668M) declined by 20% as of 31 July 2019. Total provisions include a specific provision and an expected credit loss provision based on IFRS9.

Our Credit Union increased the specific loan loss provision to $600K for loans past due and impaired, bringing the total specific provision to $1.8M (2018: $1.7M). Loans written-off totaled $537K (2018: $590K).

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.

On implementation of IFRS 9 which covers loans not impaired, the Credit Union's prior years conservative methods resulted in another write-back of expected credit loss provision (previously referred to as the inherent loss provision) of $596K, which reduced this provision to $338K (2018: $953K).

SHARES AND DEPOSITS

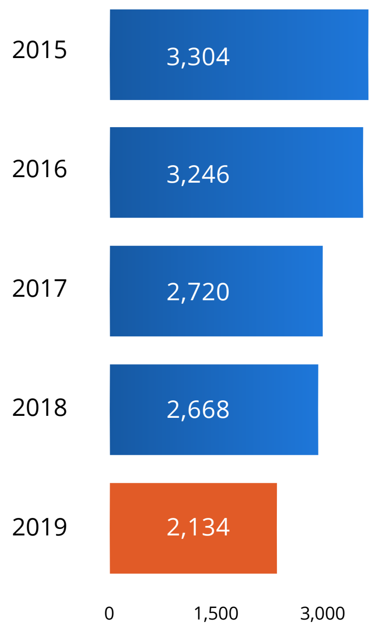
Members continued confidence in our Credit Union is shown in the growth in member deposits; members' shares grew by 10% (2018: 11%) or $24M and members' deposits grew by 21% (2018: 21%) or $2M.

THE WAY FORWARD:

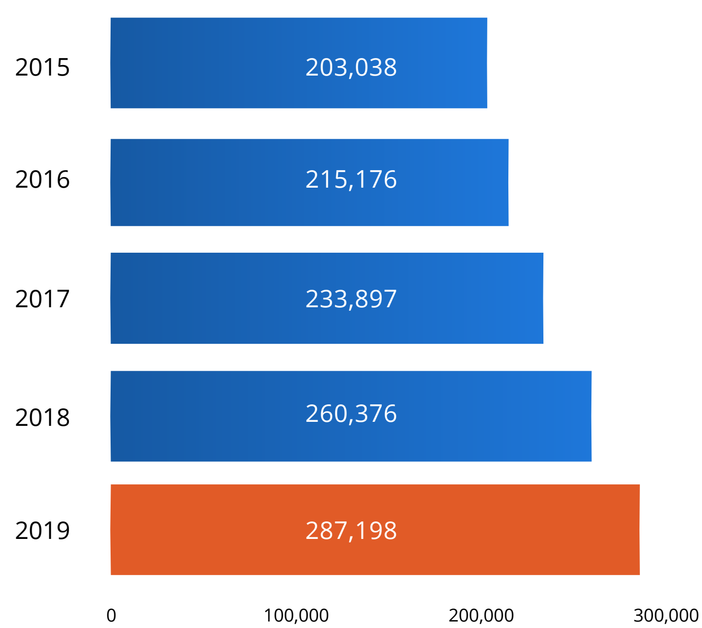
We expect the 2019/20 financial year will be impacted as follows:

- At least 75 basis points reduction in Prime Interest Rate will increase competition for new lending;
- Reduced non-interest income as lending will not be as robust as 2018/19; and

PROVISIONS ($000)



TOTAL MEMBER DEPOSITS



- Liquidity management will be a priority as we look to increase funding from fixed deposits and encourage new and existing members to save.

The strategic objectives for the 2019/20 financial year are:
- Book the un-disburse loans as of 31 July 2019;
- Maintain our loan book with a moderate growth of 5%;
- Reduce the delinquency rate to 2.5%; and
- Market and increase fixed deposit products.

The Credit Union remains committed to providing financial solutions to our members in a cost effective, sustainable and efficient manner. We are a safe repository for savings and investments and, despite the fragile and challenging economic environment in which we currently operate, we remain very positive in our ability to play an important part in enabling our members to achieve their financial goals.

Our purpose is to help our members to improve their quality of life. We pledge to continue providing those opportunities so that you, our valued members, can achieve your goals for years to come.

I wish to thank the management and staff of our Credit Union for remaining diligent in their duties to the organization. It is never easy to operate in a dynamic and ever-changing financial environment.

Thanks to our Auditors, EY, who conducted and completed their audit in a timely manner.

Finally, as Treasurer I am grateful to you, our valued members, for your continued support of our Credit Union and for the opportunity to have served in this capacity.

Shakira Gourzong
Treasurer

SUPERVISORY COMMITTEE REPORT

INTRODUCTION

The 2018/2019 financial year has been another successful year for our Credit Union. 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.

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.

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 Risk and Compliance Manager. We have risk ranked our findings and implemented enhanced monitoring procedures to ensure that recommendations are being implemented by Management based on the agreed timeline.

The continued combined efforts 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:
Completion of six audits – two finance-related, two loans-related, one operations-related, and one IT-related; continued management of complaints process for members; and continued implementation of the AML Compliance program.

The 2018/2019 financial year found us continuing to enhance our risk and compliance program to ensure compliance with the increasing changes in legislation and regulations.

In August 2019, the **Cooperative Societies Law** was amended to enhance the reporting obligation of the Credit Union's auditors and enhance the regulatory powers of the Cayman Islands Monetary Authority ("CIMA") in its oversight of the Credit Union. The amendments in the Cooperative Societies Law now require the Credit Union:
To seek confirmation from CIMA that its appointed directors and senior officers are deemed fit and proper;
to seek prior approval from CIMA to change its directors and senior officers; and to seek approval from CIMA to sell or issue new shares to a beneficiary that would own more than 10% of the Credit Union.

In February 2019, **CIMA conducted a regulatory inspection** of the Credit Union. The inspection assessed the following areas: Credit Risk Management; corporate governance; operational risk; Internal Audit Function; and Anti-money Laundering (AML)/Combating the Financing of Terrorism (CFT).

Implementation of the requirements outlined by CIMA in their final inspection report is ongoing and the Credit Union continues to enhance its policies, procedures, and internal controls. Implementation of the requirements outlined with CIMA keeps the Credit Union in compliance with the various regulatory laws and guidance. Non-compliance with the Anti- Money Laundering Regulations could attract a fine up to CI$500,000 and non-compliance with any other regulatory laws could range from CI$5,000 to CI $1,000,000 depending on the seriousness of the breach.

In September 2019, the **Data Protection Law** came into effect. This law increases the Credit Union's obligations as it relates to a member's personal data. The Credit Union's compliance with the Data Protection Law is ongoing. Non-compliance with this law can attract a fine up to CI$ 100,000.

THE WAY FORWARD

As the Credit Union is a significant financial entity in the local environment, we have begun an enterprise risk management assessment to be able to clearly identify and mitigate our unique risks along with the monitoring and reporting of these identified risks.

MEMBERSHIP AND ATTENDANCE

During the financial year August 2018 to July 2019 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. The attendance and activity record of the Committee is on page 19.

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

André Scott
Chairman

Jennifer Smith

Kim France

Ravi Persad

Not Pictured: André Scott, Marco Archer, Olivaire Watler

SUPERVISORY COMMITTEE REPORT

SUPERVISORY COMMITTEE MEETINGS 1 AUGUST 2018 TO 31 JULY 2019

Members	Position	Meetings Attended	Comments
André Scott	Chairman	10	• Attended Board & Credit • Committee Meetings
Ravi Persad	Deputy Chairman	9	• Attended Board & Credit • Committee Meetings
Jennifer Smith	Secretary	9	• Attended Board & Credit • Committee Meetings & CCCU Convention
Jenesha Simpson	Member	5	• Member resigned from the Supervisory Committee effective 30 April 2019. • Attended Board & Credit • Committee Meetings
Kim France	Member	8	• Attended Board & Credit • Committee Meetings & CCCU Convention
***Rhys Ebanks**	Member	1	• Member resigned from the Supervisory Committee effective 7 February 2019.
***Marco Archer**	Member	4	• Attended Board & Credit • Committee Meetings
***Olivaire Watler**	Member	5	• Attended Board & Credit • Committee Meetings

*Elected 28 November 2018

CREDIT COMMITTEE REPORT

OVERVIEW

The Credit Committee adjudicated and approved 636 (2018: 542) loans totalling $97M (2018: $60M). All loans in excess of the limit for the Committee as set out in the Credit Policy were submitted to the Board of Directors for final review and decision.

The gross Loan Portfolio (before provision) was $265M (2018: $198M) as of 31 July 2019, up by 33%.

The table on page 21 shows the categories of Out of Share Loans approved in the year ended 31 July 2019 and the prior year. It also shows significant growth in the following categories:

- Land and building purchases, which mainly consists of first-time homeowners increased by $12M or 37%;
- Debt consolidation, which consist mainly of members bringing home their loans from other financial institutions, grew by $22M or 142%; and
- Construction of homes and apartments increased by $3M or 119%.

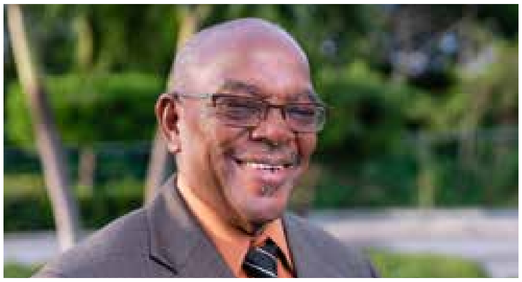
Other loans approved and disbursed by Management and presented to the Credit Committee amounted to $26M (2018: $25.5M) which consists of loans secured by shares $16.8M and personal loans of $9.2M.

Beverley McField-Walters

Matthew Tibbetts

Louise Burke Richardson

Jane Ebanks



George Fullerton

Not Pictured: Jenny Powery, Linda McLean

CREDIT COMMITTEE REPORT

OUT OF SHARES LOANS ($000)

	2019		2018	
Type of Loans	Qty.	$ Amount	Qty.	$ Amount
Land & Building Purchase	223	42,714	158	31,105
Debt Consolidation	168	37,679	79	15,591
Construction	24	5,804	22	2,656
Motor Vehicle Purchase	153	4,502	177	5,380
Commercial	2	1,980	2	1,201
Loan Refinancing	11	1,615	13	486
Property / Home Repairs	20	889	34	1,520
Personal	18	723	6	250
Business Investment	5	346	5	254
Education	6	215	6	194
Boat Purchase	2	125	7	583
Medical Expenses	2	9	16	805
Furniture/Appliances	1	64	15	444
Insurance	1	11	-	-
Vacation/Travel	-	-	2	22
Grand Total	**636**	**96,678**	**542**	**60,491**

MEMBERSHIP AND ATTENDANCE

The Credit Committee held 43 (2018: 50) meetings during the financial year 1 August 2018 to 31 July 2019.

Members	Position	Number of Meetings Attended	Comments
Matthew Tibbetts	Chairman	28	Also attended Board meetings
Linda McLean	Deputy Chairman	35	Also attended ad hoc meetings
Jane Ebanks	Secretary	39	Also attended ad hoc meetings & CCCU Convention
Jenny Powery	Member	13*	Also attended ad hoc meetings
George Fullerton	Member	41	Also attended ad hoc meetings
Beverley McField-Walters	Member	26**	Also attended ad hoc meetings
Brad Conolly	Member	2***	
Louise Burke-Richardson	Member	41	Also attended CCCU Convention

** Jenny Powery attended Meetings up to 9 April 2019 and resigned thereafter.*
*** Beverley McField-Walters was appointed to the Committee in April 2019 which was approved by the Board*
**** Brad Conolly was elected to serve in November 2019 and resigned after 2 Meetings.*

LOOKING FORWARD

The role and functions of the Credit Committee will be updated to include:

- Terms of reference for members of the Committee
- Additional functions relating to assessment of credit risk such as delinquency, write-offs, risk concentration, and credit policy review.

Matthew Tibbetts
Chairman

ABOUT US

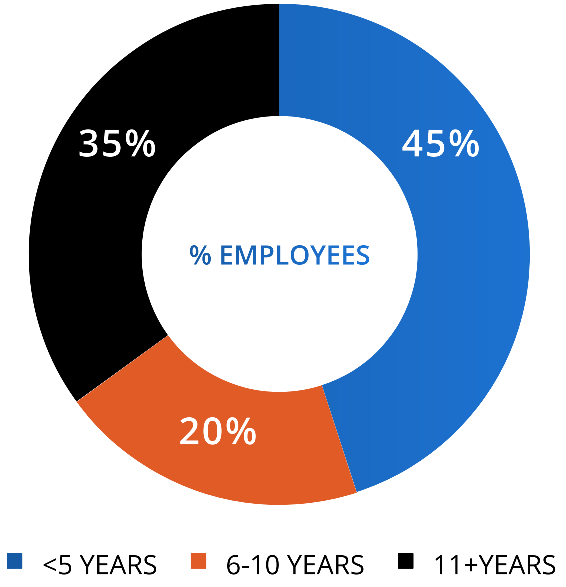
OUR TEAM MEMBERS

The Credit Union employed 55 (2018:50) team members, consisting of 16 men and 39 women as of 31 July 2019. 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 team's years of service, loyalty, and commitment to training and development have enabled it to enhance relationships with our members and provide excellent and professional service.

The table below shows 35% of employees have maintained a working relationship for more than 10 years (19 out of 55 employees).

Years of Service	# of Employees
0-5	25
6-10	11
11-15	11
16-20	6
21-25	2
TOTAL	**55**



TRAINING AND DEVELOPMENT

The Credit Union has a responsibility to train and develop its employees as well as its directors and volunteers so that they are equipped to carry out their respective duties. Annual training for employees, directors and volunteers was provided through webinars, local and overseas conferences, and in-house training during 2018/2019 which included areas such as:

- Credit Risk Analysis and Management
- Leadership
- Supervision
- Customer Services
- Governance
- Anti-Money Laundering/Counter Financing Terrorism
- Risk Management
- Compliance & Financial Crime
- Human Resources—current best practices
- IT Security Certifications
- Debt Collection
- Business Writing
- Auditing Cyber Security
- Internal Controls

In addition, six employees, six directors, four volunteers and the 2018 AGM prize winner attended the combined WOCCU/CCCU Conference held in the Bahamas.

All employees also participated in the following:

- Special sensitivity training session with a representative from the Employee Assistance Program (EAP).
- Training for security of premises and operations.
- Training on the Data Protection Law with a representative from the Office of Ombudsman.

ACKNOWLEDGEMENT

Our Credit Union employees are a dynamic, experienced, loyal, and dedicated team of individuals. They continue to thrive in a changing environment in order to continue to give excellent service to you our members. They represent our Credit Union in and outside the workplace. They are not just employees, they are "Members helping members."

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

WHO'S WHO

ACCOUNTS

From left to right, Front: Wendy Ebanks, Kassia Web, Tinicia Tibbetts.
Back: Valerie Powery, Shirley Chambers.
Not Pictured: Josephine Sambula.

ABOUT US

NEW ACCOUNTS & MEMBER SERVICES

From left to right, Front: Adrian Rowe, Patricia Dixon, Deloris Wood, Thelma Badal, Brittny Rose, Yenise Smith-Puerto, Aniya Anderson, Sherene Morgan, Hayley Powell Back: Bridgette Powery, Karen Smith, Theodora Bodden, Joshua Ebanks-Brown, Nigel Maitland-Ebanks, Tiffany Ebanks, Christopher Ebanks. Not Pictured: Dorothy Jackson, Zandria Ebanks, Ingrid Simms, Nancy Whittaker

CEO | HR | COMPLIANCE | INTERNAL AUDIT | IT | SECURITY/OPERATIONS

From left to right, Front: Onassia Miller, Harrison (Shane) Bothwell, Cherisse Merren, Tonilee Orellana-Cruz, Ben Webster, Darley Powery. Back: Carla Martin, Suzette Watler-Galliano, Patricia Estwick, Megan Anderson.
Not Pictured: Anita Twinn, Yulanda Williams, Dwight Jefferson.

LOANS | CREDIT RISK | DEBT COLLECTION

From left to right, Front: David Downes, Lily Bodden, Jenise Powell, Brigette Christian, Autry Rolle. Middle: Karlene Minzett, Michael Gocul, Yolanda Ebanks, Tasha McKenzie, Basil Scott. Back: Janneth Needham, Rosita Harper, Jason Hydes.
Not Pictured: Jordan Seymour-Hodgson, Nicolas Roberts.

CAYMAN BRAC BRANCH

From left to right: Sidney Ebanks, Jannie Powery-Paz

OUR COMMUNITY

SUPPORT PROVIDED TO:

- Alzheimer's and Dementia Association of the Cayman Islands
- National Council of Voluntary Organizations
- Red Bay Community Group
- Flag Football
- Wind of Hope
- Cayman Islands Netball Association
- Cayman Brac Agriculture Show - 3rd Place Prize
- Cayman Brac Agriculture Show - 1st Place Prize
- Children Festival of Arts
- Mustang Track Club
- Feed our Future
- Cayman Islands Softball Association
- Department of Children and Family Services
- Savannah Primary School
- Triple C High School -Subject Award
- Primary School Teachers' Appreciation
- Sir John A Cumber Primary School
- Academy Sports Club
- District Administration Christmas events
- Sister Islands Agriculture Show Committee
- Cayman Brac Scavenger Hunt
- Cayman Brac, Public Service Pension Board - Grand Opening Prize
- West End Primary-Graduation Gift bags
- Public Library & Heritage House, Cayman Brac Culture Reading Challenge

Breast Cancer Fundraiser

Teachers' Appreciation Day

OUR COMMUNITY


Bodden Town Primary School Book Drive


Earth Day Clean-up

Meals on Wheels Fundraiser


Teachers' Appreciation Day - The Brac

Savannah Primary School

YMCA Book Drive

Book Drive for Primary Schools

Share the Love Winner


Mother's Day Celebration

INTERNATIONAL CREDIT UNION DAY

The theme for International Credit Union Day ("ICU Day") in 2018 was "Find Your Platinum Lining in Credit Unions", which celebrated the spirit of the global credit union movement. ICU Day is celebrated annually on the third Thursday of October and took place on 18 October 2018.

The 2018 ICU Day theme illustrated how credit unions and other financial cooperatives make genuine and meaningful change in people's lives. "Finding Your Platinum Lining" means that whenever someone joins a credit union they are never truly alone. It's more than just a silver lining. It's the security of other people, fellow members, sticking with each other through hard times.

On ICU Day in the Cayman Islands, over 800 members enjoyed a family-friendly, fun-filled afternoon with food, giveaways, lots of prizes, entertainment and the opportunity to meet credit union staff one-on-one to open accounts and learn about special loan offers.

NOMINATING COMMITTEE REPORT

NOMINATION COMMITTEE

In accordance with Article XIII, Elections, Rule 65(i), the Board of Directors appointed a director, whose term is not expiring to chair the Nomination Committee of three. See members of the Committee below:

James Watler-Chairman
Patricia Bell-Member
Eziethamae Bodden-Member

The Committee confirmed that the returning Directors and Members were willing to serve, received nominations, reviewed biographies, and determined that all nominees are in good standing and possess the necessary skills to serve on the Board and the Credit and Supervisory Committees.

BOARD OF DIRECTORS

The following Directors are retiring:

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

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

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

The following Directors have agreed to serve the second year of a two-year term:

1. Michael Nixon
2. James Watler
3. Christopher Goddard
4. Deanna Look Loy
5. Oneisha Roberts
6. Jose Hernandez

CREDIT COMMITTEE

During the year two members duly elected at the November 2018 AGM resigned:

1. Jenny Powery
2. Brad Conolly

The Board approved the appointment of Beverly McField-Walters to serve on the Committee in the interim.

The following persons are retiring:

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

We are pleased to nominate the following members to serve in compliance with Rule 44(ii):

1. Gilbert George Fullerton One Year
2. Ida Jane Ebanks Two Years
3. Louise Burke-Richardson Two Years
4. Beverley McField-Walters Two Years
5. Asaph Scott Two Years

The following members have agreed to serve the second year of a two-year term:

1. Linda McLean
2. Matthew Tibbetts

SUPERVISORY COMMITTEE

During the year two members duly elected in the November 2018 AGM resigned:

1. Jenesha Bhoorasing Simpson
2. Rhys Ebanks

NOMINEES

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

1. André Scott
2. Jennifer Smith
3. Ravi Persad
4. Kim France
5. Marco Archer
6. Olivaire Watler

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

1. Ravi Persad
2. Kim France
3. Marco Archer
4. Olivaire Watler
5. Andrew Thomas
6. Deirdre Carmola
7. Golda E. Tatum Carter

James Watler
Chairperson

Eziethamae Bodden
Member

Patricia Bell
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. On the following pages are the biographical sketches on the new nominees:*

DEIRDRE CARMOLA

Deirdre Carmola is a seasoned trust professional who attained the Society of Trust & Estate Practitioners (STEP) qualification in 2003/4. She became an Asst. Manager Trusts in the private sector and after 21 years in the industry changed professions to the education field in 2011.

Ms. Carmola is a strong advocate of life-long learning and is currently undertaking her Bachelor of Laws (LLB) (Honours) with the University of Liverpool through the Truman Bodden Law School. She has simultaneously built her education career, first as the Manager, Scholarship Secretariat in the Ministry of Education and now currently as Special Education Needs (SEN) Case Manager, Inclusion.

As a known community advocate, Ms. Carmola participates in census and election data collection canvasing exercises including as a Presiding Officer for the 2013 elections and upcoming 2019 referendum. She's served as a leader for the Vision 2008 Round Table for Education; the Education Council; the Tourism Attraction Board; the Older Persons Council; PTA President--John Gray High School, Savannah Primary Schools and CIFEC; and the CICSA Co-operative Credit Union Education Grant Committee.

She has been a member of the Credit Union for 5 years.

NOMINEES

ANDREW THOMAS

Andrew Thomas is a self-employed small business advisor. He serves as an accountant for small business by preparing financial statements, business plans, and business valuations, and arranging business loans. Providing this service is central to Mr. Thomas' desire to give something back to a community that has given him so much.

Mr. Thomas worked in development banking for the Government of Ontario for 10 years. He also worked for CIDB for 26 years, 11 of those as Financial Controller and Head of Credit for 15 years.

He is a Chartered Professional Accountant (CPA), and a Certified Management Accountant, (CMA). He has a BA in Administration and BA in Economics from York University, and a diploma in Business Administration from Ryerson University.

He has been a member of the Credit Union since 2000.

GOLDA E. TATUM CARTER

Golda is a licensed Certified Public Accountant (CPA) with 10+ years' experience in financial audits, budget analysis, and financial accounting. Golda has significant experience in the financial service industry spanning over the various areas such as alternative investment and banking.

She possesses a BA in Accounting with expert knowledge in International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP) and their related Generally Accepted Auditing Standards (GAAS). Computer skills include proficiency in MS Office, QuickBooks, Oracle, Aderant and IBM Lotus Notes.

She has been a member of the Credit Union since 2008.

BEVERLEY MCFIELD-WALTERS

Beverley D. McField-Walters is the Head of Finance and Accounting with the Maritime Authority of the Cayman Islands (MACI). She has over 32 years of experience working within the Accounting field. Developing strong relationships is the foundation of everything she does, both professionally and personally. In her spare time, she travels, reads and enjoys attending functions with her large family and friends.

She served on Credit Committee for 16 years and has been a member of the Credit Union for 32 years.

ASAPH SCOTT

Asaph Scott is an Analyst in the Insurance Supervision Division at the Cayman Islands Monetary Authority ("CIMA"). He has acted in this capacity since August 2017 and during his tenure, has gained a good understanding of CIMA's regulatory framework and how it applies in the financial services industry, particularly within the captive market area of insurance.

Asaph has a Certificate of Insurance and is currently pursuing a Certified Anti-Money Laundering Specialist (CAMS) and Chartered Financial Analyst (CFA) designations. In his free time, he loves traveling around the world and experiencing many different cultures. In the future, he aspires to become an investment portfolio manager and potentially open his own investment consultancy firm.

He has been a member of the Credit Union for 12 years.

RESOLUTIONS TO THE 44TH AGM

RESOLUTION NO. 1

Whereas the Credit Union Rules were amended in 2012 to implement permanent shares (Article II Qualifications for membership, Rule 6c, 12b, Article III Shares and Liabilities, Rule 14b, Rule 15, and Article XIV, Rule 69f);

Whereas Rules 6c, 12b, 14b, 15 and 69f relating to permanent shares have not been implemented by the Credit Union; **and**

Whereas all existing voluntary shares are recorded as liabilities and not as share capital in the financial statements as they can be withdrawn on demand; **and**

Whereas permanent shares will enhance the capital and reserves as well as the liquidity of the Credit Union as they cannot be withdrawn until the member ceases to be member.

BE IT RESOLVED that this Annual General Meeting of CICSA Co-operative Credit Union Limited, approve the implementation of permanent shares by payment of a permanent **share dividend** of $25 amounting to $333,850 to create a permanent share account for each member in good standing (not delinquent and not non-compliant) as of 31 July 2019.

Proposed by: The Board of Directors

RESOLUTION NO. 2

Whereas Article VIII, Board of Directors, Rule 36 states that "No Director or Committee member, other than the Treasurer may be compensated for his services;" **and**

Whereas the complexity and compliance within the regulatory environment has increased significantly and will continue to increase; **and**

Whereas the Credit Union's governance structure must attract and retain directors and committee members charged with governance that have the relevant skills and experience; **and**

Whereas directors and committee members continue to work hard and commit an increasing amount of time to their fiduciary duties and obligations with regards to the changes in and/or additional laws and regulations.

BE IT RESOLVED that this Annual General Meeting of CICSA Co-operative Credit Union Limited, approve that the first sentence of Rule 36 be removed and replaced to state that: "All directors and committee members are eligible for a fixed annual honorarium to be approved by members at the AGM."

The amounts proposed per meeting are as follows:

Position	Fee per Meeting
Chairman of the Board of Directors	$400
Other Directors	$250
Chairman of Committees	$125
Members of Committees	$100

Proposed by: The Board of Directors

RESOLUTION NO. 3

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 2019 is **CI$12,122,365**; **and**

WHEREAS the payment of the Statutory Reserve shall be **CI$2,305,143** representing 20% of the audited Net Income; **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 2019 is **CI$9,817,226**.

BE IT RESOLVED that this Annual General Meeting approve the payment of a dividend of 3.5% (and thereafter the following distribution of **CI$9,817,226**, after payment to the Statutory Reserve.

(a)	Payment of Dividend 3.5%	$8,871,239
(b)	Payment of Honoraria – Treasurer	$4,000
(c)	Educational Grants to members	$300,000
(d)	Payment of Permanent Share Dividend 13,354 Members	$333,850
(e)	Remaining balance to training of members, volunteers and staff	$308,137

Proposed by: The Board of Directors

RESOLUTION NO. 4

As a requirement of the Co-operatives Societies Law ® 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 2019 to 31 July 2020.

Proposed by: The Board of Directors

RESOLUTION NO. 5

Whereas, Article IV Deposits, Rule 20, does not specifically state that non-members may not deposits funds into the Credit Union; **and**

Whereas the demand for loan products exceeds demand for deposits; **and**

Whereas the Credit Union requires additional funds to meet the demands of members for loan products which generate the income to pay dividends;

BE IT RESOLVED that this Annual General Meeting of CICSA Co-operative Credit Union Limited, approve that the Rule 20 be amended to accept deposits from eligible non-members, as determined by the Board of Directors, as an additional measure to ensure the Credit Union can meet the demand of members for loans.

Proposed by: The Board of Directors

FINANCIAL STATEMENTS

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

Year Ended July 31, 2019

With Report of Independent Auditors

Ernst & Young Ltd.

Building a better working world

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

FINANCIAL STATEMENTS

Year Ended July 31, 2019

Contents

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Cayman Islands Civil Service Association (CICSA) Co-operative Credit Union Limited (the "Credit Union") which comprise the statement of financial position as at July 31, 2019, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and the Board of Directors for the Consolidated 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.

The Board of Directors is responsible for overseeing the Credit Union's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

This report is made solely to the Board of Directors, as a body. Our audit work has been undertaken so that we might state to the Board of Directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Credit Union and the Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Ernst & Young Ltd.

October 18, 2019

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

STATEMENT OF FINANCIAL POSITION

(Expressed in Cayman Islands dollars)

	July 31			
		2019		**2018**
ASSETS				
Cash on hand and at bank *(Note 3)*	$	13,861,065	$	10,768,898
Fixed deposits *(Note 3)*		37,386,739		75,586,742
Securities at fair value through profit or loss *(Note 4)*		2,819,443		2,556,420
Mortgage and personal loans including interest receivable, net of loan loss provision *(Note 5)*		263,218,534		195,954,094
Receivable and other assets		108,539		397,301
Fixed assets *(Note 6)*		6,027,837		6,113,294
Investment property *(Note 7)*		1,833,496		1,833,496
Total assets	$	325,255,653	$	293,210,245
LIABILITIES AND RESERVES				
Liabilities:				
Members' deposits *(Note 8)*	$	14,137,614	$	11,688,700
Members' shares *(Note 9)*		273,059,777		248,687,243
Accounts payable and accrued expenses		915,974		1,045,739
Total liabilities		288,113,365		261,421,682
Reserves:				
Statutory reserve *(Note 10)*		25,792,184		23,473,291
Mortgage/Information technology Fund *(Note 11)*		904,974		1,598,374
Development Fund *(Note 12)*		627,904		627,904
Undistributed surplus		9,817,226		6,088,994
Total reserves		37,142,288		31,788,563
Total liabilities and reserves	$	325,255,653	$	293,210,245

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 & Shakira Gourzong
....) Directors

October 18, 2019) 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)

	Year Ended July 31 2019	Year Ended July 31 2018
Interest income		
Interest on loans *(Note 24)*	$ 15,243,065	$ 12,425,713
Service fees – cash advances *(Note 16)*	381,206	404,116
Bank deposit interest	925,231	480,635
Total interest income	16,549,502	13,310,464
Interest expense		
Interest expense on member deposits	(72,221)	(59,970)
Net interest income	16,477,281	13,250,494
(Increase)/decrease in provision for loan losses and interest receivables *(Note 5)*	(600,000)	(538,808)
Net interest income after provision for loan losses	15,877,281	12,711,686
Non-interest income		
CUNA Mutual Insurance premium refund *(Note 17)*	220,547	311,917
Dividend income	125,272	123,376
Recovery of loans previously written off	61,779	68,395
Gain on sale of securities *(Note 4)*	437,202	–
Other	630,544	502,323
Total non-interest income	1,475,344	1,006,011
Other non-operating income		
Change in unrealized gain of securities *(Note 4)*	568,139	73,307
Non-interest expenses		
Salaries and other personnel costs *(Notes 18 and 19)*	4,496,720	4,211,932
CUNA Mutual Insurance premiums *(Note 17)*	288,707	463,302
General and administrative	530,290	470,087
Depreciation *(Note 6)*	330,301	375,001
Premises costs *(Note 20)*	347,099	345,463
Audit fees	98,900	96,000
CCCU & WOCCU convention	30,147	14,475
Annual general meeting	34,584	24,178
Computer expenses	198,894	148,102
Bank charges	13,434	12,704
International Credit Union Day	25,972	18,520
Total non-interest expenses	6,395,048	6,179,764
Net income for the year, being net comprehensive income for the year	$ 11,525,716	$ 7,611,240

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)

	Statutory Reserve	Mortgage/ Information Technology Fund	Development Fund	Undistributed Surplus	Total Reserves
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)*	9,410	–	–	–	9,410
Balance at July 31, 2018	$ 23,473,291	$ 1,598,374	$ 627,904	$ 6,088,994	$ 31,788,563
Balance at August 1, 2018	$ 23,473,291	$ 1,598,374	$ 627,904	$ 6,088,994	$ 31,788,563
Changes on initial application of IFRS 9 *(Note 2)*	–	–	–	596,649	596,649
Restated balance at August 1, 2018	23,473,291	1,598,374	627,904	6,685,643	32,385,212
Net income for the year	–	–	–	11,525,716	11,525,716
Transfer to statutory reserve *(Note 10)*	2,305,143	–	–	(2,305,143)	–
Scholarship grants *(Note 13)*	–	–	–	(200,000)	(200,000)
Training *(Note 13)*	–	–	–	(110,197)	(110,197)
Honoraria – Treasurer *(Note 19)*	–	–	–	(4,000)	(4,000)
Dividends 2018 *(Note 14)*	–	(693,400)	–	(5,774,793)	(6,468,193)
Entrance fees *(Note 10)*	13,750	–	–	–	13,750
Balance at July 31, 2019	$ 25,792,184	$ 904,974	$ 627,904	$ 9,817,226	$ 37,142,288

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)

	Year ended July 31 2019	2018
Cash flows from operating activities		
Dividends received	$ 14,007	$ 20,000
Interest received	16,117,725	12,989,069
Interest paid	(77,151)	(48,859)
Loan originations, net of principal collected on loans to members	(67,217,220)	(22,409,101)
Recoveries on loans previously written off	61,779	68,395
Net increase in members' shares	17,904,342	18,565,164
Net increase in members' deposits	2,448,914	1,989,368
Cash payments for non-interest expenses	(6,503,784)	(5,927,342)
Fees, premium refunds and charges received	1,153,606	682,945
Service fees – cash advances	381,206	404,116
Fixed deposit placements, original terms greater than 3 months	62,901,719	(16,706,432)
Net cash flows provided by (used in) operations	27,185,143	(10,372,677)
Cash flows from investing activities		
Purchase of fixed assets *(Note 6)*	(244,844)	(173,367)
Proceeds from sale of investments *(Note 4)*	853,584	–
Net cash flows provided by (used in) investing activities	608,740	(173,367)
Net increase (decrease) in cash and cash equivalents	27,793,883	(10,546,044)
Cash and cash equivalents, beginning of year	17,005,662	27,551,706
Cash and cash equivalents, end of year	44,799,545	17,005,662
Cash and cash equivalents include:		
Cash on hand and at bank *(Note 3)*	13,861,065	10,768,898
Fixed deposits *(Note 3)*	30,938,480	6,236,764
	$ 44,799,545	$ 17,005,662
Investment of dividend income *(Note 4)*	(111,266)	(103,376)
Increase in fair value of securities *(Note 4)*	(568,139)	(73,307)

Dividends on members shares of $6,468,193 (2018: $5,923,717) (Note 14) are credited directly to members' shares accounts. Loan interest rebate on members shares of $295,530 (2018: $267,435) (Note 15) are credited directly to member's shares.

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

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, 2019, is 55 (2018: 50).

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.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost basis, except for the financial assets at fair value through profit or loss that have been measured at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

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.

2.2 Significant accounting judgments and estimates

The preparation of the Credit Union's financial statements requires management to make certain significant estimates and judgments that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. 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. Other disclosures relating to the Credit Union's exposure to risks and uncertainties includes:

- Capital management Note 21
- Financial risk management and policies Note 22
- Sensitivity analyses disclosures Notes 22

The estimates and judgments that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i) Going concern

The Credit Union's management has made an assessment of the Credit Union's ability to continue as a going concern and is satisfied that the Credit Union has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Credit Union's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

ii) 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 90 days (2018: 60 days) and not specifically provided for were to decrease by 5% an additional impairment provision of approximately $20,311 (2018: $96,542) would have been recorded at July 31, 2019.

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.

2.2 Significant accounting judgments and estimates (continued)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Credit Union's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Credit Union's internal credit grading model, which assigns a probability of default (PD) to the individual grades
- The Credit Union's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their expected credit loss (ECL) is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposure at default (EAD) and loss given default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Credit Union's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

2.3 Changes in accounting policies and disclosures

IFRS 15 Revenue from contracts with customers

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 the Credit Union has satisfied its performance obligations. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations and establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model includes 1) identifying the contract with the customer, 2) identifying each of the performance obligations included in the contract, 3) determining the amount of consideration in the contract, 4) allocating the consideration to each of the identified performance obligations and 5) recognizing revenue as each performance obligation is satisfied. The standard is effective for annual periods. beginning on or after January 1, 2018, with earlier application permitted. The Credit Union has concluded that it does not have a significant impact on the financial statements. Management has established an inventory of all impacted transactions, including details of how revenue is currently being earned, and has performed an assessment whether there are any contracts which include multiple performance obligations and whether any of these performance obligations are performed over time. The assessment indicated that the financial impact of IFRS 15 is not material.

2.3 Changes in accounting policies and disclosures (continued)

IFRS 16 Leases

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.

IFRS 9 Financial instruments

The Credit Union has adopted IFRS 9 – Financial Instruments with a date of transition of August 1, 2018, which resulted in changes in accounting policies. As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Any adjustments to the carrying amounts of financial instruments at the date of transition were recognized in the opening reserves of the current period.

i. Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial asset (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
  Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

2.3 Changes in accounting policies and disclosures (continued)

ii. Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Credit Union's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Credit Union to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case a lifetime ECL is determined. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Credit Union's impairment method are disclosed in Note 2.4. The quantitative impact of applying IFRS 9 as at August 1, 2018, is disclosed below.

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and Credit Union has adopted it, together with IFRS 9, for the year beginning August 1, 2018. Changes include transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out below.

iii. Transition disclosures

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at August 1,2018, are compared as follows:

	IFRS 9 measurement	Carrying Value July 31, 2018	Remeasurements	Carrying Value August 1, 2018
Financial assets				
Cash on hand and at bank	Amortised cost	$ 10,768,898	$ –	$ 10,768,898
Fixed deposits	Amortised cost	75,586,742	–	75,586,742
Mortgage and personal loans	Amortised cost	195,954,094	596,649	196,550,743
Securities at fair value through profit or loss	FVPL	2,556,420	–	2,556,420
Total financial assets		$ 284,866,154	$ 596,649	$ 285,462,803
Financial liabilities				
Members' deposits	Amortised cost	$ 11,688,700	$ –	$ 11,688,700
Members' shares	Amortised cost	248,687,243	–	248,687,243
Accounts payable and accrued expenses	Amortised cost	1,045,739	–	1,045,739
Total financial liabilities		$ 261,421,682	$ –	$ 261,421,682

2.4 Summary of accounting policies

Recognition of income and expenses

Interest income and expense

Under both IFRS 9 and IAS 39, interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL.

The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the EIR, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. Credit Union recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. 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 90 days in arrears.

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.

Financial instruments: Initial recognition

Date of recognition

Financial assets and liabilities, with the exception of mortgage and personal loans and customer deposits, are initially recognised on the settlement date, which is the date that an asset is delivered to or by the Credit Union. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, Credit Union accounts for the Day 1 profit or loss, as described below.

2.3 Summary of accounting policies (continued)

Financial instruments: Initial recognition (continued)

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, Credit Union recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

From August 1, 2018, the Credit Union classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVPL

The Credit Union classifies and measures its equity securities at FVPL as explained in summary of accounting policies. Credit Union may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition.

Before August 1, 2018, Credit Union classified its financial assets as loans and receivables (amortised cost), FVPL, or available-for-sale.

Financial liabilities, other than loan commitments, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Financial assets and liabilities

The Credit Union's classification of its financial assets and liabilities is explained in Note 2.3. The quantitative impact of applying IFRS 9 as at August 1, 2018, is disclosed in Note 2.3 above.

Debt instruments are those that contain contractual obligations to pay the instrument holder certain cash flows. Cash, fixed deposits, mortgages and personal loans, and receivables are classified as debt instruments. The classification and subsequent measurement of debt instruments depend on the assessment of business model and characteristics of cash flow.

Business model reflects the objective of holding different assets. That is, whether the Credit Union's objective is to collect the contractual cash flows from the assets or is to collect the cash flows arising from the sale of the assets, or both. The cash flow test considers whether interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

2.4 Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Based on these factors, the Credit Union classifies and measures its debt instruments at amortized cost, as they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured.

Equity instruments are those that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Credit Union measures all equity investments at fair value through profit or loss. Impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Credit Union's right to receive payments is established.

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.

iii. Reclassification of financial assets and liabilities

From August 1, 2018, Credit Union does not reclassify its financial assets subsequent to their initial recognition. The Credit Union did not reclassify any of its financial assets or liabilities in 2018 and 2019.

iv. Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

Derecognition due to substantial modification of terms and conditions Credit Union derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Credit Union considers the following factors:

- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, Credit Union records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.4 Summary of accounting policies (continued)

iv. Derecognition of financial assets and liabilities (continued)

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. Credit Union also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Credit Union has transferred the financial asset if, and only if, either:

- Credit Union has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby Credit Union retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- Credit Union has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- Credit Union cannot sell or pledge the original asset other than as security to the eventual recipients
- Credit Union has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, Credit Union is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- Credit Union has transferred substantially all the risks and rewards of the asset

Or

- Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Credit Union considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

2.4 Summary of accounting policies (continued)

iv. Derecognition of financial assets and liabilities (continued)

When Credit Union has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of Credit Union's continuing involvement, in which case, Credit Union also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration Credit Union could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value Credit Union would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

v. Impairment of Financial Assets

Overview of the ECL principles

As described in Note 1, the adoption of IFRS 9 has fundamentally changed the Credit Union's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From August 1, 2018, the Credit Union has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2. The Credit Union's policies for determining if there has been a significant increase in credit risk are set out in Note 22. The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

2.4 Summary of accounting policies (continued)

v. Impairment of Financial Assets (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Credit Union's policy for grouping financial assets measured on a collective basis is explained in Note 22.

The Credit Union has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 22.

The Credit Union has established a policy on how it groups its loans. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. Based on the above process, Credit Union groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- A loan that is not credit-impaired on initial recognition is classified in 'Stage 1'. Loans in Stage 1 have their expected credit losses ('ECL') measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the loan is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Loans in Stages 2 have their ECL measured based on expected credit losses on a lifetime basis.

- If the loan is credit-impaired, it is then moved to 'Stage 3'. Loans in Stages 3 have their ECL measured based on expected credit losses on a lifetime basis.

- Purchased or originated credit-impaired loans are those that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

Delinquency status is utilized as the main indicator for changes in credit risk. Credit management actions are triggered by movements in days past due. Other qualitative factors are considered, which include but are not limited to:

- Early signs of cash flow / liquidity problems

- Known adverse change in financial conditions

- Known adverse changes in business or economic conditions in which the borrower operates

Default is defined as delinquency of 90 days past due or more. Other qualitative criteria are also considered such as:

- The borrower is in long-term forbearance

- The borrower is deceased

- The borrower is insolvent

- The borrower is in breach of financial covenants

2.4 Summary of accounting policies (continued)

v. Impairment of Financial Assets (continued)

The Credit Union assesses on a forward-looking basis the ECL associated with its loans and with the exposure arising from loan commitments. The Credit Union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Credit Union measures credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD').

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months, or over the remaining lifetime of the obligation. PD is generated based on historical default data.

EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. EAD is assessed based on contractual terms of the loan.

LGD represents the Credit Union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, availability of collateral or other credit support.

ECL is determined by projecting the PD, LGD and EAD for future period and for each individual exposure or collective segment. These three components are multiplied together and discounted. For expected credit loss provisions modelled on a collective basis, a group of exposures is assessed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

When incorporating forward looking information, such as macroeconomic forecasts, into determination of ECL, the Credit Union considers the relevance of macroeconomic indicators for the loans, which include but are not limited to unemployment rate. In addition to the base scenario, the Credit Union also incorporated upside and downside scenarios along with scenario weightings. The attributes of scenarios are reassessed at each reporting date. The scenario weightings take account of the range of possible outcomes each chosen scenario is representative of.

2.4 Summary of accounting policies (continued)

v. Impairment of Financial Assets (continued)

Write-offs

The Credit Union's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Credit Union has stopped pursuing the recovery. If the amount to be written

off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

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

Investment in securities

All investments in securities are initially recognized 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 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 recognized on the ex-dividend date and recorded as dividend income in Statement of Comprehensive Income.

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.

2.4 Summary of accounting policies (continued)

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 and 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 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.

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 and fixed deposits with original maturities of three months or less.

2.4 Summary of accounting policies (continued)

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.

Other provision

Provisions for legal claims costs are recognized 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 recognized 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 recognized as interest expense.

Fair value measurement

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

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.

3. Cash on hand and at bank and fixed deposits

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

	2019	2018
Cash on hand	$ 857,767	$ 1,102,187
Cash at bank	13,003,298	9,666,711
	$ 13,861,065	$ 10,768,898

The composition of fixed deposits is as follows:

	2019	2018
Fixed deposits:		
Original terms to maturity of 3 months or less	$ 30,938,480	$ 6,236,764
Original terms to maturity of greater than 3 months	6,448,259	69,349,978
	$ 37,386,739	$ 75,586,742

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, 2019 and 2018 are as follows:

	2019	2018
Level 2		
Caribbean Utilities Company, Ltd.	$ 2,682,310	$ 2,064,420
Cayman National Corporation, Ltd.	137,133	492,000
	$ 2,819,443	$ 2,556,420

There were no transfers between levels during the year.

4. Securities at fair value through the profit or loss (continued)

On an annual basis the investment in the Caribbean Utilities Company Ltd declares and pays dividends. Credit Union's dividends are automatically reinvested. In 2019 the reinvestment of dividend income was $111,266 (2018: $103,376).

	2019	2018
Level 2		
Opening balance at August 1	$ 2,556,420	$ 2,379,737
Additions	111,266	103,376
Sale of investment	(416,382)	–
Change in unrealized gain	568,139	73,307
Closing balance at July 31	$ 2,819,443	$ 2,556,420

5. Mortgages and personal loans

The composition of loans to members is as follows:

	2019	2018
Mortgage loans	$ 178,385,746	$ 123,837,103
Personal loans	86,152,127	74,020,631
Total loans	264,537,873	197,857,734
Loan interest receivable	815,085	764,513
Total loans including interest receivable	265,352,958	198,622,247
Less: Provision for loan losses:		
- Specific provision	(1,796,550)	(1,714,648)
- Expected credit loss	(337,874)	(953,505)
	(2,134,424)	(2,668,153)
Total	$ 263,218,534	$ 195,954,094

Term and interest rates

Generally, the maximum repayment period of mortgage loans is up to 35 years (2018: up to 35 years) and personal loans is less than 10 years (2018: 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, 2019, the effective yield on the loan portfolio is 6.74% (2018: 6.90%).

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 4.5% and 12% (2018: 4.5% and 12%).

Included in mortgage and personal loans are loans of $11,078,607 (2018: $9,326,987) to directors, employees and committee members of the Credit Union (Note 19), of which the scheduled repayments on none of the loans were past due at July 31, 2019 (2018: none).

5. Mortgages and personal loans (continued)

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

	July 31	
	2019	**2018**
Personal loans		
Out-of-share loans	$ 30,611,194	$ 19,364,601
Within-share loans	38,810,891	38,191,271
Unsecured:		
Overdrafts and cash advances	16,730,042	16,464,759
Staff loans	–	–
Total personal loans	$ 86,152,127	$ 74,020,631
Mortgage loans		
Out-of-share loans:		
less than 10 year loans	$ 16,558,095	$ 15,599,883
10 to 15 year loans	57,169,585	53,800,206
15 to 35 year loans	104,658,066	54,437,014
Total mortgage loans	178,385,746	123,837,103
Total loans	$ 264,537,873	$ 197,857,734

The following tables contain the analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount including accrued interest receivable of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

	2019					2018
	ECL Staging					
Mortgage loans	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Originated credit-impaired**	**Total**	**Total**
Performing loans	$ 173,766,611	$ 1,372,955	$ –	$ –	$ 175,139,566	$ 118,371,693
Impaired loans	–	–	3,779,971	–	3,779,971	6,026,545
Gross carrying amount	173,766,611	1,372,955	3,779,971	–	178,919,537	124,398,238
Loss allowance	(140,681)	(17,103)	(664,133)	–	(821,917)	(1,687,087)
Carrying amount	$ 173,625,930	$ 1,355,852	$ 3,115,838	$ –	$ 178,097,620	$ 122,711,151

5. Mortgages and personal loans (continued)

	2019					2018
	ECL Staging					
Personal loans	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Originated credit-impaired	Total	Total
Performing loans	$ 84,104,544	$ 380,204	$	$ –	$ 84,484,748	$ 73,601,655
Impaired loans	–		1,948,673	–	1,948,673	622,354
Gross carrying amount	84,104,544	380,204	1,948,673	–	86,433,421	74,224,009
Loss allowance	(126,520)	(53,570)	(1,132,417)	–	(1,312,507)	(981,067)
Carrying amount	$ 83,978,024	$ 326,634	$ 816,256	$ –	$ 85,120,914	$ 73,242,942

The allowance for ECL is recognized in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial assets experiencing significant movement in credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the movement between 12-month and life-time ECL;

5. Mortgages and personal loans (continued)

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Mortgage loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Originated credit-impaired**	**Total**
Loss allowance as at August 1, 2018	$ 110,428	$ 43,599	$ 1,008,620	$ –	$ 1,162,647
Transfers:					
Transfer from Stage 1 to Stage 2	(1,304)	1,304	–	–	–
Transfer from Stage 1 to Stage 3	(137)		137	–	–
Transfer from Stage 2 to Stage 1	21,078	(21,078)		–	–
Transfer from Stage 2 to Stage 3	–	(13,339)	13,339	–	–
Transfer from Stage 3 to Stage 2	–	–		–	–
Transfer from Stage 3 to Stage 1	42,035	–	(42,035)	–	–
New financial assets originated or purchased	79,606	–	–	–	79,606
Financial assets fully derecognized during the period	(20,346)	–	(471,567)	–	(491,913)
Changes to inputs used in ECL calculation	(90,679)	6,617	155,639	–	71,577
Loss allowance as at July 31, 2019	$ 140,681	$ 17,103	$ 664,133	$ –	$ 821,917

Personal loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Originated credit-impaired**	**Total**
Loss allowance as at August 1, 2018	$ 136,123	$ 202,842	$ 569,894	$ –	$ 908,859
Transfers:					
Transfer from Stage 1 to Stage 2	(2,256)	2,256	–	–	–
Transfer from Stage 1 to Stage 3	(1,834)	–	1,834	–	–
Transfer from Stage 2 to Stage 1	43,116	(43,116)	–	–	–
Transfer from Stage 2 to Stage 3	–	(126,254)	126,254	–	–
Transfer from Stage 3 to Stage 1	9,104	–	(9,104)	–	–
New financial assets originated or purchased	38,875	13,185	99,763	–	151,823
Financial assets fully derecognized during the period	(29,688)	(28,654)	(289,418)	–	(347,760)
Changes to inputs used in ECL calculation	(66,920)	33,311	633,194	–	599,585
Loss allowance as at July 31, 2019	$ 126,520	$ 53,570	$ 1,132,417	$ –	$ 1,312,507

5. Mortgages and personal loans (continued)

The following tables explain the changes in the carrying value between the beginning and the end of the period due to these factors. The gross carrying amounts including accrued interest receivable of financial assets below represent the Credit Union's maximum exposure to credit risk on these assets.

Mortgage loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Originated credit-impaired	Total
Gross carrying amount as at August 1, 2018	$ 115,226,934	$ 3,144,759	$ 6,026,546	$ –	$ 124,398,239
Transfers:					
Transfer from Stage 1 to Stage 2	(776,287)	776,287	–		–
Transfer from Stage 1 to Stage 3	(42,439)	–	42,439	–	–
Transfer from Stage 2 to Stage 1	1,407,624	(1,407,624)	–	–	–
Transfer from Stage 2 to Stage 3	–	(1,045,389)	1,045,389	–	–
Transfer from Stage 3 to Stage 2	–	62,652	(62,652)	–	–
Transfer from Stage 3 to Stage 1	1,239,212	–	(1,239,212)	–	–
New financial assets originated or purchased	74,966,627	–	–	–	74,966,627
Financial assets fully derecognized during the period	(17,303,628)	(73,229)	(2,043,819)	–	(19,420,676)
Changes in principal and interest	(951,432)	(84,501)	11,280	–	(1,024,653)
Gross carrying amount as at July 31, 2019	$ 173,766,611	$ 1,372,955	$ 3,779,971	$ –	$ 178,919,537

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Originated credit-impaired	Total
Gross carrying amount as at August 1, 2018	$ 72,933,398	$ 638,409	$ 652,202	$ –	$ 74,224,009
Transfers:					
Transfer from Stage 1 to Stage 2	(225,332)	225,332	–	–	–
Transfer from Stage 1 to Stage 3	(508,276)	–	508,276	–	–
Transfer from Stage 2 to Stage 1	227,708	(227,708)	–	–	–
Transfer from Stage 2 to Stage 3	–	(245,872)	245,872	–	–
Transfer from Stage 3 to Stage 1	9,179	–	(9,179)	–	–
New financial assets originated or purchased	26,632,638	145,704	1,182,958	–	27,961,300
Financial assets fully derecognized during the period	(14,243,696)	(139,432)	(345,101)	–	(14,728,229)
Changes in principal and interest	(721,075)	(16,229)	(286,355)	–	(1,023,659)
Gross carrying amount as at July 31, 2019	$ 84,104,544	$ 380,204	$ 1,948,673	$ –	$ 86,433,421

5. Mortgages and personal loans (continued)

The most significant period-end assumptions used for the ECL estimate are set out below.

Cayman Islands unemployment rate	Scenarios	2018 / 2019	2019 / 2020
	Base	5.3%	3.8%
	Upside	4.0%	4.0%
	Downside	6.3%	6.3%

The scenario weightings assigned to each economic scenario were as follows.

	Base	Upside	Downside
Mortgage loans	80%	10%	10%
Personal loans	80%	10%	10%

	ECL impact of	
Collateral haircut	Change in threshold	Increase in value
Loans	(+ 5) %	$ 19,175

Set out below are the changes to the ECL as at July 31, 2019, that would result from reasonably possible variations in the most significant assumption affecting the ECL allowance:

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

	July 31 2019	July 31 2018
Mortgage loans	$ 2,217,793	$ 2,056,684
Personal loans	371,100	101,324
	$ 2,588,893	$ 2,158,008

Loans written off

During the year ended July 31, 2019, the Board approved to write off $537,080 (2018: $590,456) of loans which related to loans due from 71 (2018: 81) 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.

5. Mortgages and personal loans (continued)

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 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, 2019, the largest loan issued to a member is $3,352,567 (2018: $846,823). The total value of loans held by members who hold total loans in excess of $300,000, as at July 31, 2019 is $61,5M in 231 loans (2018: $25.3M in 59 loans).

6. Fixed assets

As at July 31, 2019:

	Freehold Land	Building	Assets Under Construction	Computer Equipment	Furniture and Fittings	Motor Vehicles	Total
Cost							
Balance July 31, 2018	$ 227,775	$ 7,205,124	$ 18,790	$ 1,465,338	$ 1,249,510	$ 19,205	$ 10,185,742
Additions	–	16,855	23,109	126,612	78,268	–	244,844
Transfers	–	–	–	–	–	–	–
Disposals	–	–	–	(331,293)	(255,268)	–	(586,561)
Balance July 31, 2019	$ 227,775	$ 7,221,979	$ 41,899	$ 1,260,657	$ 1,072,510	$ 19,205	$ 9,844,025
Depreciation							
Balance July 31, 2018	$ –	$ 1,677,423	$ –	$ 1,336,684	$ 1,039,136	$ 19,205	$ 4,072,448
Charge for the year	–	187,335	–	65,728	77,238	–	330,301
Disposals	–	–	–	(331,293)	(255,268)	–	(586,561)
Balance July 31, 2018	$ –	$ 1,864,758	$ –	$ 1,071,119	$ 861,106	$ 19,205	$ 3,816,188
Net book value							
July 31, 2019	$ 227,775	$ 5,357,221	$ 41,899	$ 189,538	$ 211,404	$ –	$ 6,027,837
Net book value							
July 31, 2018	$ 227,775	$ 5,527,701	$ 18,790	$ 128,655	$ 210,373	$ –	$ 6,113,294

6. Fixed assets

As at July 31, 2018:

	Freehold Land	Building	Assets Under Construction	Computer Equipment	Furniture and Fittings	Motor Vehicles	Total
Cost							
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	$ 227,775	$ 7,205,124	$ 18,790	$ 1,465,338	$ 1,249,510	$ 19,205	$ 10,185,742
Depreciation							
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	$ –	$ 1,677,423	$ –	$ 1,336,683	$ 1,039,137	$ 19,205	$ 4,072,448
Net book value							
July 31, 2018	$ 227,775	$ 5,527,701	$ 18,790	$ 128,655	$ 210,373	$ –	$ 6,113,294
Net book value							
July 31, 2017	$ 227,775	$ 5,687,338	$ –	$ 176,242	$ 216,591	$ 6,982	$ 6,314,928

As of July 31, 2019, total gross carrying amount of fully depreciated fixed assets still in use is at $1,742,211 (2018: $2,093,650).

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. 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. As of July 20, 2019, this property was valued at $3,946,000.

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 20, 2019, at $182,000.

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 20, 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

7. Investment property (continued)

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. As at July 31, 2019, this property was valued at $364,000.

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. As at July 31, 2019, this property was valued at $505,000.

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'.

	Investment Property	
	2019	2018
Balance, beginning of year	$ 1,833,496	$ 1,833,496
Additions/(Disposals)	–	–
Impairment charge	–	–
Balance, end of year	$ 1,833,496	$ 1,833,496

8. Members' deposits

Members' deposits comprise the following:

	2019	2018
Regular savings	$ 12,965,227	$ 10,382,390
Term deposits	1,172,387	1,306,310
	$ 14,137,614	$ 11,688,700

Included in members' deposits are deposits of $192,749 (2018: $222,790) 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, Rule 17, the maximum amount of shares which may be held by any one member shall not exceed 3% 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.

9. Members' shares (continued)

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 $3,582,523 (2018: $3,637,721) placed by directors, employees and committee members of the Credit Union (Note 19).

10. Statutory reserve

The Law and Article XIV, Rule 68 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, 2019, Credit Union transferred 20% (2018: 20%) or $2,305,143 (2018: $1,522,248) 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, 2019, the total entrance fees credited to this reserve was $13,750 (2018: $9,410).

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. Information technology fund (formally 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. At the AGM on November 28, 2018, the members agreed to transfer $693,400 from the Mortgage Fund to supplement the dividend. Members resolved that the remaining balance of $904,974 is now designated for Information Technology ("IT Fund") purposes.

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 28, 2018, at the AGM in respect of the year ended July 31, 2018, the members resolved to transfer an amount of $200,000 (2018: $200,000) to the Scholarship fund and $110,197 (2018: $251,847) to training of the volunteers and staff. This was satisfied by way of appropriation of funds from the Undistributed Surplus in accordance with Article XIV of the Rules (Note 21).

14. Dividends paid/payable

On November 28, 2018, at the AGM in respect of the year ended July 31, 2018, the members resolved to pay a dividend of 2.8% or $6,468,193 (2017: 2.8% or $5,923,717) This was satisfied by way of appropriation of funds from the Undistributed Surplus and a transfer of $693,400 from the Mortgage Fund (now the IT Fund) and was recorded in the financial statements for the year ended July 31, 2019.

15. Loan interest rebate/payable

In 2019 a 3% (2018: 3%) loan interest rebate was accrued in amount of $363,742 (2018: $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, 2019 the cash advance fees earned was $381,206 (2018: $404,116) and is included within interest income – service fees cash advances, in the Statement of Comprehensive Income.

17. CUNA Mutual Insurance premiums and 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 $288,707 (2018: $463,302) in insurance premiums & death claims. In addition, the Credit Union received an 'experience refund' from CUNA of $220,547 (2018: $311,917). This refund is recognized as income in the Statement of Comprehensive Income only upon receipt. The program with CUNA was discontinued at end of June 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.

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 $214,756 (2018: $204,936) 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:

	Year ended July 31 2019		2018	
Salaries and other short-term benefits	$	173,904	$	173,904
Defined contributions pension costs		11,333		11,333
	$	185,237	$	185,237

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 (2018: $2,500) was paid to the Treasurer of the Grand Cayman office, and an honorarium of $1,500 (2018: $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 XIV of the Rules (Note 21).

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

20. Commitments

As at July 31, 2019, the Credit Committee had approved a number of commitments for undrawn loans to a value of $35,911,064 (2018: $24,540,587). The ECL on these undrawn loans is $17,749, the below table reflects the breakdown of the ECL:

	2019	
Stage 1 – Mortgage loans	$	7,185
Stage 1 – Personal loans		10,564
	$	17,749

The Credit Union leased premises for its storage. The lease term was five years with one year remaining at July 31, 2019. The Credit Union currently pays $2,100 (2018: $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, 2019, the Credit Union incurred rental expense for this property of $25,200 (2018: $25,200), which is included within premises costs in the Statement of Comprehensive Income.

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:

- 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 seven days of that month;
- to promote co-operative education among members; and for any social, charitable or cultural purposes, subject to Section 36 of the Law;
- to create any Special Reserve;
- to pay Honoraria.
- 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 2019.

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.

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 via Internal Audit and Risk and Compliance. 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 Supervisory 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. These responsibilities are substantively carried out by an Internal Audit Manager and Manager of Risk and Compliance who report directly to the Supervisory Committee with administrative line to the CEO.

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 sureties, if any, to ascertain the member's ability to repay fully and promptly the obligations incurred 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 sends 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.

22. Financial risk management (continued)

ii. Credit risk (continued)

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, 2019, all of the cash at bank and fixed deposits are placed with two unrated financial institutions, being Cayman National Bank and Butterfield Bank (Cayman) Limited and one rated bank CIBC First Caribbean Bank Limited. All Banks hold Class A banking licenses, which in the opinion of management, are stable financial institutions and in addition are regulated by the Cayman Islands Monetary Authority.

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 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, Internal Credit Committee 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;

22. Financial risk management (continued)

ii. Credit risk (continued)

- 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 400,000 (2018: $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 (2018: 35 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.

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 motors 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 compromised 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 "Xpress or Overdraft 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.

22. Financial risk management (continued)

ii. Credit risk (continued)

In addition to the "Xpress or Overdraft Loans", the Credit Union also offers cash advances to members which are also unsecured. Cash advances are issued for a period of one 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.

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.

22. Financial risk management (continued)

ii. Credit risk (continued)

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.

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

22. Financial risk management (continued)

v. Equity price risk (continued)

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:

		2019		2018
Change in equity price of investments				
+ 10%	$	281,944	$	255,642
- 10%	$	(281,944)	$	(255,642)

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 funds on fixed deposits for periods of less than one year 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.

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.

		2019		2018
Interest earned on loans				
+ 0.05%	$	129,533	$	96,996
- 0.05%	$	(129,553)	$	(96,996)
Interest earned on fixed deposits				
+ 0.10%	$	37,387	$	75,887
- 0.10%	$	(37,387)	$	(75,887)
Interest paid on member deposits:				
+ 0.50%	$	70,688	$	(58,443)
- 0.50%	$	(70,688)	$	58,443

22. Financial risk management (continued)

vi. Interest rate risk (continued)

The tables below summarize the Credit Union's exposure to interest rate risk, as of July 31, 2019 and 2018.

Included in the tables are the financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date.

July 31, 2019	**Under Six Months**	**Six Months to one Year**	**One Year to Five Years**	**Five Years to ten Years**	**Over ten Years**	**Non-Interest Bearing**	**Total**
Assets							
Cash on hand and at bank	$	$	$	$	$	$ 13,861,065	$ 13,861,065
Fixed deposits	30,938,480	6,448,259	–	–	–	–	37,386,739
Securities at fair value through P&L	–	–	–	–	–	2,819,443	2,819,443
Mortgages and personal loans	19,541,087	11,538,247	71,419,303	59,941,535	102,912,786	–	265,352,958
	$ 50,479,567	$ 17,986,506	$ 71,419,303	$ 59,941,535	$102,916,786	$ 16,680,508	$ 319,420,205
Liabilities							
Accounts payable and accrued expenses	$ –	$ –	$ –	$ –	$ –	$ 915,974	$ 915,974
Members' shares	–	–	–	–	–	273,059,777	273,059,777
Members' deposits:							
- Regular savings	12,965,227	–	–	–	–	–	12,965,227
- Term deposits	463,312	709,075	–	–	–	–	1,172,387
	$ 13,428,539	$ 709,075	$ –	$ –	$ –	$273,975,751	$ 288,113,365

July 31, 2018	**Under Six Months**	**Six Months to one Year**	**One Year to Five Years**	**Five Years to ten Years**	**Over ten Years**	**Non-Interest Bearing**	**Total**
Assets							
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	13,182,365	10,936,405	65,120,872	50,566,506	58,816,100	–	198,622,247
	$ 53,476,589	$ 46,228,923	$ 65,120,872	$ 50,566,506	$ 58,816,100	$ 13,325,318	$ 287,534,307
Liabilities							
Accounts payable and 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	672,530	633,780	–	–	–	–	1,306,310
	$ 11,054,920	$ 633,780	$ –	$ –	$ –	$ 249,732,982	$ 261,421,682

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, 2019, approximately 10% (2018: 10%) of the member shares are held by 23 (2018: 24) members.

Of these 23 members, only a small portion of the funds on deposit (in the form of members' shares) approx. 0.55% (2018: 1.3%) 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.

22. Financial risk management (continued)

vii. Liquidity risk (continued)

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 three months to 35 years (2018: 3 months to 35 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 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.

July 31, 2019	Under Six Months	Six Months to one Year	One Year to Five Years	Five Years to ten Years	Over ten Years	Non-Fixed Maturity	Total
Cash inflows							
Cash on hand and at bank	$ 13,861,065	$ –	$ –	$ –	$ –	$ –	$ 13,861,065
Fixed deposits	37,386,739	–	–	–	–	–	37,386,739
Securities at fair value through P&L	–	–	–	–	–	2,819,443	2,819,443
Mortgages and personal loans	26,615,630	20,858,372	122,603,004	102,076,085	156,610,235	–	428,763,326
	$ 77,863,434	$ 20,858,372	$122,603,004	$102,076,085	$156,610,235	$ 2,819,443	$ 482,830,573
Cash outflows							
Accounts payable and accrued expenses	$ 915,974	$ –	$ –	$ –	$ –	$ –	$ 915,974
Members' shares	206,693,530	3,364,607	20,222,849	16,623,744	26,155,047	–	273,059,777
Members' deposits:							
- Regular savings	12,965,227	–	–	–	–	–	12,965,227
- Term deposits	463,312	709,075	–	–	–	–	1,172,387
	$ 221,038,043	$ 4,073,682	$ 20,222,849	$ 16,623,744	$ 26,155,047	$ –	$ 288,113,365
Off-balance sheet cash outflows							
Loan commitments	$ 35,911,064	$ –	$ –	$ –	$ –	$ –	$ 35,911,064
Net exposure	$ (179,085,673)	$ 16,784,690	$102,380,155	$ 85,452,341	$130,455,188	$ 2,819,443	$ 158,806,144

22. Financial risk management (continued)

vii. Liquidity risk (continued)

July 31, 2018	Under Six Months	Six Months to one Year	One Year to Five Years	Five Years to ten Years	Over ten Years	Non-Fixed Maturity	Total
Cash inflows							
Cash on hand and at bank	$ 10,768,898	$ –	$ –	$ –	$	$ –	$ 10,768,898
Fixed deposits	75,586,742	–	–	–	–	–	75,586,742
Securities at fair value through P&L	–	–	–	–	–	2,556,420	2,556,420
Mortgages and personal loans	19,594,731	17,065,938	101,485,752	76,901,777	83,700,913	–	298,749,111
	$ 105,950,371	$ 17,065,938	$101,485,752	$ 76,901,777	$ 83,700,913	$ 2,556,420	$ 387,661,171

July 31, 2018	Under Six Months	Six Months to one Year	One Year to Five Years	Five Years to ten Years	Over ten Years	Non-Fixed Maturity	Total
Cash outflows							
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	672,530	633,780	–	–	–	–	1,306,310
	$ 195,924,389	$ 3,925,833	$ 19,726,890	$ 17,524,203	$ 24,320,367	$ –	$ 261,421,682
Off-balance sheet cash outflows							
Loan commitments	$ 24,540,587	$ –	$ –	$ –	$ –	$ –	$ 24,540,587
Net exposure	$ (114,514,605)	$ 13,140,105	$ 81,758,862	$ 59,377,574	$ 59,380,546	$ 2,556,420	$ 101,698,902

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.

23. Financial instruments and other – fair values (continued)

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, 2019 and 2018. 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.

24. Interest income

Interest income comprises of the following:

	Year ended July 31	
	2019	**2018**
Mortgage loans	$ 8,521,426	$ 6,982,572
Personal loans	6,721,639	5,443,141
Total interest on loans	$ 15,243,065	$ 12,425,713

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, 2019 and 2018.

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 2019, the Board of Directors recommended a dividend payment of 3.5% which is subject to approval at the Annual General Meeting in November 2019.

EDUCATIONAL GRANT RECIPIENTS