

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Opinion

We have audited the financial statements of Community First Co-operative Credit Union Limited ("the Credit Union"), which comprise the statement of financial position as at December 31, 2016, the statements of profit or loss and other comprehensive income, changes in member's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2016, 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Antigua and Barbuda, 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 opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS, 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.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Responsibilities of Management and Those Charged with Governance for the Financial Statements *(cont'd)*

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.

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

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

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

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Members of
COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Auditors' 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.



Chartered Accountants
June 19, 2017

Antigua and Barbuda

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

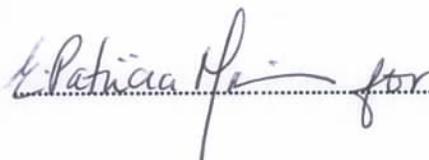
Statement of Financial Position

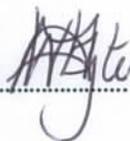
December 31, 2016

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Assets			
Cash and cash equivalents	9	\$ 13,889,832	10,320,342
Loans and advances	10	112,519,772	96,321,058
Investment securities	11	17,937,729	12,754,109
Other assets	12	592,703	306,742
Property and equipment	13	11,919,109	12,156,928
Total Assets		\$ 156,859,145	131,859,179
Liabilities and Members' Equity			
Liabilities:			
Bank overdraft	14	\$ -	82,650
Members' deposits	15	133,814,736	112,974,813
Other liabilities	16	566,794	446,249
Total Liabilities		134,381,530	113,503,712
Members' Equity:			
Permanent shares	17	\$ 3,924,910	3,559,690
Reserves	18	10,067,389	9,166,526
Retained earnings		8,485,316	5,629,251
Total Members' Equity		22,477,615	18,355,467
Total Liabilities and Members' Equity		\$ 156,859,145	131,859,179

Approved for issue by the Board of Directors and signed on its behalf by:

 Chairman

 Treasurer

The notes on pages 8 to 43 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2016

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Interest income		\$ 9,760,545	8,337,551
Interest expense		(2,364,519)	<u>(2,361,829)</u>
Net interest income		7,396,026	5,975,722
Other income	20	806,548	<u>675,314</u>
Operating income		8,202,574	<u>6,651,036</u>
Operating expenses			
General and administrative expenses	19	(4,923,138)	(4,584,949)
Provision for impairment	10	-	<u>(537,130)</u>
		(4,923,138)	<u>(5,122,079)</u>
Finance income			
Investment income		623,089	<u>371,902</u>
Profit for the year		\$ 3,902,525	<u>1,900,859</u>
Total comprehensive income for the year		\$ <u>3,902,525</u>	<u>1,900,859</u>

The notes on pages 8 to 43 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2016

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Profit for the year		\$ 3,902,525	1,900,859
Items not affecting cash:			
Depreciation	13	402,914	436,678
Loss on disposal of property and equipment		-	2,277
Provision for impairment - loans	10	-	537,130
Interest expense on members' deposits		2,364,519	2,361,829
Interest income		(9,760,545)	(8,337,551)
Operating loss before changes in working capital		(3,090,587)	(3,098,778)
Change in loans and advances		(16,050,017)	(8,192,417)
Change in other assets		(285,961)	120,332
Change in other liabilities		120,545	(94,763)
Change in members' deposits		20,917,011	7,632,857
Cash generated from/(used in) operations		1,610,991	(3,632,769)
Interest received		9,499,210	8,274,905
Interest paid		(2,441,607)	(2,554,562)
Net cash generated from operating activities		8,668,594	2,087,574
Cash flows from investing activities			
Purchase of investment securities		(5,070,982)	(4,404,203)
Purchase of property and equipment	13	(165,095)	(262,157)
Net cash used in investing activities		(5,236,077)	(4,666,360)
Cash flows from financing activities			
Proceeds from issuance of permanent shares		365,220	278,430
Entrance fees		12,415	10,255
Dividends paid	25	(158,012)	-
Net cash generated from financing activities		219,623	288,685
Increase/(decrease) in cash and cash equivalents		3,652,140	(2,290,101)
Cash and cash equivalents, beginning of year		10,237,692	12,527,793
Cash and cash equivalents, end of year		\$ 13,889,832	10,237,692
Represented by:			
Cash and cash equivalents		13,889,832	10,320,342
Bank overdraft		-	(82,650)
		\$ 13,889,832	10,237,692

The notes on pages 8 to 43 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Changes in Members' Equity

Year ended December 31, 2016

(expressed in Eastern Caribbean dollars)

	<u>Notes</u>	<u>Permanent shares</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2014		\$ 3,281,260	8,768,239	4,116,424	16,165,923
Transactions with members					
Dividends paid		-	-	-	-
Issuance of permanent shares		278,430	-	-	278,430
		278,430	-	-	278,430
Other reserves movements					
Statutory reserve		-	475,215	(475,215)	-
Entrance fees		-	10,255	-	10,255
Revaluation surplus transfer		-	(87,183)	87,183	-
Loan loss reserve		-	-	-	-
		-	398,287	(388,032)	10,255
Comprehensive income					
Profit for the year		-	-	1,900,859	1,900,859
Total comprehensive income		-	-	1,900,859	1,900,859
Balance at December 31, 2015		\$ 3,559,690	9,166,526	5,629,251	18,355,467
Transactions with members					
Dividends paid	25	-	-	(158,012)	(158,012)
Issuance of permanent shares		365,220	-	-	365,220
		365,220	-	158,012	207,208
Other reserves movements					
Statutory reserve	18	-	975,631	(975,631)	-
Entrance fees	18	-	12,415	-	12,415
Revaluation surplus transfer		-	(87,183)	87,183	-
		-	900,863	(888,448)	12,415
Comprehensive income					
Profit for the year		-	-	3,902,525	3,902,525
Total comprehensive income		-	-	3,902,525	3,902,525
Balance at December 31, 2016		\$ 3,924,910	10,067,389	8,485,316	22,477,615

The notes on pages 8 to 43 are an integral part of these financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

1 Nature of operations

The principal activities of Community First Co-operative Credit Union Limited (“the Credit Union”) are to provide ways and means through which savings can be effected and a source of credit made available to its members.

2 General information and statement of compliance with IFRS

Community First Co-operative Credit Union Limited was registered on January 18, 1982 under the Co-operative Laws of Antigua and Barbuda. The organisation was established on April 7, 1959 under the Co-operative Society Ordinance 1958, the Co-operative Societies Rule 1960 and with subsequent amendments. The Credit Union changed its name to Community First Co-operative Credit Union Limited effective January 31, 2005.

The registered office of the Credit Union is located at Old Parham Road, St. John’s, Antigua.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Land and building are measured at fair value
- Available-for-sale investments are measured at fair value

3 Changes in accounting policies

3.1 New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments to standards and interpretations have been published by the IASB that are not yet effective, and standards have not been adopted early by the Credit Union. Information on those expected to be relevant to the Credit Union’s financial statements is provided below.

Management anticipates that all of the relevant pronouncements will be adopted in the Credit Union’s accounting policies for the first period beginning after the effective date of the pronouncement. New standards, amendments to standards and interpretations not listed are not expected to have a material impact on the Credit Union’s financial statements.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

3 Changes in accounting policies *(cont'd)*

3.1 New standards and interpretations not yet adopted *(cont'd)*

Effective January 1, 2018

- IFRS 15, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and IFRIC 13, *Customer Loyalty Programmes*.

The new standard is to be applied retrospectively for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Credit Union is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- IFRS 9, *Financial Instruments (2014)*. IFRS 9 (2014) replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of IFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). IFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. IFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Credit Union is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Given the nature of the Credit Union's operations, this standard is expected to have a pervasive impact on the Credit Union's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

4 Summary of significant accounting policies

4.1 Overall considerations

The significant accounting policies set out below have been applied consistently by the Credit Union to all periods presented in these financial statements, except as otherwise stated.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.2 Revenue recognition

Revenue arises from the rendering of services. The Credit Union recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for the Credit Union's activities. It is measured at the fair value of consideration received or receivable. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability.

The Credit Union's calculation of the effective interest rate includes all material fees received, transaction costs, discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(ii) Other income

Other income is recognised on the accrual basis.

4.3 Foreign currency translation

Functional and presentation currency

These financial statements are presented in Eastern Caribbean Dollars, which is the Credit Union's functional and presentation currency. All financial information presented in Eastern Caribbean Dollars has been rounded to the nearest dollar.

Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Eastern Caribbean Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Eastern Caribbean Dollars at foreign exchange rates ruling at the dates the values were determined.

4.4 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 recognised in profit or loss on the straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.5 Financial instruments

The Credit Union recognises a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

(a) Initial recognition of financial instruments

Financial instruments are recognised initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably available, the fair value of the consideration is estimated as the sum of all the cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments includes transaction costs, except for financial instruments at fair value through profit or loss.

Subsequent to initial recognition, the Credit Union classifies its financial assets in the following categories: held-to-maturity investments, available-for-sale investments and loans and receivables. Financial liabilities are classified either as financial liabilities at fair value through profit or loss or other financial liabilities at amortised cost. The classification depends on the purpose for which the financial instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as available-for-sale financial assets or financial assets at fair value through profit or loss. Loans and receivables are considered as current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as non-current assets.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in profit or loss. The losses arising from impairment of such loans and receivables are also recognised in profit or loss.

Loans and receivables comprise loans and advances, loan interest receivable and other receivables.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets which are designated as such or do not qualify to be classified as designated as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Available-for-sale investments are included in current assets if management intends to sell these financial assets within twelve (12) months from the reporting date. Otherwise these are classified as non-current assets.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.5 Financial instruments *(cont'd)*

(a) Initial recognition of financial instruments (cont'd)

(ii) Available-for-sale financial assets (cont'd)

Available-for-sale financial assets are measured at fair value with gains and losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss.

Available-for-sale financial assets comprise equity securities classified under Investment Securities (note 11).

(iii) Held-to-maturity financial assets

Financial assets with fixed maturities, and which management has both the intent and the capability to hold to maturity are classified as held-to-maturity. Held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Held-to-maturity financial assets comprise debt securities classified under Investment Securities (note 11).

(iv) Financial liabilities at amortised cost

Financial liabilities are classified in this category if these are not held for trading or not designated as at fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities are initially recognised at cost, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Other financial liabilities comprise bank overdraft (note 14), members' deposits (note 15) and other liabilities (note 16).

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.5 Financial instruments *(cont'd)*

(b) Derecognition of financial assets and financial liabilities

(i) Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Credit Union retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Credit Union has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Credit Union’s continuing involvement in the asset.

(ii) Financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(c) Identification and measurement of impairment

At each reporting date, the Credit Union assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Credit Union considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.5 Financial instruments *(cont'd)*

(c) Identification and measurement of impairment (cont'd)

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Credit Union uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provision attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments. Bank overdraft which is repayable on demand forms an integral part of the business and is included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are measured at amortised cost.

4.7 Property and equipment and depreciation

i. Initial measurement

Property and equipment are initially stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of items.

ii. Subsequent measurement

Land and building

After recognition, land and building whose fair value can be measured reliably are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in members' equity under the heading of revaluation reserves (note 18). However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserves in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in members' equity under the heading of revaluation reserve.

When a building is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Furniture, equipment and motor vehicle

After recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

4 Summary of significant accounting policies *(cont'd)*

4.7 Property and equipment and depreciation *(cont'd)*

iii. Depreciation

Depreciation is calculated on the straight line method to write down the cost less estimated residual values of the assets. The following depreciation rates are applied:

Building	50 years
Leasehold improvements	6.7 years
Land improvements	20 years
Office equipment	6.7 years
Furniture and fixtures	10 years
Computer equipment	3 years
Motor vehicles	5 years

Land and work in progress are not depreciated.

The assets' residual values and estimated useful lives are reviewed and adjusted, if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss.

4.8 Impairment of non-financial assets

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed only to the extent that the asset's or cash-generating unit's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.9 Provisions

Provisions for legal disputes or other claims are recognised when the Credit Union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Credit Union to settle the obligation and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

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4 Summary of significant accounting policies *(cont'd)*

4.9 Provisions *(cont'd)*

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

4.10 Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or losses incurred.

4.11 Equity, reserves and dividend payments

a) *Permanent shares*

Permanent shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

b) *Reserves*

Statutory reserves comprise amounts required to be set aside as stipulated by the Co-operative Societies Act (see note 18).

General reserves comprise donated capital and entrance fees set aside as stipulated by the Credit Union's By-laws (see note 18).

Revaluation reserves comprise gains and losses from the revaluation of land and building (see note 13).

Other reserves comprise interest on loans not recognised for regulatory purposes.

c) *Retained earnings*

Retained earnings include all current and prior period retained profits.

d) *Dividends*

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*.

Dividends paid are recognised in equity in the period in which they are approved by the Credit Union's members at the Annual General Meeting.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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4.12 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

5 Significant management judgement in applying accounting policies and estimation uncertainty

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in the period of change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

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

5 Significant management judgement in applying accounting policies and estimation uncertainty

Member loan loss provision

Provision for loan loss is established if there is objective evidence that the Credit Union will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount of the loan and the recoverable amount, being the estimated present value of the expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

This allowance is considered adequate by management to absorb all credit related losses in its portfolio and is deducted from the related asset category. The amount provided during the year is charged to profit or loss as provision for credit losses. Full or partial write-offs of loans are generally recorded when management believes there is no realistic prospect of full recovery. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed annually to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated cash flows were to differ by +/- 10% due to variation in collection costs and time to collection estimation, the impairment provision would be an estimated \$199,744 (2015: \$218,032) lower or \$211,842 (2015: \$224,684) higher.

(Expressed in Eastern Caribbean Dollars)

6 Financial instrument risk

Risk management objectives and policies

The Credit Union has exposure to the following risks arising from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Credit Union's exposure to each of the above risks, the Credit Union's objectives, policies and processes for measuring and managing risk, and the Credit Union's management of capital.

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function.

The Board of Directors receives monthly reports from the Credit Union's Management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Credit Union's risk management processes are essentially those mandated by the Board of Directors and are structured to facilitate identification of risks in its various business activities and to formulate risk management strategies, policies and procedures. Risks are maintained within established limits. The Credit Union's risk management policies entail diversification of risk in its portfolios, the establishment of risk rating indicators for individual members and lines of credit and continuous review of risk profiles for its members and portfolios. Risk limits are also set in relation to groups of borrowers and industry and geographical segments. The policies also include review, analysis and valuation of all risk taking activities.

6.1 Credit risk analysis

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to this risk for various financial instruments, for example, granting loans to members, placing deposits and investing in bonds.

i. Loans and advances

The Credit Union's exposure to credit risk is influenced mainly by the individual characteristics of each member. The demographics of the Credit Union's member base, including the default risk of the country in which members operate, has less of an influence on credit risk. Geographically there is concentration of credit risk as all members are located in Antigua.

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6 Financial instrument risk *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

ii. Cash and cash equivalents

Cash and cash equivalents are held with established and reputable financial institutions, which represent minimum risk of default.

The maximum on-balance sheet and off-balance sheet exposure to credit risk at the reporting date was:

	2016	2015
On-balance sheet		
Cash and cash equivalents	\$ 13,889,832	10,320,342
Loans and advances	112,519,772	96,321,058
Investments	17,937,729	12,754,109
Other assets	387,239	110,333
	<u>\$ 144,734,572</u>	<u>119,505,842</u>
Off-balance sheet		
Unused line of credit	\$ 618,108	681,108

Credit risk in respect of financial assets is limited as these balances are shown net of provision for doubtful debts.

Loans and advances

(a) 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 is subject to an informal internal rating by the Credit Union. All of the loans are standard monitoring and are subject to review annually.

	Personal loans	Mortgage loans	Total
As at December 31, 2016			
Standard monitoring	\$ 63,051,305	44,503,403	107,554,708
As at December 31, 2015			
Standard monitoring	\$ 55,556,101	39,132,950	94,689,051

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6 Financial instrument risk *(cont'd)*

6.1 Credit risk analysis *(cont'd)*

Loans and advances *(cont'd)*

(b) Loans and advances past due but not impaired

All delinquent loans are considered impaired and have been considered in the impairment assessment.

(c) Loans and advances individually impaired

At the reporting date, the categories of loans and advances which were impaired were the personal loans and the mortgage loans categories. The gross amount of these categories was \$4,158,517 (2015: \$4,346,018) and the individual impairment allowance was \$2,037,188 (2015: \$2,093,307). The fair value of the collateral was \$2,060,385 (2015: \$2,252,710).

(d) Loans and advances re-negotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continual review. Restructuring is most commonly applied to term loans, in particular customer finance loans. There were no renegotiated loans which were impaired at December 31, 2016 or 2015.

6.1.1 Bonds and equity investments

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment; however, there is no hierarchy of ranking. There are no external ratings of the securities. None of the securities are pledged as collateral.

6.1.2 Repossessed collateral

The Credit Union had no repossessed collateral in its statement of financial position as of December 31, 2016 (2015: nil).

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Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

6 Financial instrument risk *(cont'd)*

6.2 Liquidity risk analysis

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Credit Union's liquidity risk is subject to risk management controls and is managed within the framework of regulatory requirements, policies and limits approved by the Board. The Board receives reports on liquidity risk exposures and performance against approved limits. Management provides the Board with information on liquidity risk for Board oversight purposes through its monthly meetings. The key elements of the Credit Union's liquidity risk management framework include:

- liquidity risk measurement and management limits, including limits on maximum net cash outflow over a specified short-term horizon;
- holdings of liquid assets to support its operations, which can generally be converted to cash within a reasonable time;
- liquidity stress testing PEARLS-specific ratios; and
- liquidity contingency planning.

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6 Financial instrument risk *(cont'd)*

6.2 Liquidity risk analysis *(cont'd)*

Non-derivative financial liabilities and assets held for managing liquidity risk.

The table below presents the cash flows payable by the Credit Union under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual and undiscounted cash flows.

As of December 31, 2016

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Members' deposits	\$ 133,814,736	116,021,759	2,869,911	15,147,565	-	-	134,039,235
Other liabilities	566,794	566,794	-	-	-	-	566,794
	<u>\$ 134,381,530</u>	<u>116,588,553</u>	<u>2,869,911</u>	<u>15,147,565</u>	<u>-</u>	<u>-</u>	<u>134,606,029</u>

As of December 31, 2015

	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Bank overdraft	\$ 82,650	82,650	-	-	-	-	82,650
Members' deposits	112,974,813	95,336,416	4,079,338	13,788,469	-	-	113,204,223
Other liabilities	446,249	446,249	-	-	-	-	446,249
	<u>\$ 113,503,712</u>	<u>95,865,315</u>	<u>4,079,338</u>	<u>13,788,469</u>	<u>-</u>	<u>-</u>	<u>113,733,122</u>

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6 Financial instrument risk *(cont'd)*

6.2 Liquidity risk analysis *(cont'd)*

Assets held for managing liquidity risk

The Credit Union holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Credit Union's assets held for managing liquidity risk comprise:

- Un-restricted cash in bank
- Certificates of deposit
- Loans and receivables investment securities
- Unimpaired loans

6.3 Market risk analysis

The Credit Union is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union does not face any such risk since its transactions are substantially in Eastern Caribbean Dollars, which is its functional currency. The United States Dollar, in which the Credit Union also transacts business, is fixed in relation to the Eastern Caribbean Dollar.

(ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market. The Credit Union has no exposure to such risk since its existing available-for-sale investments are not listed in any stock exchange or market.

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest bearing liabilities, which are subject to interest rate adjustments within a specified period.

The Credit Union actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Credit Union's funding and investment activities is managed in accordance with Board-approved policies.

The table below summarizes the Credit Union's exposure to interest rate risks. Included in the table are the Credit Union's assets and liabilities at carrying amounts categorized by the earlier of contractual repricing and maturity dates.

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(Expressed in Eastern Caribbean Dollars)

6 Financial instrument risk *(cont'd)*

6.3 Market risk analysis *(cont'd)*

(iii) Interest rate risk *(cont'd)*

As of December 31, 2016

	Interest rate%	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and cash equivalents		\$ 13,889,832	-	-	-	-	-	13,889,832
Loans and advances	6.36-18	1,769,224	189,172	1,678,707	39,454,465	71,833,772	-	114,925,340
Investment securities	3-8	-	-	15,387,310	2,474,379	-	76,040	17,937,729
Other assets		-	-	-	-	-	387,239	387,239
Total financial assets		15,659,056	189,172	17,066,017	41,928,844	71,833,772	463,279	147,140,140
Liabilities								
Members' deposits	2-7	113,589,169	2,861,163	14,933,005	-	-	2,431,399	133,814,736
Other liabilities		-	-	-	-	-	566,794	566,794
Total financial liabilities		\$ 113,589,169	2,861,163	14,933,005	-	-	2,998,193	134,381,530
Total interest repricing gap		\$ (97,930,113)	(2,671,991)	2,133,012	41,928,844	71,833,772	(2,534,914)	12,758,610

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6 Financial instrument risk (cont'd)

6.3 Market risk analysis (cont'd)

(iii) Interest rate risk (cont'd)

As of December 31, 2015

	Interest rate%	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and cash equivalents		\$ 10,320,342	-	-	-	-	-	10,320,342
Loans and advances	6.36-18	967,740	2,341,055	11,285,320	37,967,110	43,759,833	-	96,321,058
Investment securities	3-8	998,703	-	9,421,300	1,981,785	276,281	76,040	12,754,109
Other assets		-	-	-	-	-	110,333	110,333
Total financial assets		12,286,785	2,341,055	20,706,620	39,948,895	44,036,114	186,373	119,505,842
Liabilities								
Bank overdraft		-	-	-	-	-	82,650	82,650
Members' deposits	2-7	93,334,980	4,059,930	13,581,991	-	-	1,997,912	112,974,813
Other liabilities		-	-	-	-	-	446,249	446,249
Total financial liabilities		\$ 93,334,980	4,059,930	13,581,991	-	-	2,526,811	113,503,712
Total interest repricing gap		\$ (81,048,195)	(1,718,875)	7,124,629	39,948,895	44,036,114	(2,340,438)	6,002,130

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Notes to the Financial Statements

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(Expressed in Eastern Caribbean Dollars)

6 Financial instrument risk *(cont'd)*

6.3 Market risk analysis *(cont'd)*

(iii) Interest rate risk (cont'd)

Fair value interest rate sensitivity analysis

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow interest rate sensitivity analysis

The Credit Union is not exposed to any cash flow interest rate risk as it has no variable rate financial instruments.

6.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for development and implementation of controls to address operational risk is assigned to management within the Credit Union. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk by establishing requirements for:

- appropriate segregation of duties, including the independent authorization of transactions;
- the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

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6 Financial instrument risk (cont'd)

6.4 Operational risk(cont'd)

- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Credit Union's standards is supported by a programme of periodic reviews undertaken by the Supervisory Committee. The results of the Supervisory Committee reviews are discussed with management, with summaries to the Board of Directors.

7 Fair value of financial assets and liabilities

a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of the Credit Union's financial assets and liabilities not presented on the statement of financial position at their fair values.

	Carrying Value		Fair Value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	13,899,832	10,320,342	13,899,832	10,320,342
<i>Investment securities:</i>				
- Loans and receivables				
investment securities	\$ 16,396,614	11,184,844	16,396,614	11,184,844
- Held-to-maturity				
investment securities	1,443,017	1,493,225	1,443,017	1,493,225
Loans and advances	112,519,772	96,321,058	110,102,844	94,252,079
Other assets	387,239	110,333	187,239	110,333
	<u>\$ 144,646,474</u>	<u>119,429,802</u>	<u>142,029,546</u>	<u>117,360,823</u>
Financial liabilities				
Bank overdraft	-	82,650	-	82,650
Members' deposits	133,814,736	112,974,813	133,814,736	112,974,813
Other liabilities	566,794	446,249	566,794	446,249
	<u>\$ 134,381,350</u>	<u>113,503,712</u>	<u>134,381,530</u>	<u>113,503,712</u>

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7 Fair value of financial assets and liabilities *(cont'd)*

a) Financial instruments not measured at fair value *(cont'd)*

(i) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Investment securities

The fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated for debt investment securities based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining maturity.

(iii) Members' deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

b) Fair value measurement of financial instruments

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.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and December 31, 2015.

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7 Fair value of financial assets and liabilities *(cont'd)*

b) Fair value measurement of financial instruments *(cont'd)*

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into Level 3 of the fair value hierarchy.

	<u>Level 3</u>	<u>Total</u>
December 31, 2016		
Financial assets		
Available-for-sale investments	\$ 76,040	76,040
	<u> </u>	<u> </u>
	<u>Level 3</u>	<u>Total</u>
December 31, 2015		
Financial assets		
Available-for-sale investments	\$ 76,040	76,040
	<u> </u>	<u> </u>

Measurement of fair value of financial instruments

The Credit Union's finance team performs valuations of financial items for financial reporting purposes. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the General Manager and to the Board of Directors. Valuation processes and fair value changes are discussed among the Board of Directors and the valuation team at least every year, in line with the Credit Union's reporting dates. The valuation techniques used for instruments categorised in Level 3 are described below:

Available-for-sale investments

The fair value is generally on broker/dealer price quotations. Where this information is not available, fair value is based on cost less any impairment recognised.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

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*(Expressed in Eastern Caribbean Dollars)***7 Fair value of financial assets and liabilities (cont'd)****c) Fair value measurement of non-financial assets**

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at December 31, 2016 and December 31, 2015.

	<u>Level 3</u>	<u>Total</u>
December 31, 2016		
Property and equipment		
Land	\$ 2,809,776	2,809,776
Buildings	9,218,732	9,218,734
Total assets	\$ 12,028,508	12,028,510
	<u>Level 3</u>	<u>Total</u>
December 31, 2015		
Property and equipment		
Land	\$ 2,809,776	2,809,776
Buildings	8,407,281	8,407,281
Total assets	\$ 11,217,057	11,217,057

Fair value of the Credit Union's main property assets is estimated based on appraisals performed by independent, professionally qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors at each reporting date. Further information is set out below.

Land and buildings

The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

The land and buildings were revalued in October, 2011. They were previously revalued in July 2009.

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8 Capital management policies and procedures

The Credit Union has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve three major objectives:

- exceed regulatory thresholds;
- meet longer-term internal capital targets; and
- provide the Credit Union's members with a source of finance.

Capital is managed in accordance with the Board-approved Capital Management Policy which is based on regulatory requirements of the Co-operative Societies Act and the PEARLS regulations. Management and the Board of Directors develop the capital strategy and oversee the capital management processes of the Credit Union. The Credit Union's management and Supervisory Committee are key in implementing the Credit Union's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

The three primary regulatory capital ratios used to assess capital adequacy are as follows:

	Regulatory requirement	2016 %	2015 %
1. Net Loans/Total Assets	70% to 80%	71.7	73.1
2. Institutional Capital/Total Assets	10% minimum	11.8	11.3
3. Total Delinquency/Total Loans	5% maximum	5.3	6.0

9 Cash and cash equivalents

	2016	2015
Cash on hand	\$ 1,521,914	1,675,163
Cash in bank	12,367,918	8,645,179
Total cash and cash equivalents	\$ 13,889,832	10,320,342

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10 Loans and advances

	2016	2015
Personal loans	\$ 56,417,811	50,331,253
Mortgage loans	49,140,647	41,700,837
Christmas loans	7,654,277	5,207,029
Overdrafts	708,863	632,462
Loans and advances to members	113,921,598	97,871,581
Less: Provision for loan losses	(2,405,568)	(2,405,568)
	111,516,030	95,466,013
Loan interest receivable	1,003,742	855,045
Total loans and advances to members	\$ 112,519,772	96,321,058
Current	5,990,876	3,137,284
Non-current	106,528,896	93,183,774
	\$ 112,519,772	96,321,058
	2016	2015
Provision for loan losses		
Balance at beginning of the year	\$ 2,405,568	2,696,331
Amounts written off during the year	-	(827,893)
Provisions for credit losses	-	537,130
Balance at end of the year	\$ 2,405,568	2,405,568

The average interest rate earned on the loans and advances during the financial year was 9.3% (2015:8.8%).

The Credit Union's loan loss provision has been made in accordance with the requirements of IAS 39. Under the PEARLS methodology, the Credit Union provides for loan losses at the rate of thirty-five (35%) percent on balances less than twelve (12) months old and one hundred (100%) percent on balances more than twelve (12) months old on the net amount of delinquent loans according to the policy by the Board of Directors. This basis of provision is a requirement of Antigua and Barbuda Co-operative Societies Regulations 2010, Section 201 (compliance with PEARLS). As of December 31, 2016 the provision for credit losses in accordance with the PEARLS methodology amounted to \$1,579,861 (2015: \$1,211,808).

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

11 Investment securities

	2016	2015
Loans and receivables		
Six (6) month treasury bill		
Government of St. Lucia	\$ 1,975,654	<u>1,965,428</u>
One (1) year fixed deposits		
Antigua Commercial Bank Ltd.	3,672,429	3,583,273
National Co-operative Credit Union (Dominica)	3,000,567	1,942,163
Capita Financial Services Inc.	1,604,461	1,540,000
FND Enterprise Credit Union	1,000,000	<u>-</u>
	<u>9,277,457</u>	<u>7,065,436</u>
One (1) year treasury bills		
Government of Grenada	1,904,762	-
Government of Antigua and Barbuda	1,902,887	<u>955,020</u>
	<u>3,807,649</u>	<u>955,020</u>
Three (3) year fixed deposits		
Grenada Public Service Co-operative Credit Union	1,000,000	<u>1,000,000</u>
Total loans and receivables	\$ 16,060,760	<u>10,985,884</u>
Held-to-maturity		
Two (2) year bond		
Government of St. Lucia	\$ 295,702	<u>297,738</u>
Three (3) year bond		
Government of St. Vincent	500,000	<u>500,000</u>
Five (5) year bond		
Government of Dominica	400,000	<u>400,000</u>
Seven (7) year bond		
Government of Antigua and Barbuda	247,315	<u>249,173</u>
Total held-to-maturity	\$ 1,443,017	<u>1,446,911</u>

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

11 Investment securities *(cont'd)*

	2016	2015
Available-for-sale - Equity securities		
Antigua and Barbuda Co-operative League Shares	\$ 1,000	1,000
Eastern Caribbean Home Mortgage Bank	70,040	70,040
Eastern Caribbean Co-operative Central Ltd.	5,000	5,000
	<u>76,040</u>	<u>76,040</u>
Interest receivable	357,912	245,274
Total investment securities	\$ 17,937,729	12,754,109
	2016	2015
Current	\$ 15,463,349	10,496,043
Non-current	2,474,380	2,258,066
	<u>\$ 17,937,729</u>	<u>12,754,109</u>

Investments classified as available-for-sale are shown at cost since they are not actively traded in any market and their fair value cannot be reliably determined.

12 Other assets

	2016	2015
Other receivables	\$ 387,239	110,333
Prepayments	144,886	139,017
Unused office supplies	60,578	57,392
Total other assets	\$ 592,703	306,742

All amounts are short-term. The net carrying value of other assets is considered a reasonable approximation of the fair value.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

13 Property and equipment

	Land	Building	Leasehold improvements	Office equipment	Furniture and fixtures	Computer equipment	Motor vehicles	Work in progress	Total
Cost/valuation									
At December 31, 2014	\$ 2,809,776	9,218,732	407,912	1,398,863	812,713	687,432	109,894	47,882	15,493,204
Additions	-	-	61,187	30,979	52,118	108,619	-	9,254	262,157
Transfer	-	-	-	-	-	11,541	-	(11,541)	-
Disposals	-	-	-	(123,746)	(14,282)	(237,658)	-	-	(375,686)
At December 31, 2015	2,809,776	9,218,732	469,099	1,306,096	850,549	569,934	109,894	45,595	15,379,675
Additions	-	-	4,500	87,167	45,678	8,636	-	19,114	165,095
Transfer	-	-	-	2,882	-	-	-	(2,882)	-
At December 31, 2016	\$ 2,809,776	9,218,732	473,599	1,396,145	896,227	578,570	109,894	61,827	15,544,770
Accumulated depreciation									
At December 31, 2014	\$ -	585,188	118,061	1,031,390	678,437	672,369	74,033	-	3,159,478
Charge for the year	-	226,263	20,395	77,458	81,054	23,329	8,179	-	436,678
Disposals	-	-	-	(121,469)	(14,282)	(237,658)	-	-	(373,409)
At December 31, 2015	-	811,451	138,456	987,379	745,209	458,040	82,212	-	3,222,747
Charge for the year	-	232,091	20,878	80,710	28,420	40,134	681	-	402,914
Disposals	-	-	-	-	-	-	-	-	-
At December 31, 2016	\$ -	1,043,542	159,334	1,068,089	773,629	498,174	82,893	-	3,625,661
Carrying value									
At December 31, 2016	\$ 2,809,776	8,175,190	314,265	328,056	122,598	80,396	27,001	61,827	11,919,109
At December 31, 2015	\$ 2,809,776	8,407,281	330,643	318,717	105,340	111,894	27,682	45,595	12,156,928

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

*(Expressed in Eastern Caribbean Dollars)***13 Property and equipment (cont'd)***Revaluation reserve*

Revaluation reserve represents the excess of appraised values over the cost of the Credit Union's land and building as a result of a professional valuation which has been adopted by the Credit Union. The Credit Union's property valuation was performed by an independent professional valuator, Mr. L. Lowell Jarvis (ABIA), in September 2011. The excess of the appraised value over cost amounted to EC\$4,271,026, which was credited to the revaluation reserve.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of December 31, 2016.

	2016		
	Land	Buildings	Total
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	-	(1,200,430)	(1,200,430)
Net book values	\$ 1,041,979	4,344,943	5,386,922

	2015		
	Land	Buildings	Total
Cost	\$ 1,041,979	5,545,373	6,587,352
Accumulated depreciation	-	(1,089,523)	(1,089,523)
Net book values	\$ 1,041,979	4,455,850	5,497,829

14 Bank overdraft

The bank overdraft is non-interest bearing and is unsecured.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

15 Members' deposits

	2016	2015
Regular savings	\$ 81,026,248	65,713,923
Term deposits	18,842,591	19,737,407
Deposit accounts	22,217,131	18,349,735
Individual retirement accounts (CFIRA)	3,896,412	2,458,258
Checking accounts	1,994,075	1,670,362
School saving society	1,758,444	1,531,367
Education savings accounts (CFESA)	1,368,788	1,148,723
Thrift Fund	1,139,061	986,806
Summer Club	879,669	718,601
Insurance deposits	427,875	322,356
Graduation Club	9,449	5,194
Holiday Club	100	100
	133,559,843	112,642,832
Interest payable	254,893	331,981
Total members' deposits	\$ 133,814,736	112,974,813
Current	133,814,736	112,974,813
Non-current	-	-
	\$ 133,814,736	112,974,813

These deposits have various maturity profiles with interest rates varying from two percent (2%) (2015: two percent (2%)) to Six percent (6%) (2015: seven percent (7%)) per annum.

16 Other liabilities

	2016	2015
Trade payables	\$ 130,965	39,078
Accruals and other liabilities	435,829	407,171
	\$ 566,794	446,249

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

17 Permanent shares

	2016	2015
Issued and fully paid 784,982 (2015: 711,938) shares @ \$5.00 each	\$ 3,924,910	3,559,690

In accordance with the By-laws of the Community First Co-operative Credit Union Limited, Article VIII, the Credit Union is required to have a permanent capital base whereby each member must acquire shares at a minimum cost of one hundred (\$100) dollars. The Credit Union has the right to issue an unlimited number of shares; however, the maximum shareholding by any one member is restricted to 20% of the total share capital. During the year, the Credit Union issued 73,044 (2015: 55,686) permanent shares at \$5 each to its members for cash in the amount of \$365,220 (2015: \$278,430).

18 Reserves

	2016	2015
Statutory		
Balance at January 1	\$ 3,838,363	3,363,148
Appropriation of net income	975,631	475,215
Balance at December 31	4,813,994	3,838,363
General		
Entrance fees	133,712	121,297
Donated capital	10,209	10,209
	143,921	131,506
Revaluation reserve		
Balance at January 1	5,196,657	5,283,840
Revaluation surplus transfer	(87,183)	(87,183)
Balance at December 31	5,109,474	5,196,657
Total reserves	\$ 10,067,389	9,166,526

In accordance with Section 125 (2) of the Co-operative Societies Act, management is required to set aside a statutory reserve of twenty-five (25%) percent of the net profits (if any) each year. In addition, all entrance fees are credited to a general reserve.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

19 General and administrative expenses

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Payroll and related costs	21	\$ 1,954,849	1,835,355
Repairs and maintenance		410,573	341,187
Depreciation	13	402,914	436,678
CUNA insurance premiums		375,912	332,142
Stationery		247,876	219,029
Advertising		179,066	154,965
Insurance		168,672	186,468
Utilities		147,454	160,316
League fees and expenses		120,000	120,000
Building security		119,917	137,918
Education and training	22	101,107	93,635
Cleaning		84,414	67,368
Legal and other professional fees		82,280	44,180
Bank charges and interest		81,283	31,960
Telephone and cables		79,770	78,044
Audit fees		63,250	104,800
Uniforms		47,158	7,556
Office and general expenses		43,402	33,292
Rent		38,640	38,640
Annual general meeting		38,550	38,550
Contribution and donations		37,019	24,817
Social events		36,017	25,810
Directors' and committee expenses		35,889	31,015
Miscellaneous		14,506	26,396
Gasoline		8,603	8,546
Subscriptions		2,444	2,794
Postage		1,573	3,488
Total general and administrative expenses		\$ 4,923,138	4,584,949

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

20 Other income

	2016	2015
Fees and commissions	\$ 379,913	338,213
Loan fees	389,431	311,444
Other income	37,204	25,657
Total other income	\$ 806,548	675,314

21 Payroll and related costs

	2016	2015
Salaries and wages	\$ 1,525,747	1,449,098
Other benefits	290,951	256,200
Social security contributions	85,083	80,284
Medical benefits contributions	53,068	49,773
Total payroll and related costs	\$ 1,954,849	1,835,355
Number of employees	34	30

22 Education and training

	2016	2015
Convention and Organization of the Eastern Caribbean States (OECS) Summit	\$ 11,572	11,972
Caribbean Confederation of Credit Unions (CCCU)	32,939	37,821
Human Resources Development	56,596	43,842
Total education and training	\$ 101,107	93,635

23 Income tax

Under Section 212 of the Income Tax laws of Antigua and Barbuda, the Credit Union is classified as a non-profit organization and is therefore exempt from the payment of income tax.

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

24 Related party balances and transactions

Related parties

A related party is a person or entity that is related to the Credit Union:

- a) A person or a close member of that person's family is related to the Credit Union if that person:
 - i) has control or joint control over the Credit Union;
 - ii) has significant influence over the Credit Union; or
 - iii) is a member of the key management personnel of the Credit Union, or of a parent of the Credit Union.
- b) An entity is related to the Credit Union if any of the following conditions applies:
 - i) The entity and the Credit Union are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Credit Union or an entity related to the Credit Union.
 - vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party balances

	Total loans		Total deposits	
	2016	2015	2016	2015
Board of directors	\$ 591,848	618,682	146,174	117,804
Credit committee	49,905	41,439	50,080	34,429
Supervisory committee	144,446	38,395	259,981	129,565
Key management personnel	172,754	309,135	635,090	542,800
Total related party balances	\$ 958,953	1,007,651	1,091,325	824,598

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Financial Statements

December 31, 2016

(Expressed in Eastern Caribbean Dollars)

24 Related party balances and transactions *(cont'd)*

Related party transactions

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions except for certain loans made available to officers.

	2016	2015
Interest income on loans	\$ 77,810	83,482
Interest expense on deposits	20,817	23,068
Accrued interest receivable on loans	938	638
Accrued interest payable on deposits	2,252	3,190

Interest rates on related party deposits range from 1% to 6% (2015: 2.0% to 6%). Interest rates on related party loans range from 7.5% to 12% (2015: 7.5% to 12%).

Remuneration of key management personnel

During the year, salaries and related benefits paid to key members of management were as follows:

	2016	2015
Salaries and allowances	\$ 436,635	419,817
Other staff costs	59,403	58,931
	\$ 496,038	478,748

25 Dividends

During the year, the Credit Union paid \$158,012 as dividends (2015: nil) to its members/shareholders. Dividends for 2016 have not yet been proposed. As the distribution of dividends requires approval at the Annual General Meeting, no liability in this respect is recognised in the 2016 financial statements.