# National Farmers and General Workers Co-Operative Credit Union Limited

Financial Statements

Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

# Contents

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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 Financial Statements**

**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, 2017, and the statements of changes in members' deficiency, 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, the financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

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

**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.

**INDEPENDENT AUDITOR'S REPORT (CONT'D)**

**Other Information Included in the Credit Union's 2017 Annual Report**

Other information consists of the information included in the Credit Union's 2017 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Credit Union's 2017 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.

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.

**INDEPENDENT AUDITOR'S REPORT (CONT'D)**

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

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.

BDO

Chartered Accountants
Castries, St. Lucia
May 23, 2018

# National Farmers and General Workers Co-Operative Credit Union Limited

Statement of Financial Position
As at December 31, 2017
(Expressed in Eastern Caribbean Dollars)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 8 | 8,723,572 | 3,621,813 |
| Investment securities | 9 | 3,652,958 | 3,550,247 |
| Prepaid expense | | 74,817 | 68,879 |
| Accounts receivable | 10 | 681,231 | 1,353,252 |
| Loans and advances to members | 11 | 44,866,307 | 38,297,428 |
| Property and equipment | 12 | 1,080,732 | 1,205,323 |
| **TOTAL ASSETS** | | 59,079,617 | 48,096,942 |
| **LIABILITIES AND MEMBERS' DEFICIENCY** | | | |
| **Liabilities** | | | |
| Trade and other payables | 13 | 1,003,813 | 580,639 |
| Deposits from members | 14 | 24,279,766 | 19,920,534 |
| Members' callable shares | 15 | 34,602,985 | 29,203,354 |
| Long-term loans | 16 | 697,485 | 697,485 |
| **Total Liabilities** | | 60,584,049 | 50,402,012 |
| **Members' Deficiency** | | | |
| Share capital | 17 | 2,446,459 | 1,879,526 |
| Education reserve | 18 | 17,829 | 17,829 |
| Statutory reserve | 19 | 513,544 | 465,333 |
| Revaluation reserve | 20 | 655,130 | 655,130 |
| Accumulated deficit | | (5,137,394) | (5,322,888) |
| **Total Members' Deficiency** | | (1,504,432) | (2,305,070) |
| **TOTAL LIABILITIES AND MEMBERS' DEFICIENCY** | | 59,079,617 | 48,096,942 |

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

Statement of Changes in Members' Deficiency
For the Year Ended December 31, 2017
(Expressed in Eastern Caribbean Dollars)

| | Share Capital $ | Education Reserve $ | Statutory Reserve $ | Revaluation Reserve $ | Accumulated Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2016** | 1,309,245 | 17,829 | 463,840 | 655,130 | (4,096,887) | (1,650,843) |
| Issue of permanent shares | 570,281 | - | - | - | - | 570,281 |
| Net loss being total comprehensive loss for the year | - | - | - | - | (1,224,508) | (1,224,508) |
| Entrance fees | - | - | 1,493 | - | (1,493) | - |
| **Balance as at December 31, 2016** | 1,879,526 | 17,829 | 465,333 | 655,130 | (5,322,888) | (2,305,070) |
| Issue of permanent shares | 566,933 | - | - | - | - | 566,933 |
| Net income being total comprehensive income for the year | - | - | 46,741 | - | 186,964 | 233,705 |
| Entrance fees | - | - | 1,470 | - | (1,470) | - |
| **Balance as at December 31, 2017** | 2,446,459 | 17,829 | 513,544 | 655,130 | (5,137,394) | (1,504,432) |

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

Statement of Comprehensive Income
For the Year Ended December 31, 2017
(Expressed in Eastern Caribbean Dollars)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Income** | | | |
| Interest income on loans and advances to members | | 5,020,145 | 3,741,048 |
| Less: Interest expense on deposit from members | 22 | 1,351,891 | 782,345 |
| **Net Interest Income** | | 3,668,254 | 2,958,703 |
| **Other Income** | | | |
| Investment income | 23 | 541,143 | 84,060 |
| Other operating income | 24 | 235,206 | 297,999 |
| | | 776,349 | 382,059 |
| **Operating Income** | | 4,444,603 | 3,340,762 |
| General and administrative expenses | 26 | 2,949,380 | 2,456,200 |
| Impairment losses on staff receivable | 10 | - | 8,591 |
| Impairment losses on loans and advances to members | 11 | 1,261,518 | 2,100,479 |
| | | 4,210,898 | 4,565,270 |
| **NET INCOME/(LOSS) BEING TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | 233,705 | (1,224,508) |

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

# National Farmers and General Workers Co-Operative Credit Union Limited

Statement of Cash Flows
For the Year Ended December 31, 2017
(Expressed in Eastern Caribbean Dollars)

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income/(loss) being total comprehensive income/(loss) for the year | | 233,705 | (1,224,508) |
| **Adjustments for:** | | | |
| Depreciation | 12 | 174,402 | 178,400 |
| Loss on asset disposal | 12 | 2,998 | |
| Impairment losses on staff receivable | 10 | - | 8,591 |
| Impairment losses on loans and advances to members | 11 | 1,261,518 | 2,100,479 |
| **Cash flows before changes in operating assets and liabilities** | | 1,672,623 | 1,062,962 |
| Decrease (increase) in accounts receivable | | 672,021 | (291,132) |
| (Increase) decrease in prepaid expense | | (5,938) | 3,845 |
| Increase in loans and advances to members | | (7,830,397) | (10,526,639) |
| Increase in trade and other payables | | 423,174 | 26,037 |
| Increase in deposits from members | | 4,359,232 | 5,684,524 |
| Increase in members' callable shares | | 5,399,631 | 7,108,975 |
| **Net cash from operating activities** | | 4,690,346 | 3,068,572 |
| **Cash Flows from Investing Activities** | | | |
| Purchase of investments | | (102,711) | (346,375) |
| Purchase of property and equipment | 12 | (52,809) | (103,546) |
| **Net cash used in investing activities** | | (155,520) | (449,921) |
| **Cash Flows from Financing Activities** | | | |
| Repayment of Long-term Loans | | - | (186,505) |
| Proceeds from permanent shares issued | | 566,933 | 570,281 |
| **Net cash from financing activities** | | 566,933 | 383,776 |
| **Increase in Cash** | | 5,101,759 | 3,002,427 |
| **Cash - Beginning of the Year** | | 3,621,813 | 619,386 |
| **Cash - End of the Year** | 8 | 8,723,572 | 3,621,813 |

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

**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, 2017, the Credit Union had an accumulated deficit of $5,137,394 (2016 - $5,322,888). Furthermore, for the year ended December 31, 2017, the Credit Union's liabilities exceeded its assets by $1,504,432 (2016 - $2,305,070).

**3. Date of Authorisation of Issue**

These financial statements were authorised for issue by the Board of Directors on May 23, 2018.

**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' deficiency, statement of comprehensive income, statement of cash flows and the explanatory notes.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) as at December 31, 2017 (the reporting date) and 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)**

New standards, revisions issued and effective for the financial year beginning January 1, 2017

The Credit Union applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Credit Union has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments were applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of The Credit Union. The nature and the impact of each new standard or amendment are described below:

*IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on The Credit Union.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on The Credit Union.

*Annual Improvements Cycle - 2014-2016*

*IFRS 12 – Disclosure of Interests in Other Entities - Amendments resulting from Annual Improvements 2014-2016 Cycle (Clarifying Scope)*

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, joint venture or an associate that is classified as held for sale. This amendment is effective for annual periods beginning on or after January 1, 2017 and did not have a significant impact on The Credit Union.

**4. Significant Accounting Policies (Cont'd)**

**(b) Basis of Preparation (Cont'd)**

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Credit Union's financial statements are disclosed below. The Credit Union intends to adopt these standards, if applicable, when they become effective.

*IFRS 9, 'Financial Instruments'*

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2015 The Credit Union set up a multidisciplinary implementation team ('the Team') with members from its various subsidiaries, Risk, Finance, Information Technology and Operations to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Financial Officer, who regularly report to The Credit Union's Supervisory Board. The Project's Expected Credit Loss Model is expected to run parallel with the IAS 39 by the first quarter of 2018 and thereafter fully implemented before the end of the second quarter.

*Classification and measurement*

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair Value through profit or loss (FVPL), Fair Value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise. The Credit Union does not expect an adverse impact from application of the impairment requirements of IFRS 9.

**4. Significant Accounting Policies (Cont'd)**

**(b) Basis of Preparation (Cont'd)**

Standards issued but not yet effective

*IFRS 15, 'Revenue from Contracts'*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Credit Union is not early adopting IFRS 15 and is currently evaluating its impact.

*IFRS 16 'Leases'*

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Credit Union is not early adopting IFRS 16 and is currently evaluating its impact.

*IAS 40 Investment Property: Transfers of Investment Properties – Amendments to IAS 40 (effective January 1, 2018)*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions, for the use of the property does not provide evidence of a change in use.

**4. Significant Accounting Policies (Cont'd)**

**(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;
- Investments held-to-maturity;
- Loans and receivables.

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

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.

Financial assets with fixed maturities and for which management has both the intent and ability to hold to maturity are classified as held-to-maturity.

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

**4. Significant Accounting Policies (Cont'd)**

**(f) Financial Assets**

(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.

Held-to-maturity assets and 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 or held-to-maturity investments 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 or held-to-maturity investment 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.

## 4. Significant Accounting Policies (Cont'd)

### (f) Financial Assets (Cont'd)

Impaired financial assets (Cont'd)

*Assets carried at amortised cost (Cont'd)*

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.

*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.

**4. Significant Accounting Policies (Cont'd)**

**(g) Property and Equipment**

Items of property and equipment except for land and buildings 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. 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 |
|---|---|
| Buildings | 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.

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.

**4. Significant Accounting Policies (Cont'd)**

**(k) Members' Deficiency**

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' Deficiency.

**(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.

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.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

**(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 Loss 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.

**4. Significant Accounting Policies (Cont'd)**

**(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:

<u>Going Concern</u>

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.

## 5. Critical Accounting Judgements, Estimates and Assumptions (Cont'd)

### 5.1 Judgements (Cont'd)

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 Loss, 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.

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 Loss 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. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Committee and to the Board of Directors.

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.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Maximum exposure to credit risk:- | | |
| Cash at bank | 8,290,919 | 3,459,853 |
| Loans and advances to members | 44,866,307 | 38,297,428 |
| Investment securities | 3,602,958 | 3,500,247 |
| Accounts receivable | 681,231 | 1,353,252 |
| | 57,441,415 | 46,610,780 |

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.

**6. Financial Risk Management (Cont'd)**

**(a) Credit Risk (Cont'd)**

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:-

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Loans and advances to members:-** | | |
| Neither past due nor impaired | 43,600,561 | 36,704,682 |
| Past due but not impaired | 4,184,901 | 4,652,288 |
| Impaired | 5,086,320 | 3,684,415 |
| **Gross amount** | 52,871,782 | 45,041,385 |
| Less: Allowance for loan losses | (8,005,475) | (6,743,957) |
| Net | 44,866,307 | 38,297,428 |

(i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due no 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:-

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Past due up to 30 days | 3,408,403 | 4,182,838 |
| Past due 31 – 60 days | 390,436 | 259,541 |
| Past due 61 – 89 days | 386,062 | 209,909 |
| | 4,184,901 | 4,652,288 |

(iii) Impaired

The total allowance for loan losses is $8,005,475 (2016 - $6,743,957) of which $3,738,363 (2016 - $2,884,007) represents the individually impaired loans and the remaining amount of $4,267,112 (2016 - $3,859,950) 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.

**6. Financial Risk Management (Cont'd)**

**(a) Credit Risk (Cont'd)**

(iv) Repossessed assets

The Credit Union may foreclose on overdue loans by repossessing 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.

**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, 2017 | 38,690,217 | 3,469,723 | 1,496,311 | 984,179 | 225,877 | 44,866,307 |
| Balance as at December 31, 2016 | 32,201,470 | 3,731,901 | 1,286,665 | 886,519 | 190,873 | 38,297,428 |

(vii) Investment Securities

The Credit Union's investments are held with Bank of St. Lucia 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.

**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<br>$ | 1 and 5 years<br>$ | After 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|
| **As at December 31, 2017** | | | | |
| Trade and other payables | 1,003,813 | - | - | 1,003,813 |
| Deposits from members | 24,279,766 | - | - | 24,279,766 |
| Members' callable shares | 34,602,985 | - | - | 34,602,985 |
| Long term loans | 697,485 | - | - | 697,485 |
| | 60,584,049 | - | - | 60,584,049 |
| **As at December 31, 2016** | | | | |
| Trade and other payables | 580,639 | - | - | 580,639 |
| Deposits from members | 19,920,534 | - | - | 19,920,534 |
| Members' callable shares | 29,203,354 | - | - | 29,203,354 |
| Long term loans | 697,485 | - | - | 697,485 |
| | 50,402,012 | - | - | 50,402,012 |

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.

**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, 2017** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 8,290,918 | - | - | - | - | 432,654 | 8,723,572 |
| Investment securities | - | - | 3,602,958 | - | - | 50,000 | 3,652,958 |
| Accounts receivable | - | - | - | - | - | 681,231 | 681,231 |
| Loans and advances to members | 622,255 | 62,969 | 1,842,736 | 25,483,212 | 16,855,135 | - | 44,866,307 |
| | 8,913,173 | 62,969 | 5,445,694 | 25,483,212 | 16,855,135 | 1,163,885 | 57,924,068 |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables | - | - | - | - | - | (1,003,813) | (1,003,813) |
| Deposits from members | - | - | - | - | - | (16,699,960) | (16,699,960) |
| Members callable shares | - | - | (34,602,985) | - | - | - | (34,602,985) |
| Long-term loans | (697,485) | - | - | - | - | - | (697,485) |
| Members' fixed deposits | - | - | (7,579,806) | - | - | - | (7,579,806) |
| | (697,485) | - | (42,182,791) | - | - | (17,703,773) | (60,584,049) |
| **Total interest sensitivity gap** | 8,215,688 | 62,969 | (36,737,097) | 25,483,212 | 16,855,135 | (16,400,722) | (2,659,981) |

**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, 2016** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 3,459,853 | - | - | - | - | 161,960 | 3,621,813 |
| Investment securities | - | - | 3,500,247 | - | - | 50,000 | 3,550,247 |
| Accounts receivable | - | - | - | - | - | 1,353,252 | 1,353,252 |
| Loans and advances to members | 440,825 | 46,578 | 2,487,647 | 21,587,324 | 13,735,054 | - | 38,297,428 |
| | 3,900,678 | 46,578 | 5,987,894 | 21,587,324 | 13,735,054 | 1,565,212 | 46,822,740 |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables | - | - | - | - | - | (580,639) | (580,639) |
| Deposits from members | - | - | - | - | - | (11,532,227) | (11,532,227) |
| Members callable shares | - | - | (29,203,354) | - | - | - | (29,203,354) |
| Long-term loans | (697,485) | - | - | - | - | - | (697,485) |
| Members' fixed deposits | - | - | (8,388,307) | - | - | - | (8,388,307) |
| | (697,485) | - | (37,591,661) | - | - | (12,112,866) | (50,402,012) |
| **Total interest sensitivity gap** | 3,203,193 | 46,578 | (31,603,767) | 21,587,324 | 13,735,054 | (10,547,654) | (3,579,272) |

**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:-

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Financial Assets** | | |
| Cash at bank - savings accounts only | 8,290,919 | 3,459,853 |
| Investment securities | 3,602,958 | 2,500,247 |
| Loans and advances to members | 44,866,307 | 38,297,428 |
| | 56,760,184 | 44,257,528 |
| **Financial Liability** | | |
| Deposits from members | 24,279,766 | 19,920,534 |

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, 2017, if variable interest rates had been 0.5% lower with all other variables held constant. Surplus for the year 2017 would have been $211,853 and a loss of (2016 - $1,833,314) as a result of lower interest income on variable rate.

| | 2017<br>% | 2016<br>% |
|---|---|---|
| **Financial Assets** | | |
| Cash | 0 | 0 |
| Investment securities | 1.50 – 3.00 | 1.50 – 2.00 |
| Loans and advances to members | 12.00 – 36.00 | 12.00 - 36.00 |
| **Financial Liabilities** | | |
| Deposits from members | 1.00 – 6.00 | 1.00 – 7.00 |

**(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<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| **As at December 31, 2017** | | | |
| Land | - | 180,000 | 180,000 |
| Building | - | 736,020 | 736,020 |
| | - | 916,020 | 916,020 |
| **As at December 31, 2016** | | | |
| Land | - | 180,000 | 180,000 |
| Building | - | 736,020 | 736,020 |
| | - | 916,020 | 916,020 |

**6. Financial Risk Management (Cont'd)**

**(e) Fair Value Risk (Cont'd)**

**Assets for which fair values are disclosed**

| | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| **As at December 31, 2017** | | | |
| Investment securities – available for sale | - | 50,000 | 50,000 |
| Investment securities – held to maturity | 3,602,958 | - | 3,602,958 |
| Loan and advances to members | - | 44,866,307 | 47,860,929 |
| | 3,602,958 | 44,916,307 | 56,524,758 |
| **As at December 31, 2016** | | | |
| Investment securities – available for sale | - | 50,000 | 50,000 |
| Investment securities – held to maturity | 3,500,247 | - | 3,500,247 |
| Loans and advances to members | - | 38,297,428 | 38,297,428 |
| | 3,500,247 | 38,347,428 | 41,847,675 |

**Liabilities for which fair values are disclosed**

| | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| **As at December 31, 2017** | | | |
| Long term loans | - | 697,485 | 697,485 |
| **As at December 31, 2016** | | | |
| Long term loans | - | 697,485 | 697,485 |

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, 2017 (see Note 21).

## 8. Cash

| | 2017 $ | 2016 $ |
|---|---|---|
| Cash on hand | 432,653 | 161,960 |
| Cash at bank | 8,290,919 | 3,459,853 |
| | 8,723,572 | 3,621,813 |

## 9. Investment Securities

| | 2017 $ | 2016 $ |
|---|---|---|
| **Available-for-Sale** | | |
| **Equity securities at cost - Unlisted** | | |
| - St. Lucia Co-operative League | 50,000 | 50,000 |
| **Held-to-Maturity** | | |
| **Term Deposits** | | |
| CLICO International Life Insurance Co. Ltd. | - | 174,960 |
| Bank of Saint Lucia Limited | 2,544,151 | 2,500,247 |
| British American Life Insurance Company | - | 371,328 |
| St. Lucia Co-operative League | 1,058,807 | 1,000,000 |
| | 3,602,958 | 4,046,535 |
| **Impairment allowance on held-to-maturity investments** | - | (546,288) |
| | 3,602,958 | 3,500,247 |
| Total | 3,652,958 | 3,550,247 |

Interest is earned on interest bearing securities at rates ranging between 1.5% -3.5% (2016 : 1.5% -3%) per annum.

## 10. Accounts Receivable

| | 2017 $ | 2016 $ |
|---|---|---|
| Trade receivables | 641,650 | 1,349,561 |
| Staff receivable | 100,569 | 100,569 |
| | 742,219 | 1,450,132 |
| Allowance for impairment of staff receivable | (100,569) | (100,569) |
| | 641,650 | 1,349,563 |
| Other receivables | 39,581 | 3,691 |
| | 681,231 | 1,353,252 |

**Allowance for Impairment of Staff Receivable**

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance – beginning of year | 100,569 | 91,978 |
| Impairment loss | - | 8,591 |
| Balance – end of year | 100,569 | 100,569 |

## 11. Loans and Advances to Members

| | 2017 $ | 2016 $ |
|---|---|---|
| Loans and advances | 52,426,614 | 44,826,976 |
| Interest receivable on loans and advances | 445,168 | 214,409 |
| Allowance for loan losses | (8,005,475) | (6,743,957) |
| | 44,866,307 | 38,297,428 |

Allowance for Loan Losses

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance at the beginning of the year | 6,743,957 | 6,840,153 |
| Individual impairment provisions made during the year | 854,356 | 1,122,683 |
| Collective impairment provisions made during the year | 407,162 | 977,796 |
| Loans written off during the year | - | (2,196,675) |
| Balance at the end of the year | 8,005,475 | 6,743,957 |

The Credit Union’s weighted effective average interest rate is at 9.25% (2016:9.94%).

## 12. Property and Equipment

| | Land $ | Building $ | Leasehold Improvement $ | Office Equipment $ | Computer Equipment $ | Office Furniture And Fixtures $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Year ended December 31, 2016** | | | | | | | |
| Opening net book value | 180,000 | 699,219 | 143,218 | 135,106 | 59,197 | 63,437 | 1,280,177 |
| Additions | - | 1,506 | 17,145 | 27,122 | 25,126 | 32,647 | 103,546 |
| Depreciation charge | - | (36,801) | (39,088) | (47,066) | (35,744) | (19,701) | (178,400) |
| Closing net book value | 180,000 | 663,924 | 121,275 | 115,162 | 48,579 | 76,383 | 1,205,323 |
| **At December 31, 2016** | | | | | | | |
| Cost/Valuation | 180,000 | 737,526 | 316,403 | 553,036 | 313,815 | 404,311 | 2,505,091 |
| Accumulated depreciation | - | (73,602) | (195,128) | (437,874) | (265,236) | (327,928) | (1,299,768) |
| **Net book value** | 180,000 | 663,924 | 121,275 | 115,162 | 48,579 | 76,383 | 1,205,323 |
| **Year ended December 31, 2017** | | | | | | | |
| Opening net book value | 180,000 | 663,924 | 121,275 | 115,162 | 48,579 | 76,383 | 1,205,323 |
| Additions | - | 1,580 | - | 19,605 | 5,946 | 25,678 | 52,809 |
| Disposals | - | - | - | - | - | (2,998) | (2,998) |
| Depreciation charge | - | (36,895) | (40,836) | (40,411) | (37,209) | (19,052) | (174,402) |
| Closing net book value | 180,000 | 628,609 | 80,439 | 94,356 | 17,316 | 80,011 | 1,080,732 |
| **At December 31, 2017** | | | | | | | |
| Cost/Valuation | 180,000 | 739,106 | 316,403 | 572,641 | 319,761 | 426,991 | 2,554,902 |
| Accumulated depreciation | - | (110,497) | (235,964) | (478,285) | (302,445) | (346,980) | (1,474,170) |
| **Net book value** | 180,000 | 628,609 | 80,439 | 94,356 | 17,316 | 80,011 | 1,080,732 |

On December 30, 2014, the Credit Union's land and buildings were valued by Richard R. Samy at $180,000 and $736,020 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 $358,976.

**12. Property and Equipment (Cont'd)**

Loss on Disposal

| | Cost $ | Accumulated Depreciation $ | Net Book Value $ | Proceeds $ | Gain/ (Loss) $ |
|---|---|---|---|---|---|
| **December 31, 2017** | | | | | |
| Office Furniture and Fixtures | 2,998 | - | 2,998 | - | (2,998) |

**13. Trade and Other Payables**

| | 2017 $ | 2016 $ |
|---|---|---|
| Members' callable shares interest payable | 267,991 | - |
| Gratuities payable | 406,879 | 275,551 |
| Trade payables | 128,801 | 76,272 |
| Other Payables | 200,142 | 228,816 |
| | 1,003,813 | 580,639 |

**14. Deposits from Members**

| | 2017 $ | 2016 $ |
|---|---|---|
| Members' regular deposits | 16,699,960 | 11,532,227 |
| Members' fixed deposits | 7,579,806 | 8,388,307 |
| | 24,279,766 | 19,920,534 |

Members' fixed deposits which are payable on demand, have various maturity profiles, with effective interest rates ranging from 3% to 6% (2016 – 3% to 7%).

**15. Members' Callable Shares**

Members' callable shares amounted to $34,602,985 (2016 : $29,203,354) 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.

**16. Long-Term Loans**

| | 2017 $ | 2016 $ |
|---|---|---|
| Government of St. Lucia – REDIP | 697,485 | 697,485 |
| Bank of St. Lucia | - | - |
| | 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% (2016 : 1%) per annum for the purpose of facilitating the Rual 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 | Value |
|---|---|---|
| **Authorised Capital** | Unlimited | Unlimited |

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance at the beginning of the year | 1,879,526 | 1,309,245 |
| New shares issued | 566,933 | 570,281 |
| Balance at the end of the year | 2,446,459 | 1,879,526 |
| **Issued Capital** | | |
| 489,292 (2016 – 375,905) $5.00 non-redeemable members' shares | 2,446,459 | 1,879,526 |

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.

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance - beginning and end of the year | 17,829 | 17,829 |

## 19. Statutory Reserve

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance - beginning of the year | 465,333 | 463,840 |
| Entrance fees | 1470 | 1,493 |
| Net surplus 20% | 46,741 | - |
| Balance - end of the year | 513,544 | 465,333 |

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.

## 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 December 30, 2014 by Richard R. Sammy a qualified quantity surveyor. The land and building was valued at open market value of $916,020 as at December 31, 2014, resulting to an increase in revaluation reserve of $358,976. Revaluation reserve amounted to $655,130 as at December 31, 2017 (2016: $655,130).

## 21. Co-operative Societies Act Compliance Requirements

**Liquid investments**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Fixed deposits | 3,602,958 | 3,500,247 |
| Cash | 8,723,572 | 3,621,813 |
| | 12,326,530 | 7,122,060 |
| **Members' deposits and ordinary shares** | 58,882,751 | 49,123,888 |
| **Liquid investments to shares and deposits ratio** | **21%** | **12%** |

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 21% (2016 – 12%) of Members' shares and deposits. The Credit Union is in compliance with section 119 (3) of the Co-operative Societies Act.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Statutory and other reserves | 1,186,503 | 1,138,292 |
| Total liabilities | 60,584,049 | 50,402,012 |
| **Reserves to liabilities ratio** | **2%** | **2%** |

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% (2016 – 2%) of its total liabilities. The credit union is not in compliance with section 119 (3) of the Co-operative Societies Act.

## 22. Interest Expense

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Interest on members' fixed deposits | 382,664 | 236,648 |
| Interest on other members' deposits | 962,252 | 538,722 |
| Interest on long-term loans | 6,975 | 6,975 |
| | 1,351,891 | 782,345 |

## 23. Investment Income

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Bank of St. Lucia | 43,643 | 61,058 |
| St. Lucia Co-operative League | 35,805 | 23,002 |
| Impaired Investment Recovery | 461,695 | - |
| | 541,143 | 84,060 |

Impaired Investment was received from British American and CLICO Insurance in 2017 and this was distributed to members in the form of a special bonus interest.

### 24. Other Operating Income

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Bad debt recovered | 29,254 | 63,593 |
| Cash overage | 4,981 | 567 |
| Commissions - FIP | 30,812 | 24,859 |
| Entrance fees | 1,470 | 1,493 |
| Ledger fee | 5,522 | 5,972 |
| Loan processing fees | 71,830 | 79,965 |
| Loan written-off recovered | | |
| Money Gram Commission | 17,769 | 32,313 |
| Other | 11,892 | 7,390 |
| Passbooks and jacket | 11,675 | 12,765 |
| Service charge | 20,109 | 37,722 |
| Statements | 6,030 | 5,115 |
| Western Union Commission | 23,862 | 26,245 |
| | 235,206 | 297,999 |

### 25. Staff Related Expenses

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Salaries and wages | 973,182 | 815,989 |
| Uniforms | 8,510 | 19,386 |
| NIS contribution | 48,098 | 42,288 |
| Travelling allowance | 86,200 | 75,044 |
| Training and welfare | 69,245 | 77,109 |
| Gratuity expenses | 131,327 | 99,279 |
| Staff commission | - | 227 |
| | 1,316,562 | 1,129,322 |

The average number of staff as at December 31, 2017 was 34 (2016 - 35).

## 26. General and Administrative Expenses

| | 2017 $ | 2016 $ |
|---|---|---|
| Advertising and promotion | 41,002 | 54,697 |
| Annual general meeting expenses | 15,668 | 20,537 |
| Audit fee | 67,028 | 37,605 |
| Bad Debt-Negative Acc Expense | 252,806 | - |
| Bank charges | 8,848 | 19,182 |
| Board and committee expenses | 58,423 | 54,943 |
| CUNA insurance | 178,223 | 150,267 |
| Depreciation | 174,403 | 178,400 |
| Donations | 10,498 | 12,278 |
| Insurance | 17,740 | 14,165 |
| Interest | - | 39,326 |
| IT Support | 39,296 | - |
| League dues | 39,965 | 42,615 |
| Legal and professional fees | 24,668 | 13,524 |
| Office supplies and expenses | 130,789 | 167,434 |
| Other expenses | 5,998 | 23,849 |
| Rent – Other branches | 172,913 | 161,700 |
| Repairs and maintenance | 31,687 | 80,589 |
| Security services/janitorial | 184,199 | 118,833 |
| Staff expenses | 1,316,562 | 1,129,322 |
| Sundry Loses: Robbery | 17,034 | - |
| : Interest Refund | 18,945 | - |
| Utilities | 142,685 | 136,934 |
| | 2,949,380 | 2,456,200 |

## 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:-

| | 2017 $ | 2016 $ |
|---|---|---|
| Shares and deposits | 187,865 | 678,856 |
| Loans and advances | 576,360 | 1,994,751 |

### Key Management Compensation

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

| | 2017 $ | 2016 $ |
|---|---|---|
| Salaries and compensation | 403,680 | 411,120 |

## 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:-

| | 2017 $ | 2016 $ |
|---|---|---|
| Not later than 1 year | 90,150 | 111,525 |
| Later than 1 year but not later than 5 years | 16,819 | 40,000 |
| | 106,969 | 151,525 |

**Loan Commitments**

As at December 31, 2017, the Credit Union had committed to and approved loans totalling $715,600 (2016 - $792,500) that had not been fully disbursed. The Credit Union did not have any contingencies at that date.