	2009 $'000	Restated 2008 $'000
Cash Flows from Operating Activities		
Interest received	325,956	295,477
Interest paid	(88,595)	(89,231)
Fees and other income	388	4,486
Recoveries on impaired loans	7,959	1,767
Payments to employees and suppliers	(156,250)	(128,946)
Tax refund	2,465	1,600
	91,923	85,153
Changes in operating assets and liabilities -		
Loans to members	(144,807)	(163,374)
Other assets	2,321	(2,097)
Retirement benefit asset	(2,614)	(5,251)
Members' voluntary shares	74,616	85,278
Members' deposits	79,570	32,575
Cash provided by operating activities	101,009	32,284
Cash Flows from Investing Activities		
Short-term investments	(56,979)	(18,546)
Financial investments	(13,749)	43,907
Reverse repurchase agreements	(45,026)	(25,736)
Proceeds on the sale of assets held for sale	8,250	-
Purchase of intangible assets	-	(1,284)
Purchase of property, plant and equipment	(17,122)	(2,185)
Cash used in investing activities	(124,626)	(3,844)
Cash Flows from Financing Activities		
External loan	(38)	(733)
Members' permanent share capital	1,047	-
Cash provided by/(used in) financing activities	1,009	(733)
(Decrease)/increase in cash and cash equivalents	(22,608)	27,707
Cash and cash equivalents at beginning of year	78,972	51,265
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 15)	56,364	78,972

1. Identification and Activities

First Regional Co-operative Credit Union Limited (the Credit Union) is incorporated under the laws of Jamaica and is registered under The Co-operative Societies Act. The Credit Union's registered office is located at 14 Bravo Street, St. Ann's Bay, St. Ann, and its operations are concentrated in the parishes of St. Ann and St. Mary.

Membership to the Credit Union has in the past been obtained by holding of members' shares. Under a resolution passed at the Annual General Meeting dated 20 June 2009, and approved by the Registrar of Co-operative and Friendly Societies, members of the Credit Union will now be required to hold a minimum of $400 in permanent shares and minimum of $100 in voluntary shares. The establishment of permanent shares must be completed by 8 April 2010 in order to maintain member status. Individual membership may not exceed 20% of the total share capital of the Credit Union. Membership is primarily available to individuals who were born in the parishes of St. Ann and St. Mary and who work, reside or have relatives residing in these parishes.

The main activities of the Credit Union are to promote thrift amongst its members by affording them an opportunity to accumulate their savings and to create for them a source of credit, for provident or productive purposes at reasonable rates of interest.

The Credit Union is a member of the Jamaica Co-operative Credit Union League Limited (JCCUL/the League), which provides financial services, technical support and sets prudential standards for the credit union movement.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Amendments to published standards and interpretations effective in the current year

Certain standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The following are those standards which have affected the presentation and disclosure of amounts included in these financial statements. The 2008 comparative figures have been amended as required, in accordance with the relevant requirements.

2. **Significant Accounting Policies (Continued)**

(a) **Basis of preparation (Continued)**

Amendments to published standards and interpretations effective in the current year (continued)

IAS 1 (Revised) - Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Credit Union presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on net surplus.

IAS 19 (Amendment) - Employee benefits (effective from 1 January 2009).
The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

IAS 37, Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The adoption of the amendment did not have any material impact on the Credit Union's financial statements.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial Instruments - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009). This amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The adoption of the amendment did not have any material impact on the Credit Union's financial statements.

IAS 36 (Amendment) - Impairment of assets (effective from 1 January 2009). The objective of this amendment is to ensure that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation are made. The adoption of this amendment has no material impact on the Credit Union's financial statements.

2. **Significant Accounting Policies (Continued)**

   (a) **Basis of preparation (Continued)**

Amendments to published standards and interpretations effective in the current year (continued)

IAS 38 (Amendment) - Intangible assets (effective from 1 January 2009). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Credit Union's financial statements.

IAS 40 (Amendment) - Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment clarifies that property that is under construction or development for future use as investment property is within the scope of IAS 40. This amendment stipulates that where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The adoption of this amendment will not have an impact on the Credit Unions' operations, as there are no properties that are under construction or development for future use as investment property and the Credit Union does not apply the fair value model.

IFRS 7 (Amendment) Financial instruments – Disclosures (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there was no impact on net surplus.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Credit Union
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the statement of financial position date, and which the Credit Union has not early adopted. The Credit Union has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IAS 1 (Amendment) - Presentation of financial statements (effective 1 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period), notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Credit Union will apply IAS 1 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Credit Union's financial statements.

IFRS 5 (Amendment) - Measurement of non-current assets (or disposal groups) classified as held-for-sale (effective 1 January 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. The amendment is not expected to have any impact on the Credit Union's financial statements.

2. **Significant Accounting Policies (Continued)**

(a) **Basis of preparation (Continued)**

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Credit Union (continued)

IFRS 9 – Financial instruments part 1: Classification and measurement (effective for annual periods beginning on or after 1 January 2013).

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Credit Union is currently examining the effect of this standard on its operations.

(b) **Interest income and expense**

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing instruments on an accrual basis, using the effective yield method, based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts or premiums on treasury bills and other discounted instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Credit Union estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where collection of interest income is considered doubtful, the related financial instruments are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Significant Accounting Policies (Continued)

(c) Fees and other income

Fees and other income are recognised on an accruals basis. Loan origination fees are deferred and are recognised over the life of the loan, as an adjustment to the effective yield on the loans.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Credit Union operates ("the functional currency"). The financial statements are presented in Jamaican dollars, which is the Credit Union's functional and presentation currency.

(ii) Transactions and balances

Transactions denominated in foreign currencies are converted into the functional currency at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses resulting from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange gain or losses on unsettled foreign currency monetary assets and liabilities are recognised in the statement of comprehensive income.

(e) Financial assets

The Credit Union allocates financial assets to the following IAS 39 categories: loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity, other than:

(i) those that the Credit Union upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Credit Union designates as available for sale; and

(iii) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income as interest income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as net gains/(losses) on investments.

At the statement of financial position date, held-to-maturity investments comprise GOJ securities and local registered stock, included in financial investments on the statement of financial position.

2. Significant Accounting Policies (Continued)

(e) Financial assets (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Credit Union:

(i) intends to sell immediately or in the short term , which are classified as held for trading, and those that the Credit Union upon initial recognition designates as at fair value through profit or loss;

(ii) upon initial recognition, designates as available-for-sale; or

(iii) may not recover substantially other than because of credit deterioration.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest rate method.

Interest on loans is included in the statement of comprehensive income and is reported as interest income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as loan impairment provision.

At statement of financial position date, the following items were classified as loans and receivables: loans to members, net of impairment provision; accounts receivable; and certain required investments with the Jamaica Co-operative Credit Union League Limited included in financial investments on the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss is recognised in the statement of comprehensive income. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income.

The Credit Union's available-for-sale financial assets primarily comprise liquid assets, financial investments and reverse repurchase agreements.

2. **Significant Accounting Policies (Continued)**

(f) **Financial liabilities**

The Credit Union's financial liabilities primarily comprise members' deposits, members' voluntary shares, external loan, bank overdraft and accounts payable. These are initially recognised at fair value, being the amount received on origination of the liability and are subsequently measured at amortised cost using the effective interest method.

(g) **Impairment of financial assets**

The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is imparied and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Credit Union uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Credit Union, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Credit Union would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(a) adverse changes in the payment status of borrowers in the portfolio; and

(b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2. Significant Accounting Policies (Continued)

(g) Impairment of financial assets (Continued)

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

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Credit Union may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectible, it is written off against the related allowance for the loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries in part or in full amounts previously written off are credit to recoveries of impaired loan in the statement of comprehensive income.

The Credit Union's impairment loss provision requirements, as stipulated by the Jamaica Co-operative Credit Union League Limited, require that if a payment on a loan is contractually two months in arrears, the loan will be classified as impaired, if not already classified as such for other reasons. The amount by which the Credit Union provision exceeds the IFRS impairment provision is dealt with in a non-distributable loan loss reserve as an appropriation of accumulated surplus.

(h) Reverse repurchase agreements

Securities purchased under agreements to resell are recorded as collateralised financing transactions. They are originally recorded at cost which is the cash given to originate the transaction and are subsequently measured at amortised cost using the effective interest method. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(i) Accounts receivable

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and in bank and deposits, with a maturity of less than 90 days, not held to satisfy League requirements, net of bank overdraft.

2. Significant Accounting Policies (Continued)

(k) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use. This condition is considered as met only when the asset (or disposal group) is available for immediate sale in its present condition, and its sale is highly probable. A sale is considered to be highly probable where an appropriate level of management has undertaken an active programme to locate a buyer, and the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of the previous carrying amount and fair value, less costs to sell.

Land previously included as assets held for sale which no longer meets the criteria for such classification, has been reclassified as investment property (Note 2 (u)).

(l) Intangible assets

Intangible assets, which represent the Credit Union's software, are amortised on a straight-line basis over its expected useful life of three years. Where the expected useful life of the asset is different from previous estimates, the amortisation period will change accordingly.

(m) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and impairment losses. No depreciation is considered necessary in respect of land. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. All repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis at annual rates that will write off the carrying value of the assets over their estimated useful lives. The rates used are as follows:

Straight line basis -	
Buildings	2½%
Furniture, fixtures and equipment	10%
Computer equipment	33⅓%
Reducing balance basis -	
Roadway	2½%

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in net surplus.

Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

2. Significant Accounting Policies (Continued)

(n) Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. 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 impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Employee benefits - pension plan

The Credit Union participates in a multi-employer defined benefit pension plan. The pension plan is generally funded by payments from employees and by the Credit Union, taking into account the recommendations of independent qualified actuaries.

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the statement of financial position date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discounts rates based on market yields on government securities which have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(p) Accounts payable

Accounts payable are initially recorded at fair value and subsequently stated at amortised cost.

(q) Provisions

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

(r) Members' voluntary shares

Members' voluntary shares represent withdrawable deposit holdings of the Credit Union's members to facilitate eligibility for loans and other benefits. Interest paid on these shares is classified as an expense and is paid at a rate that is fixed from time to time by the Board of Directors, subject to the profitability of the Credit Union. This represents a change in accounting policy (Note 35 (a)).

2. Significant Accounting Policies (Continued)

(s) Members' permanent share capital

Members' permanent share capital represent shares paid up in cash and form part of the risk capital of the Credit Union. Members' permanent share capital may be redeemable subject to the sale, transfer or repurchase of such shares. Dividends on members' permanent share capital are recognised in equity in the period in which they are approved by the Credit Union's members.

(t) Institutional capital

Institutional capital includes the statutory reserve fund, as well as various other reserves established from time to time which, in the opinion of the Directors, are necessary to support the operations of the Credit Union and, thereby, protect the interest of the members. These reserves are not available for distribution to members.

(u) Investment property

Property that is held for capital appreciation and is not occupied by the Credit Union, is classified as investment property. Investment property comprises land, for which no depreciation is provided.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment property is carried at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

(v) Comparative information

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Financial Risk Management

The Credit Union's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to the financial business, and operational risk is an inevitable consequence of being in business. The Credit Union seeks to eliminate those risks which it can but, cognisant that it is impossible to eliminate all risks, it seeks to mitigate remaining risks while trying to achieve an appropriate trade-off between risk and return.

The Credit Union's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the adherence to limits by means of reliable and up-to-date information systems. The Credit Union regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Credit Union's risk management policies and strategies; and is committed to complying with all the regulations and legislation under which the Credit Union operates. In addition, an effective compliance programme is an important element of its risk management system.

The Board has established committees/units for managing and monitoring risks as follows:

(i) Risk Compliance Unit
This unit ensures conformity with regulatory requirements. A Risk and Compliance Manager ensures that all regulatory requirements of the Bank of Jamaica, the League and the Financial Investigating Unit of the Ministry of Finance and Planning are met.

(ii) Risk Management Unit (RMU)
The League has established an RMU for credit unions in Jamaica and the Credit Union participates in this risk management initiative. They conduct seminars, draft policies and assist credit unions in identifying and managing risks.

(iii) The Treasury and Investment Committees
The Treasury Committee is responsible for managing the Credit Union's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Credit Union. The Investment Committee is responsible for monitoring and formulating investment portfolios and investment strategies for the Credit Union.

(iv) Asset and Liability Committee
The Asset and Liability Committee is responsible for appropriate trading limits and reports on compliance controls to ensure that its mandate is properly followed.

(v) Supervisory Committee
The Supervisory Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Board of Directors through the Supervisory Committee.

3. Financial Risk Management (Continued)

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

The most important types of risks are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate risk.

The disclosures provided in this note are based on the Credit Union's investment portfolio as at 31 December 2009. As described in Note 36, the Credit Union participated in the Jamaica Debt Exchange (JDX) which resulted in significant changes to the Credit Union's investment portfolio in February 2010.

(a) Credit risk
The Credit Union takes on exposure to credit risk, which is the risk that its members or counterparties will cause a financial loss for the Credit Union by failing to discharge their contractual obligations. Credit risk is the most important risk for the Credit Union's business, management therefore carefully manages its exposure to credit off risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Credit Union structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty, related counterparties and industry segments.

Credit-related commitment risks arise from guarantees which may require payment on behalf of members. Such payments are collected from members based on the terms of the letters of credit. They expose the Credit Union to similar risks to loans and these are mitigated by the same control policies and processes.

Credit review process
The Credit Union has a credit quality review process involving regular analysis of the ability of borrowers to meet interest and capital repayment obligations.

(i) Loans
The Credit Union assesses the probability of default of borrowers. Exposure to credit risk is managed in part by obtaining collateral and personal guarantees. The credit quality review process allows the Credit Union to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

(ii) Investments
The Credit Union limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

3. **Financial Risk Management (Continued)**

(a) Credit risk (Continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the member and the size of the loan. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

- Mortgages over real estate
- Bills of sale on motor vehicles
- Hypothecated financial instruments such as certificates of deposits with regulated banks
- Liens on members' deposits maintained with the Credit Union

Management monitors the market value of collateral, during its review of the adequacy of the provision for credit losses.

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties or there are infringements of the original terms of the contract.

The Credit Union addresses impairment assessment individually.

An impairment allowance is provided for each individual loan that is impaired with no consideration to materiality. An impairment assessment is conducted annually. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all accounts with a past due date of more than 30 days. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

The League's loan loss provisioning rules described above focus more on credit-quality mapping of the respective delinquency periods to corresponding pre-determined percentages. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements may differ from the amount determined from the League's loan loss provisioning rules that are used for internal operational management and the Credit Union's internal provisioning method.

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Credit Union:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratios, net income percentage of sales);
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

3. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Impairment (continued)

The table below shows loans to members, net of impairment provision and the associated IFRS impairment provision:

	2009		2008	
	Loans $'000	**Impairment Provision $'000**	**Loans $'000**	**Impairment Provision $'000**
Loans to members, net of impairment provision	1,558,444	17,746	1,426,771	12,584

Credit exposure

The maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2009 $'000	**2008 $'000**
Cash and balances due from other financial institutions (excluding cash on hand)	316,671	281,552
Reverse repurchase agreements	134,944	90,298
Financial investments	167,200	147,661
Accounts receivable	36,178	29,764
Loans, net of impairment provision	1,558,444	1,426,771
	2,213,437	1,976,046

Credit risk exposure relating to off-statement of financial position items is as follows:

Loan commitments	44,576	64,733

The above table represents a worst case scenario of credit risk exposure to the Credit Union at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements. For on-statement of financial position assets, the exposures set out above are based on net carrying values as reported in the statement of financial position.

(i) Credit quality of loans are summarised as follows:

	2009 $'000	**2008 $'000**
Neither past due nor impaired	1,522,550	1,379,420
Past due but not impaired	3,950	9,567
Impaired	49,690	50,368
Gross	1,576,190	1,439,355
Less: Allowance for impairment	(17,746)	(12,584)
Net	1,558,444	1,426,771

The majority of past due loans are considered to be impaired. Further information on the impairment allowance for loans is provided in Note 14.

3. Financial Risk Management (Continued)

(a) Credit risk (Continued)

Credit exposure (continued)

(ii) Ageing analysis of past due but not impaired loans:

	2009 $'000	2008 $'000
Less than 2 months	743	4,738
2 - 3 months	458	1,581
3 - 6 months	2,586	687
6 - 12 months	163	2,561
	3,950	9,567

There are no financial assets other than loans that are past due. All loans past due after 12 months are written off.

(iii) Financial assets – individually impaired
Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	2009 $'000	2008 $'000
Loans	49,690	50,368

The fair value of collateral that the Credit Union held as security for individually impaired loans was approximately $75,297,000 (2008 - $77,376,000).

There are no financial assets other than those listed above that were individually impaired.

(iv) Renegotiated loans
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. There are no renegotiated loans that would otherwise be past due or impaired.

3. **Financial Risk Management (Continued)**

(a) **Credit risk (Continued)**

Credit exposure (continued)

(v) Repossessed collateral

The Credit Union obtained assets by taking possession of collateral held as security, as follows:

	Carrying Amount 2009 $'000	Carrying Amount 2008 $'000
Motor vehicles	-	3,540
Real estate	1,782	-
	1,782	3,540

Repossessed motor vehicles and properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

(vi) Debt securities

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

	2009 $'000	2008 $'000
Government of Jamaica	95,102	84,623
Corporate	134,944	90,298
Other	51,802	45,567
	281,848	220,488

3. **Financial Risk Management (Continued)**

(a) **Credit risk (Continued)**

Credit exposure (continued)

(vii) Loans

The following table summarises the Credit Union's credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

	2009 $'000	2008 $'000
Construction and real estate	408,204	477,677
Education	67,397	55,960
Business investment	84,798	81,511
Agriculture	2,254	3,790
Personal and others	978,632	798,591
	1,541,285	1,417,529
Less: Provision for credit losses	(17,746)	(12,584)
	1,523,539	1,404,945
Interest receivable	34,905	21,826
	1,558,444	1,426,771

(b) **Liquidity risk**

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet commitments associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay members and fulfill commitments to lend.

Liquidity risk management process

The Credit Union's liquidity risk management process as monitored by the Treasury Committee includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash outflows and the availability of liquid cash available to meet these outflows;

(ii) Maintaining a balanced portfolio between financial investments and liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Optimising cash returns on investments; and

(iv) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. One of the most important of these is to maintain code one rating liquidity ratio according to the PEARLS-M standard.

3. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

Liquidity risk management process (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Credit Union. It is unusual for financial institutions to ever be completely matched since business transacted is often on uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

Financial assets and liabilities cash flows

The tables below presents the undiscounted cash flows payable (both interest and principal cash flows) of the Credit Union's financial liabilities based on contractual repayment obligations.

	2009					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**No Specific Maturity**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Earnings assets						
Liquid assets -						
Savings and call deposits	54,009	-	-	-	-	54,009
Short-term investments	285,341	-	-	-	263	285,604
Reverse repurchase agreements	148,254	-	-	-	917	149,171
Financial investments	72,011	54,407	50,784	-	13,799	191,001
Loans, after provision for impairment	19,615	77,837	747,638	952,685	34,905	1,832,680
Non-earning assets	-	-	-	-	11,176	11,176
Total assets	579,230	132,244	798,422	952,685	61,060	2,523,641
Liabilities						
Interest bearing liabilities						
Members' deposits	390,660	157,385	19,244	-	29,253	596,542
Members' voluntary shares	1,185,627	-	-	-	50,000	1,235,627
Bank overdraft	2,323	-	-	-	-	2,323
Non-interest bearing liability	19,267	-	-	-	-	19,267
Total financial liabilities	1,597,877	157,385	19,244	-	79,253	1,853,759
Net position	(1,018,647)	(25,141)	779,178	952,685	(18,193)	669,882