



National Farmers and General Workers Co-Operative Credit Union Limited

Financial Statements

Year Ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Members of National Farmers and General Workers Co-Operative Credit Union Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of National Farmers and General Workers Co-Operative Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2019, and the statements of changes in members equity, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9), which replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and is effective for annual periods beginning on or after January 1, 2018. As described in Note 4 (a) for the year ended December 31, 2019 the Credit Union has not adopted IFRS 9 and the associated disclosure requirements of IFRS 7 and has classified its financial assets, financial liabilities and determined its impairment allowance for financial assets in accordance with IAS 39 which is no longer applicable, in this respect the financial statements are not in accordance with IFRS. The effects on the financial statements of the failure to adopt IFRS 9 have not been determined. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded financial assets and liabilities in the financial statements and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in members equity and statement of cash flows.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in St. Lucia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Emphasis of Matter

We draw attention to Note 29 to the financial statements, which describes events subsequent to the date of the financial statements indicating that the Company's net income is likely to be negatively impacted due to the outbreak of COVID-19.

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

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

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

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

Other Information Included in the Credit Union's 2019 Annual Report

Other information consists of the information included in the Credit Union's 2019 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Credit Union's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charge with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.



Chartered Accountants
Castries, St. Lucia
August 25, 2020

National Farmers and General Workers Co-Operative Credit Union Limited

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Statement of Financial Position

As at December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	2019 \$	2018 \$
ASSETS			
Cash	8	10,763,630	12,170,646
Investment securities	9	6,933,155	8,228,708
Prepaid expense		1,136,494	103,510
Accounts receivable	10	766,348	706,408
Loans and advances to members	11	54,642,508	46,579,555
Property and equipment	12	1,847,250	1,497,977
TOTAL ASSETS		76,089,385	69,286,804
LIABILITIES AND MEMBERS' EQUITY			
Liabilities			
Trade and other payables	13	1,065,967	1,180,519
Patronage refund		101,280	-
Deposits from members	14	31,283,088	29,954,908
Members' callable shares	15	42,343,487	38,815,439
Borrowings	16	697,485	697,485
Total Liabilities		75,491,307	70,648,351
Members' Equity			
Share capital	17	3,556,149	2,918,151
Education reserve	18	17,829	17,829
Statutory reserve	19	881,425	514,827
Revaluation reserve	20	859,619	655,130
Accumulated deficit		(4,716,944)	(5,467,484)
Total Members' Equity/(Deficit)		598,078	(1,361,547)
TOTAL LIABILITIES AND MEMBERS' EQUITY		76,089,385	69,286,804

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

APPROVED ON BEHALF OF THE BOARD:-


President


Treasurer

National Farmers and General Workers Co-Operative Credit Union Limited

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Statement of Changes in Members' Equity
For the Year Ended December 31, 2019
(Expressed in Eastern Caribbean Dollars)

	Notes	Share Capital \$	Education Reserve \$	Statutory Reserve \$	Revaluation Reserve \$	Accumulated Deficit \$	Total \$
Balance as at January 1, 2018		2,446,459	17,829	513,544	655,130	(5,137,394)	(1,504,432)
Issue of permanent shares	17	471,692	-	-	-	-	471,692
Net loss being total comprehensive loss for the year		-	-	-	-	(328,807)	(328,807)
Entrance fees	24	-	-	1,283	-	(1,283)	-
Balance as at December 31, 2018		2,918,151	17,829	514,827	655,130	(5,467,484)	(1,361,547)
Issue of permanent shares	17	637,998	-	-	-	-	637,998
Net income being total comprehensive income for the year		-	-	-	-	1,218,418	1,218,418
Entrance fees	24	-	-	1,073	-	(1,073)	-
Statutory reserves	19	-	-	365,525	-	(365,525)	-
Patronage refund		-	-	-	-	(101,280)	(101,280)
Gain on revaluation of property		-	-	-	204,489	-	204,489
Balance as at December 31, 2019		3,556,149	17,829	881,425	859,619	(4,716,944)	598,078

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

National Farmers and General Workers Co-Operative Credit Union Limited

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Statement of Comprehensive Income
For the Year Ended December 31, 2019
(Expressed in Eastern Caribbean Dollars)

	Notes	2019 \$	2018 \$
Income			
Interest income on loans and advances to members		5,399,603	4,705,433
Less: Interest expense on deposit from members	22	1,306,809	1,272,321
Net Interest Income		<u>4,092,794</u>	<u>3,433,112</u>
Other Income			
Investment income	23	235,662	139,139
Other operating income	24	1,823,535	443,267
		<u>2,059,197</u>	<u>582,406</u>
Operating Income		<u>6,151,991</u>	<u>4,015,518</u>
General and administrative expenses	26	3,567,531	3,329,806
Impairment losses on loans and advances to members	11	1,366,042	1,014,519
		<u>4,933,573</u>	<u>4,344,325</u>
NET INCOME/(LOSS) BEING TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u><u>1,218,418</u></u>	<u><u>(328,807)</u></u>

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

National Farmers and General Workers Co-Operative Credit Union Limited

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Statement of Cash Flows

For the Year Ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	2019 \$	2018 \$
Cash Flows from Operating Activities			
Net income/(loss) being total comprehensive income/(loss) for the year		1,218,418	(328,807)
Adjustments for:			
Depreciation	12	168,068	157,120
Loss on asset disposal	12	4,821	344
Impairment losses on loans and advances to members	11	1,366,042	1,014,519
Cash flows before changes in operating assets and liabilities		2,757,349	843,176
Increase in accounts receivable		(59,940)	(25,177)
Increase in prepaid expense		(1,032,984)	(28,693)
Increase in loans and advances to members		(9,428,995)	(2,727,767)
(Decrease)/increase in trade and other payables		(114,552)	176,706
Increase in deposits from members		1,328,180	5,675,142
Increase in members' callable shares		3,528,048	4,212,454
Net cash (used in)/generated from operating activities		(3,022,894)	8,125,841
Cash Flows from Investing Activities			
Sale/(Purchase) of investments		1,295,553	(4,575,750)
Purchase of property and equipment	12	(317,673)	(574,709)
Net cash generated from/(used in) investing activities		977,880	(5,150,459)
Cash Flows from Financing Activities			
Proceeds from permanent shares issued		637,998	471,692
Net cash from financing activities		637,998	471,692
(Decrease)/Increase in Cash		(1,407,016)	3,447,074
Cash - Beginning of the Year		12,170,646	8,723,572
Cash - End of the Year	8	10,763,630	12,170,646

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

National Farmers and General Workers Co-Operative Credit Union Limited

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National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Expressed in Eastern Caribbean Dollars)

1. Corporate Information

The National Farmers and General Workers Co-Operative Credit Union Limited (the Credit Union) is a co-operative society registered on December 6, 1995 in St. Lucia as a Credit Union under the Co-Operative Societies Ordinance, Cap 82 ("the former Act") of the laws of St. Lucia (1957 revision) November 1983. The former Act was repealed on August 27, 1999 and replaced by the Co-Operative Societies Act No. 28 of 1999 ("the Act") which came into effect on September 7, 1999. Section 241 of the Act deems the Credit Union, being duly registered under the former Act, to be registered under the Act.

The Credit Union's registered office is situated on Louisville Avenue, Vieux-Fort, St. Lucia.

Its principal activity is that of providing financial services and other benefits to its members.

2. Going Concern

The financial statements have been prepared on a going concern basis. As at December 31, 2019, the Credit Union had an accumulated deficit of \$4,716,944 (2018 - \$5,467,484). The foregoing indicates that a material uncertainty exists that may cast significant doubt on the Credit Union's ability to continue as a going concern. The ability of the Credit Union to continue as a going concern is dependent on the successful implementation of a plan developed by management to reduce loan delinquencies while increasing the ratio of permanent shares to total assets.

3. Date of Authorisation of Issue

These financial statements were authorised for issue by the Board of Directors on August 25, 2020.

4. Significant Accounting Policies

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

(a) Statement of Compliance

The financial statements comprise of the statement of financial position, statement of changes in members' equity, statement of comprehensive income, statement of cash flows and the explanatory notes.

These financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) as at December 31, 2019 (the reporting date), except for the provisions of IFRS 9 and associated disclosure requirements under IFRS 7. The Credit Union has not adopted IFRS 9 and has classified its financial assets, financial liabilities and determined its impairment allowance for financial assets in accordance with IAS 39 which is no longer applicable for the year ended December 31, 2019.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

(b) Basis of Preparation

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Areas involving a higher degree of judgment or complexity, or areas where estimations and assumptions are significant to the financial statements are disclosed in Note 5.

4. Significant Accounting Policies (Cont'd)

(b) Basis of Preparation (Cont'd)

Amendments to International Financial Reporting Standards effective in the 2019 financial year

The Credit Union applied for the first-time, unless otherwise indicated, certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2019. The amendments had no significant impact on the Credit Union's financial statements.

IFRS 9, 'Financial Instruments'

These amendments which are effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Credit Union has not adopted IFRS 9 and thus the financial statements are not in accordance with this standard, as disclosed in Note 4(a).

IFRS 16, 'Leases'

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

4. Significant Accounting Policies (Cont'd)

(b) Basis of Preparation (Cont'd)

IFRS 16, 'Leases'

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Amendments to International Financial Reporting Standards effective in the 2019 financial year

The standard will have no significant impact on the financial statement of the Credit Union.

There are no other IFRS or IFRIC interpretations that are not yet effective and expected to have a material impact on the financial statements of the Credit Union.

(c) Foreign Currencies

The financial statements are presented in Eastern Caribbean dollars (presentation currency). Items included in the financial statements are measured using the currency of the primary economic environment in which the Credit Union operates (its functional currency) and all values are rounded off to the nearest dollar, unless otherwise indicated.

Assets and liabilities expressed in foreign currencies are translated into the functional currency at the rates of exchange ruling at the reporting date. Transactions arising during the year involving foreign currencies are translated into the functional currency and recorded at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates as well as including differences between buying and selling rates, are included in the Statement of Comprehensive Income.

Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rates on initial recognition.

(d) Impairment of Non-Financial Assets

Assets that have an indefinite useful life 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 in the Statement of Comprehensive Income 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 its value in use.

(e) Cash

Cash comprises cash on hand and deposits on call with banks. For the purpose of the cash flow statements, cash comprises balances with less than three months maturity from the date of acquisition.

(f) Financial Assets

(i) Classification

The Credit Union classifies its financial assets into these categories:-

- Investments available-for-sale;
- Loans and receivables.

Management determines the appropriate classification of these assets at initial recognition.

4. Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

(i) Classification (Cont'd)

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.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

(ii) Recognition and measurement

Available-for-sale investments are carried at fair value except for unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost.

Loans and receivables are carried at amortised cost less allowance for impairment.

(iii) Impaired 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 impaired and impairment losses are incurred if, and 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:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the Credit Union granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

4. Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

(iii) Impaired financial assets (cont'd)

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

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 assets 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.

Loans and advances to members that have been assessed individually and found not to be impaired and all individually performing loans and advances to members are assessed collectively in groups of assets with similar risk characteristics to determine whether provisions should be made due to incurred loss events which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation and loan to collateral ratios.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the 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 has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan provision in the Statement of Comprehensive Income.

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

4. Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

(iii) Impaired financial assets (cont'd)

Assets classified as available-for-sale

The Credit Union makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Statement of Comprehensive Income.

(g) Property and Equipment

Items of property and equipment, except for land, building and work-in-progress, are recorded initially at cost and subsequently measured at cost less accumulated depreciation and impairment losses. Land is stated at fair value and buildings are stated at fair value less accumulated depreciation. Work-in-progress is not depreciated until such time the related assets are completed and available for use. The balance of the work-in-progress is reclassified to proper account once construction is completed. Cost includes expenditures that are directly attributable to the acquisition of the assets. Purchased software that is integral to the functionality of related equipment is capitalised as cost of that equipment. Subsequent expenditure is capitalised when it will result in future economic benefits to the Credit Union.

Depreciation is calculated on the straight-line basis, so as to write down the cost of property and equipment to their residual values, over their estimated useful lives. The estimated useful lives of property and equipment are as follows:-

Assets	Estimated Useful Lives
Building	20 years
Leasehold improvement	6 - 7 years
Office equipment	6 - 7 years
Computer equipment	3 years
Office furniture and fixtures	6 - 7 years

Gains or losses arising on the disposal or retirement of an item of property and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in the Statement of Comprehensive Income.

4. Significant Accounting Policies (Cont'd)

(g) Property and Equipment (Cont'd)

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the Statement of Comprehensive Income.

(h) Financial Liabilities

Trade and other payables, deposit from members' callable shares and long-term loans are measured at amortised cost.

During the ordinary course of business, the Credit Union issues deposit contracts that expose the Credit Union to financial risk. Deposits are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method.

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

(i) Offsetting Financial Instruments

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

There is a legally enforceable right to offset members' withdrawable shares against any related loan balances when loan repayments are 180 days overdue.

(j) Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation, as a result of past events, if 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.

(k) Members' Equity

Share capital is determined using the nominal value of permanent shares that have been issued.

Accumulated deficit includes all current and prior period results as disclosed in the Statement of Comprehensive Income and Statement of Changes in Members' Equity.

(l) Interest Income and Expenses and Investment Income

Interest income and expenses and investment income are recognised in the Statement of Comprehensive Income for all financial instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial assets 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. 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.

4. Significant Accounting Policies (Cont'd)

(l) Interest Income and Expenses and Investment Income (Cont'd)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(m) Fees and Other Revenue

Fees and other revenue are generally recognised on an accrual basis when the service has been provided, except for interest on funds placed with the central financing facility of the St. Lucia Co-operative League that is recognised on a cash basis.

(n) Expenses

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured. Expenses are recognised: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the Statement of Financial Position as an asset.

Expenses in the Statement of Comprehensive Income are presented using the nature of expense method. General and administrative expenses are costs incurred that are associated with revenue from loans and advances and costs attributable to administrative and other business activities of the Credit Union.

(o) Leases

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 Loss on a straight-line basis over the period of the lease.

(p) Income Tax

The Credit Union is exempt from income tax under Section 25(1)(q) of the Income Tax Act, Cap 15.02.

(q) Dividend Distributions

Dividend distributions to the Credit Union's members are recognised as a liability in the Credit Union's financial statements in the period in which the dividends are approved by the members.

(r) Related Parties

Parties are considered related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties. The key management personnel of the Credit Union are also considered to be related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely legal form. Transactions between related parties are accounted for at arm's-length prices or terms similar to those offered to non-related entities in an economically comparable market.

5. Critical Accounting Judgements, Estimates and Assumptions

The Credit Union makes certain judgements, estimates and assumptions regarding the future. Judgements, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5.1 Judgements

In the process of applying the accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

Going Concern

The Credit Union's management is satisfied that it has the resources to continue in business for the foreseeable future. The Credit Union's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Classification of financial instruments

The Credit Union classifies financial instruments, or its components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by IAS 32 and IAS 39 on the definitions of a financial asset, a financial liability or an equity instrument.

The substance of a financial instrument, rather than its legal form, and management's intention and ability to hold the financial instrument to maturity generally governs its classification in the Statement of Financial Position.

5.2 Estimates and assumptions

The following are the key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Fair value of financial instruments

For financial instruments, where recorded current market transactions or observable market data are not available at fair value using valuation techniques, fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Credit Union's best estimates of the most appropriate model assumption.

Impairment losses of loans and advances to members

The Credit Union reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Credit Union makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

5. Critical Accounting Judgements, Estimates and Assumptions

5.2 Estimates and assumptions (Cont'd)

Revaluation of land and buildings

The Credit Union measures its land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income and in the Statement of Comprehensive Income respectively. The Credit Union engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

6. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Credit Union's risk management policies are established to identify and analyse the risk faced by the Credit Union, to set appropriate risk limits and controls and to monitor risks and adherence to limits and controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Credit Union's activities. The Credit Union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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 Credit Union's activity of accepting funds from members and of investing deposit receipts in loans and other investments exposes the Credit Union to various financial risks. Financial risks include credit, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The effects of these risks are disclosed in the sections below.

(a) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument is unable to meet their contractual obligation, thereby causing a financial loss to the Credit Union. Credit risk arises mainly from loans and advances to members, investment securities, accounts receivable and cash.

Credit risk from financial assets is minimised through advancing loans only after careful assessment of the borrower, obtaining collateral before advancing loans. The risk accepted in relation to one borrower is restricted to 10% of the shareholder's equity. Exposure to credit risk is also managed in part by obtaining collateral and guarantees for loans receivable. The collateral may consist of real estate, member deposits and shares, equipment or vehicles. The credit quality of each individual investment is internally assessed based on the financial strength, reputation and market position of the issuing company and the ability of that company to service the debt. The Credit Union's balances with banks are held with reputable financial institutions and as a result their credit risk is deemed minimal.

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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6. Financial Risk Management

(a) Credit Risk (Cont'd)

	2019 \$	2018 \$
Maximum exposure to credit risk:-		
Cash at bank	10,523,181	11,814,476
Loans and advances to members	54,642,508	46,579,555
Investment securities	6,933,155	8,228,708
Accounts receivable	766,348	706,408
	<u>72,865,192</u>	<u>67,329,147</u>

Credit risk in respect of loans and advances is limited as this balance is shown net of impairment losses on loans and advances. Credit risk exposure on credit commitments is disclosed in Note 28.

A financial asset is past due when a counterparty has failed to make payments when contractually due. The Credit Union is most exposed to the risk of past due assets with respect to its loans and advances to members.

Loans and advances to members are summarized as follows:-

	2019 \$	2018 \$
Loans and advances to members:-		
Neither past due nor impaired	53,473,837	33,146,605
Past due but not impaired	2,220,586	11,340,374
Impaired	3,561,510	9,114,498
Gross amount	<u>59,255,933</u>	<u>53,601,477</u>
Less: Allowance for loan losses	<u>(4,613,425)</u>	<u>(7,021,922)</u>
Net	<u>54,642,508</u>	<u>46,579,555</u>

(i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Credit Union.

(ii) Loans and advances past due but not impaired

Loans and advances to members less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

The table below summarises the gross amount of loans and advances to members that were past due but not impaired:-

	2019 \$	2018 \$
Past due up to 30 days	1,483,070	7,866,682
Past due 31 - 60 days	582,351	2,524,090
Past due 61 - 89 days	155,165	949,602
	<u>2,220,586</u>	<u>11,340,374</u>

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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6. Financial Risk Management (Cont'd)

(a) Credit Risk (Cont'd)

(iii) Impaired

The total allowance for loan losses is \$4,613,425 (2018 - \$7,021,922) of which \$2,211,823 (2018 - \$4,689,531) represents the individually impaired loans and the remaining amount of \$2,401,602 (2018 - \$2,332,391) represents the collective provision. Interest is not accrued on impaired financial assets. Further information of the allowance for loan losses is provided in Note 11.

(iv) Reposessed assets

The Credit Union may foreclose on overdue loans by reposessing the pledged asset. The pledged asset may consist of real estate, equipment or vehicles which the Credit Union will seek to dispose of by sale. In some instances, the Credit Union may provide re-financing.

(v) Geographical Concentration

The Credit Union operates primarily in Saint Lucia which is its country of domicile.

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management (Cont'd)

(a) Credit Risk (Cont'd)

(vi) Industry sector

The Credit Union's concentration of loans is given to private households for consumer purposes. As seen below, the majority of the Credit Union's loan are for personal use. Private households would include personal, vacation and travel, housing, vehicle purchases and medical purposes.

	Loan Sectors					
	Private Households \$	Wholesale and Retail Trade \$	Agriculture \$	Education \$	Construction and Land Development \$	Total \$
Balance as at December 31, 2019	50,060,685	2,020,098	1,148,498	982,304	430,923	54,642,508
Balance as at December 31, 2018	41,767,248	2,588,577	1,341,861	786,918	94,951	46,579,555

(vii) Investment Securities

The Credit Union's investments are held with Bank of St. Lucia, FICS and the St. Lucia Cooperative League; and are not externally rated. As a result, these are deemed unrated and directly linked to the performance of the financial institution.

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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6. Financial Risk Management (Cont'd)

(b) Liquidity Risk

Liquidity risk is the exposure that the Credit Union may encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

The contractual maturities of assets and liabilities, and the ability of the Credit Union to meet payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn, are important factors in assessing the liquidity of the Credit Union.

Projections and examination of the Credit Union's asset and liability maturity structure to facilitate the matching of asset and liability maturity dates as far as possible and providing for any shortfall or excess cash situations is a fundamental part of the Credit Union's liquidity risk management.

Management undertakes continuous review of cash inflows and outflows and seeks to maintain a loans-to-savings ratio not exceeding 85%. For the purpose of this ratio savings include deposits from members and shareholder balances.

The table below presents the cash flows payable by the Credit Union for financial liabilities by remaining contractual maturity dates at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	1 year \$	1 and 5 years \$	After 5 years \$	Total \$
As at December 31, 2019				
Trade and other payables	1,065,967	-	-	1,065,967
Patronage refund	101,280	-	-	101,280
Deposits from members	31,283,088	-	-	31,283,088
Members' callable shares	42,343,487	-	-	42,343,487
Long term loans	697,485	-	-	697,485
	<u>75,491,307</u>	<u>-</u>	<u>-</u>	<u>75,491,307</u>
As at December 31, 2018				
Trade and other payables	1,180,519	-	-	1,180,519
Deposits from members	29,954,908	-	-	29,954,908
Members' callable shares	38,815,439	-	-	38,815,439
Long term loans	697,485	-	-	697,485
	<u>70,648,351</u>	<u>-</u>	<u>-</u>	<u>70,648,351</u>

The Credit Union holds a diverse portfolio of cash and investments to support payment obligation. Assets held for managing liquidity comprises cash and balances with banks, certificates of deposit and government bonds that are readily acceptable. The Credit Union would also be able to meet unexpected cash flows by selling investment securities and accessing additional funding.

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements

For the Year Ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management (Cont'd)

(c) Interest Rate Risk

The Credit Union is exposed to interest rate risk, which arises when a change in market interest rate affects the current or future yields of financial assets and financial liabilities. The occurrence of an increase in interest rates on financial liabilities may result in financial loss to the Credit Union.

Interest on loans and advances to members and deposits from members is fixed to maturity.

The table below summarises the exposures to interest rate risks of the Credit Union's financial assets and financial liabilities. Amounts are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month \$	1 and 3 months \$	3 and 12 months \$	1 and 5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
As at December 31, 2019							
Financial Assets							
Cash	-	-	-	-	-	10,763,630	10,763,630
Investment securities	-	-	6,882,655	-	-	50,500	6,933,155
Accounts receivable	-	-	-	-	-	766,348	766,348
Loans and advances to members	17,561	99,177	2,169,223	31,130,727	21,225,820	-	54,642,508
	17,561	99,177	9,051,878	31,130,727	21,225,820	11,580,478	73,105,641
Financial Liabilities							
Trade and other payables	-	-	-	-	-	(1,065,967)	(1,065,967)
Patronage refund	-	-	-	-	-	(101,280)	(101,280)
Deposits from members	-	-	(3,879,659)	-	-	(16,298,971)	(20,178,630)
Members callable shares	-	-	(42,343,487)	-	-	-	(42,343,487)
Long-term loans	(697,485)	-	-	-	-	-	(697,485)
Members' fixed deposits	-	-	(11,104,458)	-	-	-	(11,104,458)
	(697,485)	-	(57,327,604)	-	-	(17,466,218)	(75,491,307)
Total interest sensitivity gap	(679,924)	99,177	(48,275,726)	31,130,727	21,225,820	(5,885,740)	(2,385,666)

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements

For the Year Ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

6. Financial Risk Management (Cont'd)

(c) Interest Rate Risk (Cont'd)

	Up to 1 month \$	1 and 3 months \$	3 and 12 months \$	1 and 5 Years \$	Over 5 years \$	Non-interest bearing \$	Total \$
As at December 31, 2018							
Financial Assets							
Cash	-	-	-	-	-	12,170,646	12,170,646
Investment securities	-	-	8,178,208	-	-	50,500	8,228,708
Accounts receivable	-	-	-	-	-	706,408	706,408
Loans and advances to members	67,888	154,243	2,606,123	31,071,941	12,679,360	-	46,579,555
	<u>67,888</u>	<u>154,243</u>	<u>10,784,331</u>	<u>31,071,941</u>	<u>12,679,360</u>	<u>12,927,554</u>	<u>67,685,317</u>
Financial Liabilities							
Trade and other payables	-	-	-	-	-	(1,180,519)	(1,180,519)
Deposits from members	-	-	-	-	-	(20,473,352)	(20,473,352)
Members callable shares	-	-	(38,815,439)	-	-	-	(38,815,439)
Long-term loans	(697,485)	-	-	-	-	-	(697,485)
Members' fixed deposits	-	-	(9,481,556)	-	-	-	(9,481,556)
	<u>(697,485)</u>	<u>-</u>	<u>(48,296,995)</u>	<u>-</u>	<u>-</u>	<u>(21,653,871)</u>	<u>(70,648,351)</u>
Total interest sensitivity gap	<u>(629,597)</u>	<u>154,243</u>	<u>(37,512,664)</u>	<u>31,071,941</u>	<u>12,679,360</u>	<u>(8,726,317)</u>	<u>(2,963,034)</u>

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Notes to the Financial Statements
For the Year Ended December 31, 2019
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6. Financial Risk Management (Cont'd)

(c) Interest Rate Risk (Cont'd)

At the reporting date, the carrying values of the Credit Union's interest-bearing, fixed-rate financial instruments were:-

	2019 \$	2018 \$
Financial Assets		
Cash at bank - savings accounts only	10,523,181	11,814,476
Investment securities	6,882,655	8,178,208
Loans and advances to members	54,642,508	46,579,555
	<u>72,048,344</u>	<u>66,572,239</u>
Financial Liability		
Deposits from members	<u>31,283,088</u>	<u>29,954,908</u>

The table below summarises the interest rates on financial assets and liabilities held at the reporting date.

Sensitivity Analysis

Cash flow interest rate risk arises from loans and advances to members at variable rates. At December 31, 2019, if variable interest rates had been 0.5% lower with all other variables held constant, the result for the year 2019 would have been a profit of \$95,592, (2018 - (\$352,334)) as a result of lower interest income on variable rate.

	2019 %	2018 %
Financial Assets		
Cash	0	0
Investment securities	1.50 - 4.25	1.50 - 4.25
Loans and advances to members	7.20 - 21.00	7.20 - 36.00
Financial Liabilities		
Deposits from members	1.00 - 6.00	1.00 - 6.00

(d) Foreign Currency Risk

The Credit Union takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management believes that exposure to currency risk is minimal since transactions in foreign currencies are primarily in United States Dollars (US\$) which has been formally pegged at EC\$2.70 since July 1976.

6. Financial Risk Management (Cont'd)

(e) Fair Value Risk

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Where an active market exists, market price is used as the best evidence of the fair value of a financial instrument. Where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:-

- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of variable-rate financial instruments is assumed to approximate their carrying amounts.
- Fair value of off statement of financial position commitments are also assumed to approximate the amount discounted in note 28 to their short term nature.

Fair value risk is the risk that the fair value of a financial instrument may vary in response to changes in interest rates, equity prices, currency exchange rates or other market factors.

Financial assets and financial liabilities measured at fair value in the Statement of Financial Position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:-

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

Assets measured at fair value

	Level 2 \$	Level 3 \$	Total \$
As at December 31, 2019			
Land	-	191,466	191,466
Building	-	776,934	776,934
	-	968,400	968,400
As at December 31, 2018			
Land	-	180,000	180,000
Building	-	736,020	736,020
	-	916,020	916,020

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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6. Financial Risk Management (Cont'd)

(e) Fair Value Risk (Cont'd)

Assets for which fair values are disclosed

	Level 2 \$	Level 3 \$	Total \$
As at December 31, 2019			
Investment securities - available for sale	-	50,500	50,500
Investment securities - loans and receivables	6,882,655	-	6,882,655
Loan and advances to members	-	54,642,508	54,642,508
	<u>6,882,655</u>	<u>54,693,008</u>	<u>61,575,663</u>
As at December 31, 2018			
Investment securities - available for sale	-	50,500	50,500
Investment securities - loans and receivables	8,178,208	-	8,178,208
Loan and advances to members	-	46,579,555	46,579,555
	<u>8,178,208</u>	<u>46,630,055</u>	<u>54,808,263</u>
Liabilities for which fair values are disclosed			
	Level 2 \$	Level 3 \$	Total \$
As at December 31, 2019			
Long term loans	-	697,485	697,485
	<u>-</u>	<u>697,485</u>	<u>697,485</u>
As at December 31, 2018			
Long term loans	-	697,485	697,485
	<u>-</u>	<u>697,485</u>	<u>697,485</u>

There was no movement of financial assets and financial liabilities from level 1 or 2 into level 3 or out of level 3 into level 1 or 2.

7. Capital Risk Management

The Credit Union's objectives when managing capital are:-

- To comply with the statutory capital requirements of the Co-operative Societies Act of St. Lucia;
- To safeguard the Credit Union's ability to continue as a going concern so that it can continue to provide returns for members and benefits for other stakeholders; and
- To maintain a strong capital base to maintain members, creditors and other parties' confidence and to sustain future development of the Credit Union.

The Board of Directors monitors the return on capital, which is defined as surplus for the year divided by total shares, as well as the level of dividends to members.

Section 119 of the Co-operative Societies Act Cap 12:06 requires the Credit Union to maintain statutory and other reserves at not less than 10% of its liabilities. The Credit Union is not in compliance as at December 31, 2019 (see Note 21).

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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8. Cash

	2019 \$	2018 \$
Cash on hand	240,449	356,170
Cash at bank	10,523,181	11,814,476
	<u>10,763,630</u>	<u>12,170,646</u>

9. Investment Securities

	2019 \$	2018 \$
<u>Available-for-Sale</u>		
<u>Equity securities at cost - Unlisted</u>		
- St. Lucia Co-operative League	50,500	50,500

Loans and Receivables

Term Deposits

Bank of Saint Lucia Limited	2,631,867	2,587,636
St. Lucia Co-operative League	1,123,288	2,590,572
Financial Investment and Consultancy Services Limited	3,127,500	3,000,000
	<u>6,882,655</u>	<u>8,178,208</u>
Total	<u>6,933,155</u>	<u>8,228,708</u>

Interest is earned on interest bearing securities at rates ranging between 1.5% - 4.25% (2018 : 1.5% - 3.5%) per annum.

10. Accounts Receivable

	2019 \$	2018 \$
Trade receivables	756,738	697,398
Staff receivable	100,569	100,569
	<u>857,307</u>	<u>797,967</u>
Allowance for impairment of staff receivable	(100,569)	(100,569)
	<u>756,738</u>	<u>697,398</u>
Other receivables	9,610	9,010
	<u>766,348</u>	<u>706,408</u>

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Notes to the Financial Statements
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11. Loans and Advances to Members

	2019 \$	2018 \$
Loans and advances	58,920,325	53,398,515
Interest receivable on loans and advances	335,608	202,962
Allowance for loan losses	(4,613,425)	(7,021,922)
	<u>54,642,508</u>	<u>46,579,555</u>

Allowance for Loan Losses

	2019 \$	2018 \$
Balance at the beginning of the year	7,021,922	8,005,475
Individual impairment provisions made during the year	478,658	2,814,272
Collective impairment provisions made/(recovered) during the year	69,210	(1,934,721)
Loan recoveries made during the year	(1,476,653)	(124,649)
Loans written off during the year	(1,479,712)	(1,738,455)
Balance at the end of the year	<u>4,613,425</u>	<u>7,021,922</u>

Impairment losses on loans and advances to members recognised in the statement of comprehensive income is as follows:-

	2019 \$	2018 \$
Individual impairment provisions made during the year	478,658	2,814,272
Collective impairment provisions made/(recovered) during the year	69,210	(1,934,721)
Loans written off directly during the year	818,174	134,968
	<u>1,366,042</u>	<u>1,014,519</u>

The Credit Union's weighted effective average interest rate is at 9.88% (2018:9.865%).

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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12. Property and Equipment

	Land \$	Building & Improvement \$	Leasehold Improvement \$	Office Equipment \$	Computer Equipment \$	Office Furniture And Fixtures \$	Photo- Voltaic System \$	Total \$
Year ended December 31, 2018								
Opening net book value	180,000	628,609	80,439	94,356	17,317	80,011	-	1,080,732
Additions	-	14,530	17,661	13,020	57,644	36,331	435,523	574,709
Disposals	-	-	-	(344)	-	-	-	(344)
Depreciation charge (Note 26)	-	(37,514)	(35,595)	(38,929)	(21,302)	(23,780)	-	(157,120)
Closing net book value	180,000	605,625	62,505	68,103	53,659	92,562	435,523	1,497,977
At December 31, 2018								
Cost/Valuation	180,000	753,636	334,064	585,311	377,405	463,322	435,523	3,129,261
Accumulated depreciation	-	(148,011)	(271,559)	(517,208)	(323,746)	(370,760)	-	(1,631,284)
Net book value	180,000	605,625	62,505	68,103	53,659	92,562	435,523	1,497,977
Year ended December 31, 2019								
Opening net book value	180,000	605,625	62,505	68,103	53,659	92,562	435,523	1,497,977
Additions	-	16,919	67,833	44,544	22,190	31,059	135,128	317,673
Revaluation	11,466	193,023	-	-	-	-	-	204,489
Disposals	-	-	(89,110)	(15,829)	(6,415)	(537)	-	(111,891)
Depreciation on disposal charge	-	-	84,934	15,521	6,414	201	-	107,070
Depreciation charge (Note 26)	-	(38,633)	(39,077)	(27,161)	(24,542)	(29,093)	(9,562)	(168,068)
Closing net book value	191,466	776,934	87,085	85,178	51,306	94,192	561,089	1,847,250
At December 31, 2019								
Cost/Valuation	191,466	776,934	312,787	614,026	393,180	493,844	570,651	3,352,888
Accumulated depreciation	-	-	(225,702)	(528,848)	(341,874)	(399,652)	(9,562)	(1,505,638)
Net book value	191,466	776,934	87,085	85,178	51,306	94,192	561,089	1,847,250

On March 12, 2020, the Credit Union's land and buildings were valued by Theobald & Associates at \$191,466 and \$776,934 respectively. The directors accepted the revaluation for inclusion in the financial statement, thus giving rise to an excess appraisal value over net book value of \$204,489.

National Farmers and General Workers Co-Operative Credit Union Limited

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Notes to the Financial Statements
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12. Property and Equipment (Cont'd)

Loss on Disposal

	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Proceeds \$	Loss \$
December 31, 2019					
Office Furniture & Fixtures	537	201	336		(336)
Computer Equipment	6,415	6,414	1	-	(1)
Office Equipment	15,829	15,521	308	-	(308)
Leasehold Improvements	89,110	84,934	4,176	-	(4,176)
	<u>111,891</u>	<u>107,070</u>	<u>4,821</u>	<u>-</u>	<u>(4,821)</u>
December 31, 2018					
Office Furniture and Fixtures	350	6	344	-	(344)

13. Trade and Other Payables

	2019 \$	2018 \$
Members' callable shares interest payable	-	382,235
Gratuities payable	494,396	416,160
Trade payables	217,864	72,238
Other Payables	353,707	309,886
	<u>1,065,967</u>	<u>1,180,519</u>

14. Deposits from Members

	2019 \$	2018 \$
Members' regular deposits	20,178,630	20,473,352
Members' fixed deposits	11,104,458	9,481,556
	<u>31,283,088</u>	<u>29,954,908</u>

Members' fixed deposits which are payable on demand, have various maturity profiles, with effective interest rates ranging from 3% to 6% (2018 - 3% to 6%).

15. Members' Callable Shares

Members' callable shares amounted to \$42,343,487 (2018: \$38,815,439) and have a nominal value of \$5. The shares are allotted on the basis of the amount credited to the members' callable shares account. There are no restrictions for the redemption of the shares.

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Notes to the Financial Statements
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16. Borrowings

	2019 \$	2018 \$
Government of St. Lucia - REDIP	697,485	697,485
Current portion	(697,485)	(697,485)
Long-term portion	-	-

Government of St. Lucia:

The loan from the Government of St. Lucia bears interest at 1% (2018 : 1%) per annum for the purpose of facilitating the Rural Economic Diversification Incentive Project (REDIP) 2001. The loan is repayable quarterly commencing March 31, 2000. No payments have been made to this loan during the year.

17. Share Capital

	No. of shares Unlimited	Value Unlimited
	2019 \$	2018 \$
Balance at the beginning of the year	2,918,151	2,446,459
New shares issued	637,998	471,692
Balance at the end of the year	3,556,149	2,918,151
Issued Capital		
711,230 (2018 - 583,630) \$5.00 non-redeemable members' shares	3,556,149	2,918,151

The permanent shares have a nominal value of \$5.00. The shares are allotted on the basis of the amount credited to the members' permanent share account.

18. Education Reserve

The Co-operative Societies Act and the Credit Union's By-laws allow the Credit Union, on the recommendation of the Board of Directors, to make an annual contribution to the National League not exceeding 10% of its realised surplus from operations to be used for the development of registered societies.

	2019 \$	2018 \$
Balance - beginning and end of the year	17,829	17,829

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Notes to the Financial Statements
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19. Statutory Reserve

	2019 \$	2018 \$
Balance - beginning of the year	514,827	513,544
Entrance fees	1,073	1,283
Net surplus 30%	365,525	-
Balance - end of the year	881,425	881,425

In accordance with Section 119 of the Co-operative Societies Act, where an annual audit of a society indicates a net surplus, at least 20% of that surplus, shall be credited to the statutory reserve. In addition, all entrance fees are placed in the statutory reserve. The Board of Directors authorised to transfer 30% (2018 - nil) of surplus to statutory reserves after allocation for patronage refund.

20. Revaluation Reserve

The revaluation reserve arises on the revaluation of land and building of the Credit Union located in the town of Vieux Fort, St. Lucia. A revaluation of the property was done on March 12, 2020 by Theobalds & Associates, a qualified quantity surveying organisation. The land and building was valued at open market value of \$968,400 as at December 31, 2019, resulting in an increase to the revaluation reserve of \$204,489. The Revaluation reserve amounted to \$859,619 as at December 31, 2019 (2018: \$655,130).

21. Co-operative Societies Act Compliance Requirements

Liquid investments

	2019 \$	2018 \$
Fixed deposits	6,882,655	8,178,208
Cash	10,763,630	12,170,646
	17,646,285	20,348,854
Members' deposits and ordinary shares	73,626,575	68,770,347

Liquid investments to shares and deposits ratio

24%

30%

Section 119 (3) of The Co-operative Societies Act requires that not less than 15% of the Members' shares and deposits be kept in liquid reserve. Liquid reserves of the Credit Union represented 24% (2018 - 30%) of Members' shares and deposits. The Credit Union is in compliance with section 119 (3) of the Co-operative Societies Act.

	2019 \$	2018 \$
Statutory and other reserves	1,758,873	1,187,786
Total liabilities	75,491,307	70,648,351

Reserves to liabilities ratio

2.33%

1.68%

Section 119 (3) of The Co-operative Societies Act requires that statutory and other reserves at no stage be less than 10% of its total liabilities. Statutory and other reserves of the credit union represented 2.33% (2018 - 1.68%) of its total liabilities. The credit union is not in compliance with section 119 (3) of the Co-operative Societies Act.

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Notes to the Financial Statements
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22. Interest Expense

	2019 \$	2018 \$
Interest on members' fixed deposits	409,171	305,126
Interest on other members' deposits	890,663	960,220
Interest on long-term loans	6,975	6,975
	<u>1,306,809</u>	<u>1,272,321</u>

23. Investment Income

	2019 \$	2018 \$
Bank of St. Lucia	44,489	43,751
St. Lucia Co-operative League	61,713	49,278
Financial Investment and Consultancy Services Limited	129,460	46,110
	<u>235,662</u>	<u>139,139</u>

24. Other Operating Income

	2019 \$	2018 \$
Bad debt recovered	112,437	88,011
Commissions - FIP	43,137	33,179
Entrance fees	1,073	1,283
Ledger fee	4,293	5,104
Loan processing fees	63,027	62,456
Money Gram Commission	8,654	16,484
Money Gram Service Charge	15,280	-
Recovery of loan loss provision	1,476,653	124,649
Other	22,542	-
Passbooks and jacket	9,365	10,910
Service charge	37,255	20,613
Statements	7,082	8,450
Western Union Commission	16,831	72,128
Commission Income on Perf. Bond	5,906	-
	<u>1,823,535</u>	<u>443,267</u>

25. Staff Related Expenses

	2019 \$	2018 \$
Salaries and wages	1,094,665	1,092,464
Uniforms	33,021	-
NIS contribution	47,501	47,243
Travelling allowance	101,877	91,289
Training and welfare	47,085	76,667
Gratuity expenses	143,533	146,310
	<u>1,467,682</u>	<u>1,453,973</u>

The average number of staff as at December 31, 2019 was 36 (2018 - 36).

National Farmers and General Workers Co-Operative Credit Union Limited

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26. General and Administrative Expenses

	2019 \$	2018 \$
Advertising and promotion	93,798	64,650
Annual general meeting expenses	34,726	19,571
Audit fee	52,848	40,865
Bank charges	15,283	16,546
Board and committee expenses	74,448	88,371
Cleaning/Janitorial	15,212	13,880
CUNA insurance	767,270	570,330
Depreciation (Note 12)	168,068	157,120
Donations	-	13,787
Insurance	21,404	18,805
IT Support	68,806	44,982
League dues	59,912	54,997
Legal and professional fees	18,305	13,517
Office supplies and expenses	131,518	137,636
Other expenses	24,969	7,302
Rent - Other branches	151,916	172,950
Repairs and maintenance	73,967	63,713
Security services	160,170	211,497
Staff expenses (Note 25)	1,467,682	1,453,973
Utilities	167,229	165,314
	<u>3,567,531</u>	<u>3,329,806</u>

27. Related Party Transactions

The Credit Union recorded balances with its directors, committee members and senior management at the date of the financial statements as follows:-

	2019 \$	2018 \$
Shares and deposits	514,851	313,213
Loans and advances	1,809,499	926,157

Key Management Compensation

Key management includes the credit unions complete management team as disclosed below:-

	2019 \$	2018 \$
Salaries and compensation	<u>318,384</u>	<u>223,017</u>

28. Commitments and Contingent Liabilities

Operating Leases

The Credit Union leases property for the operation of its satellite branches. The future minimum lease payments payable under operating leases are as follows:-

	2019 \$	2018 \$
Not later than 1 year	128,400	138,875
Later than 1 year but not later than 5 years	-	-
	<u>128,400</u>	<u>138,875</u>

Loan Commitments

As at December 31, 2019, the Credit Union had committed to and approved loans totalling \$821,800 (2018 - \$937,231) that had not been fully disbursed.

Contingent Liabilities

As at December 31, 2019, the Credit Union had a Contingent Liability in the form of a Performance Bond issued at a value of \$350,000.

The Performance Bond is fully secured and gives no risk exposure to the Credit Union.

29. Events after reporting period

On March 11, 2020, the World Health Organization declared the breakout of the coronavirus, (COVID-19), a pandemic. This followed reports from China, commencing on December 31, 2019, of dozens of cases of pneumonia of unknown cause. This ailment has since been linked to COVID-19, and the virus has spread to over 190 countries resulting in excess of 21,000 deaths from more than 478,000 cases. Medical experts expect the spread to continue before any abatement.

By March 2020, Saint Lucia reported thirteen (13) cases of the virus and a significant proportion of tourism-related businesses have either shut down or announced impending shut downs as the local government and the home governments implemented measures to limit the spread of the disease in their respective countries.

The extent of the impact of the COVID-19 outbreak on the financial performance of the Credit Union's investments will depend on future developments, including: (i) The duration and spread of the outbreak, (ii) related advisories and restrictions (iii) the impact of COVID-19 on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted.

If the financial markets and/or the overall economy are impacted for an extended period, the Credit Union's result may be materially adversely affected.