

Financial Statement of

**BAHAMA ISLANDS CO-OPERATIVE  
CREDIT UNION LIMITED**

December 31, 2015

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**  
*(Formerly Bahama Islands Resorts and Casinos Co-operative Credit Union Limited)*  
Financial Statements

December 31, 2015

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# BAKER TILLY GOMEZ

CHARTERED ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Members of:

### **Bahama Islands Co-operative Credit Union Limited**

We have audited the accompanying financial statements of Bahama Islands Co-operative Credit Union Limited (*Formerly Bahama Islands Resorts and Casinos Co-operative Credit Union Limited*) (the "Credit Union") which comprises the statement of financial position as at December 31, 2015, the statement of profit or loss and other comprehensive income, the statement of changes in members' equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## INDEPENDENT AUDITORS' REPORT *(Continued)*

### *Basis for Qualified Opinion*

As more fully explained in Note 3(l), the Credit Union has classified members' qualifying shares available for withdrawal as equity in the statement of financial position and the dividends paid on these shares as an appropriation of retained earnings. This is in accordance with industry practice and The Bahamas Co-operative Credit Union Act, 2015 and its Regulations. However, this is not in accordance with IFRS.

IFRS requires that members' shares available for withdrawal be classified as liabilities and that the dividends paid on these shares classified as an expense, when the Credit Union does not have an unconditional right to refuse the members' requests to close their accounts and withdraw their qualifying shares from the Credit Union.

If member's qualifying shares were classified in accordance with IFRS, liabilities would have increased and members' equity decreased by \$1,170,800 (2014: \$1,041,600), and profits would have decreased by \$81,312 (2014: \$75,249).

### *Qualified Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly in all material respects, the financial position of Bahama Islands Co-operative Credit Union Limited as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



**CHARTERED ACCOUNTANTS**

May 4, 2016

Nassau, Bahamas

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Statement of Financial Position

As of December 31, 2015

*(Expressed in Bahamian Dollars)*

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents (Note 5(a))	\$ 585,965	\$ 1,662,024
Deposits with banks and other institutions (Note 5(b))	1,051,462	50,800
Deposits with the League (Note 6)	6,174,180	5,848,233
Loans receivable, net (Notes 7, 18)	20,320,687	18,130,953
Other assets (Note 8)	1,100,013	1,002,995
Financial investments (Note 9)	1,336,435	479,435
Investment property (Note 10)	1,153,101	1,153,101
Property, plant and equipment (Note 11)	408,917	437,885
<b>TOTAL ASSETS</b>	<b>\$ 32,130,760</b>	<b>\$ 28,765,426</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities</b>		
Members' shares and other deposits (Notes 12,18)	\$ 26,230,037	\$ 23,501,601
Other liabilities (Note 13)	690,547	725,031
Total liabilities	26,920,584	24,226,632
<b>Members' Equity</b>		
Qualifying shares (Note 14)	1,170,800	1,041,600
Statutory reserve (Note 14)	2,629,740	2,469,086
Investment revaluation reserve (Note 14)	51,000	45,200
Retained earnings (Note 14)	1,358,636	982,908
Total members' equity	5,210,176	4,538,794
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 32,130,760</b>	<b>\$ 28,765,426</b>

See notes to financial statements.

These financial statements are approved on behalf of the Board and authorized for issue on May 4, 2016 and signed on its behalf by:


  
 \_\_\_\_\_  
 Hilton Bowleg  
 Chairman


  
 \_\_\_\_\_  
 Barry Rolle  
 Treasurer

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2015

	2015	2014
<b>INTEREST INCOME:</b>		
Loans (Note 15)	\$ 2,261,544	\$ 2,011,299
Investments (Note 15)	167,395	121,259
Total interest income	2,428,939	2,132,558
<b>INTEREST EXPENSE:</b>		
Interest on deposits (Note 15)	(892,828)	(834,849)
Total interest expense	(892,828)	(834,849)
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN IMPAIRMENT</b>	1,536,111	1,297,709
Increase in provision for loan impairment (Note 7)	(182,888)	(95,449)
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT</b>	1,353,223	1,202,260
Non-interest income (Note 16)	806,050	468,537
<b>NET INTEREST AND OTHER INCOME</b>	2,159,273	1,670,797
<b>OPERATING EXPENSES:</b>		
Personnel (Notes 17,18)	566,310	651,289
Members' security (Note 17)	242,785	202,356
General business (Note 17)	248,727	244,807
Organizational (Note 17)	202,768	157,165
Occupancy (Note 17)	105,435	125,042
Computer costs (Note 17)	74,964	56,429
Marketing (Note 17)	100,590	84,757
Total operating expenses	1,541,579	1,521,845
<b>PROFIT FOR THE YEAR</b>	617,694	148,952
<b>OTHER COMPREHENSIVE INCOME:</b>		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Increase in fair value of available-for-sale investments	5,800	3,530
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 623,494	\$ 152,482

See notes to financial statements.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Statement of Changes in Members' Equity

For the year ended December 31, 2015

	Qualifying Shares	Statutory Reserve	Investment Revaluation Reserve	Retained Earnings	Total
<b>BALANCE AS AT DECEMBER 31, 2013</b>	<b>\$ 967,200</b>	<b>\$ 2,325,259</b>	<b>\$ 41,670</b>	<b>\$ 1,053,032</b>	<b>\$ 4,387,161</b>
<b><i>Comprehensive income for the year</i></b>					
Profit for the year	-	-	-	148,952	148,952
Other comprehensive income	-	-	3,530	-	3,530
<b><i>Total comprehensive income for the year</i></b>	<b>-</b>	<b>-</b>	<b>3,530</b>	<b>148,952</b>	<b>152,482</b>
<b><i>Transactions with owners</i></b>					
Shares issued during the year (Note 14)	144,000	-	-	-	144,000
Shares redeemed during the year (Note 14)	(69,600)	-	-	-	(69,600)
Dividends paid on qualifying shares (Note 14)	-	-	-	(75,249)	(75,249)
<b><i>Total transactions with owners</i></b>	<b>74,400</b>	<b>-</b>	<b>-</b>	<b>(75,249)</b>	<b>(849)</b>
<b><i>Transfers between reserves</i></b>					
Statutory reserve (half of 1% of assets) (Note 14)	-	143,827	-	(143,827)	-
<b>BALANCE AS AT DECEMBER 31, 2014</b>	<b>1,041,600</b>	<b>2,469,086</b>	<b>45,200</b>	<b>982,908</b>	<b>4,538,794</b>
<b><i>Comprehensive income for the year</i></b>					
Profit for the year	-	-	-	617,694	617,694
Other comprehensive income	-	-	5,800	-	5,800
<b><i>Total comprehensive income for the year</i></b>	<b>-</b>	<b>-</b>	<b>5,800</b>	<b>617,694</b>	<b>623,494</b>
<b><i>Transactions with owners</i></b>					
Net shares issued during the year (Note 14)	129,200	-	-	-	129,200
Dividends paid on qualifying shares (Note 14)	-	-	-	(81,312)	(81,312)
<b><i>Total transactions with owners</i></b>	<b>129,200</b>	<b>-</b>	<b>-</b>	<b>(81,312)</b>	<b>47,888</b>
<b><i>Transfers between reserves</i></b>					
Statutory reserve (half of 1% of assets) (Note 14)	-	160,654	-	(160,654)	-
<b>BALANCE AS AT DECEMBER 31, 2015</b>	<b>\$ 1,170,800</b>	<b>\$ 2,629,740</b>	<b>\$ 51,000</b>	<b>\$ 1,358,636</b>	<b>\$ 5,210,176</b>

See notes to financial statements.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Statement of Cash Flows

For the year ended December 31, 2015

	2015	2014
<b>Cash flows from operating activities:</b>		
Profit for the year	\$ 617,694	\$ 148,952
<i>Adjustment for items not affecting cash:</i>		
Interest income	(2,428,939)	(2,132,558)
Interest expense	892,828	834,849
Depreciation (Note 11)	50,803	53,362
Provision for loan impairment (Note 7(c))	250,950	205,609
	(616,664)	(889,786)
<b>Changes in operating assets and liabilities:</b>		
Increase in loans receivables	(2,440,684)	(2,512,033)
(Increase)/decrease in other assets	(97,018)	176,486
Increase in members' shares and other deposits	2,728,436	3,307,615
(Decrease)/increase in other liabilities	(34,484)	95,923
<b>Net cash (used in)/provided by operating activities</b>	<b>(460,414)</b>	<b>178,205</b>
<b>Cash flows from investing activities:</b>		
Interest received	2,314,359	2,078,558
Interest paid	(865,040)	(780,849)
Increase in deposits with banks and other institutions	(1,000,000)	-
Increase in deposits with the League	(195,290)	(1,807,073)
Purchase of investments	(850,000)	-
Purchase of property, plant and equipment	(21,835)	(3,626)
Acquisition of shares in the League	(1,200)	(1,000)
<b>Net cash used in investing activities</b>	<b>(619,006)</b>	<b>(513,990)</b>
<b>Cash flows from financing activities:</b>		
Redemption of members' shares	(54,600)	(69,600)
Issuance of members' shares	129,200	144,000
Dividends paid on members' shares	(71,239)	(75,249)
<b>Net cash provided by/(used in) financing activities</b>	<b>3,361</b>	<b>(849)</b>
<b>Net decreased in cash and cash equivalents</b>	<b>(1,076,059)</b>	<b>(336,634)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,662,024</b>	<b>1,998,658</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 585,965</b>	<b>\$ 1,662,024</b>

See notes to financial statements.

# BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED

## Notes to the Financial Statements

December 31, 2015

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### 1. GENERAL

Bahama Islands Co-operative Credit Union Limited (*Formerly Bahama Islands Resorts and Casinos Co-operative Credit Union Limited*) ("BICCU") (the "Credit Union") was registered on May 28, 1986 under the provisions of the Commonwealth of The Bahamas Co-operative Societies Act, 2005 (the "Act"), and subsequently became a registered member of The Bahamas Co-operative League Limited (the "League"). The Credit Union changed its name on August 20, 2014.

Membership, which includes persons not less than 16 years of age, consist of all persons employed in the in The Bahamas, all past and present employees of the Credit Union who where members of the Credit Union at the time of their separation, and all former members of the Queens College Co-operative Credit Union Limited. The spouses, children, parents and siblings of all of the aforementioned members are also eligible to become members of the Credit Union.

The principal objectives of the Credit Union are as follows:

- a) To promote the economic interests of its members in accordance with co-operative principles;
- b) To promote thrift among its members by affording them an opportunity to accumulate their savings; and
- c) To create a source of credit to members for provident and productive purposes.

The Credit Union's registered office is located at No. 9 Village Road, Nassau, The Bahamas.

### 2. LAWS AND REGULATION

During the year ended December 31, 2015, the Bahamas Co-operative Credit Unions Act, 2015 and the Bahamas Co-operative Credit Unions Regulations, 2015 came into effect. The new Act transfers the regulation of Credit Unions in the Bahamas to the Central Bank of the Bahamas.

Where the new regulatory framework affects these financial statements, the effects are disclosed in the financial statements and the relevant notes.

- a) Section 65(1) of the Bahamas Co-operative Credit Unions Act, 2015 states that "*where a co-operative credit union realizes an annual surplus from its transactions, that co-operative credit union shall establish and maintain a statutory reserve fund as may be prescribed by regulations*".
- b) Section 122 of the Act exempts the Credit Union from stamp duty relating to the execution of documents in the Bahamas, including loans granted, which is exempted under the Stamp Act.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- a) **Statement of compliance** – Except as noted in Note 3(l), the Credit Union's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB").

December 31, 2015

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b) **Basis of preparation** – These financial statements have been prepared under the historical cost convention except for available-for-sale financial assets that have been measured at fair value.
- c) **Changes in accounting policies and disclosures** – Certain new standards, amendments to existing standards and interpretations have been published by the IASB, the effect on the Credit Union's financial statements are set out below:
- i) Amended standards effective January 1, 2015  
The Credit Union adopted the following amended standards during the year:
- **IAS 16 Property and Equipment and IAS 38 Intangible Assets** – The amendment to IAS 16 and IAS 38 remove the perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. This amendment had no impact on the Credit Union's current year financial statements as the Credit Union has not revalued its property, plant and equipment or intangible assets.
  - **IAS 24 (Amended), Related Party Disclosures** has been amended to extend the definition of 'related party' to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity, however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the key management personnel services. This amendment had no impact on the financial statements as transactions with related parties are disclosed in Note 18 to the financial statements in the current and prior periods.
  - **IFRS 13, Fair value measurement** – The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

December 31, 2015

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Changes in accounting policies and disclosures (Continued)**

*ii) New standards issued but not yet effective and not early adopted*

The following new standards have been published but not yet effective, and are relevant to the Credit Union's financial statements:

- *Amendment to IAS 1, 'Presentation of Financial Statements'*, (effective for annual periods beginning on or after 1 January 2016). This amendment forms part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. It clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Credit Union is currently assessing the impact of future adoption of the amendments on its financial statement.
- *IFRS 16, 'Leases'*, (effective for annual periods beginning on or after 1 January 2019) was issued in January 2016 and replaces IAS 17, 'Leases'. An entity can choose to apply IFRS 16 before the effective date but only if it also applies IFRS 15, 'Revenue from Contracts with Customers'. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors and lessees that will improve information provided to users of the financial statements. Management is considering the implications of the standard, the impact on the Credit Union and the timing of its adoption.

- *IFRS 9, Financial Instruments*, is effective for accounting periods beginning on or after January 1, 2018. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income. The standard includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, on the recognition and de-recognition of financial assets and financial liabilities. The Credit Union is considering the implications of the standard, the impact on the Credit Union, and the timing of its adoption.
- *IFRS 15, 'Revenue from contracts with customers'* (effective for annual periods beginning on or after 1 January 2017) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Credit Union is assessing the impact of IFRS 15.

December 31, 2015

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) **Foreign currency translation**

Functional and presentation currency

Items included in the financial statements of the Credit Union are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Bahamian dollars (B\$), which is the Credit Union's functional and reporting currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the statement of profit or loss and other comprehensive income.

- e) **Cash and cash equivalents** – Cash and cash equivalents are carried in the statement of financial position at amortized cost using the effective interest method. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held with original maturity of ninety (90) days or less, net of bank overdraft.
- f) **Fixed deposits** – Fixed deposits represent deposits at banks with original maturities of more than 90 days. These deposits are recognized in the statement of financial position at amortized cost using the effective interest method.
- g) **League deposits** – League deposits represent the proceeds of the statutory reserve fund and the liquidity reserve fund, which are deposited with and administered by the League, as required by Section 81(3) of the Co-operative Societies Act, 2005. The deposits are carried at amortized cost using the effective interest method in the statement of financial position.
- h) **Other assets** – Other assets, which also include accounts receivable, are carried at cost.
- i) **Investment property** – Investment properties are properties held to earn rentals or for capital appreciation, or for both, rather than for use in the supply of services or for administrative purposes, and which is not for sale in the ordinary course of business. The Credit Union has adopted the cost method of accounting for its investment property in accordance with IAS 40 – Investment Property.
- j) **Property, plant and equipment** – Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly related to the acquisition of the asset. The cost of self constructed assets includes the cost of material and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Subsequent cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part flow to the Credit Union and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income.

December 31, 2015

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

j) **Property, plant and equipment (Continued)**

Depreciation is recognized in the statement of profit or loss on the straight-line basis at rates estimated to write-off the relevant assets over their expected useful lives. Land is not depreciated. The rates used are as follows:

Building	-	4%
Furniture and fixtures	-	10-50%
Computer software and hardware	-	20-33 %
Vehicle	-	20%

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

- k) **Members' deposits** – Members' deposits represent deposit holdings of the Credit Union's members to satisfy membership requirements and to facilitate eligibility for loans and other benefits.
- l) **Members' shares** – Members' shares represent the deposits holdings of the Credit Union's members, to satisfy membership requirements and to facilitate eligibility for loans and other benefits.

Members' regular shares

Members' regular shares represent members' regular savings, which if required by the member, can be used to access loans issued by the Credit Union. Members' regular shares are classified as liabilities in the statement of financial position and the interest paid on these shares are classified as interest expense, in accordance with IFRS.

Qualifying shares

Qualifying shares are the minimum shares required to become a member of the Credit Union as described in the Credit Union's Bye-Laws. Each member of the Credit Union is required to own a minimum of 40 shares with a value of \$5 each. These shares entitled each member to 1 vote at the Annual General Meeting.

In accordance with Regulations and Industry practice, the Credit Union classifies qualifying shares as equity in the statement of financial position, and the dividends paid on these shares as an appropriation of retained earnings, and not as an expense. This is not in compliance with IFRS.

IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments requires that the voluntary shares be classified as liabilities and that the dividends paid on these shares be classified as an expense, where there is no unconditional right of the Credit Union to refuse redemption, whether through legislation or through the Credit Union's own rules. Currently, members of the Credit Union with no outstanding obligations due to the Credit Union can withdraw their qualifying shares upon request.

- m) **Statutory reserve** – This reserve is set up in accordance with the provisions of the Bahamas Co-operative Credit Union Act, 2015 as set out in Note 2(a). The proceeds of this reserve are deposited with the League and are not available for distribution.
- n) **Retained earnings** – Retained earnings represents undistributed surplus after statutory appropriation and dividend declared that are agreed upon by the members at the annual general meetings.

December 31, 2015

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- o) **Investment revaluation reserve** – Investment revaluation reserve represents the accumulated unrealized gain and losses arising on changes in fair value of available-for-sale financial investments.
- p) **Dividends** – Dividends on qualifying shares are recognized in equity in the period in which they are declared by the Credit Union's Directors. Further, the payment of dividends is subject to the approval of members at the Annual General Meeting.
- q) **Interest income and expense** – Interest income and expense are recognized in the statement of profit or loss and other comprehensive income for all instruments measured at amortized cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loans. Loan interest income is not recognized on loans that are past due for periods exceeding 12 months.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Credit Union estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions 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

- r) **Fees and other income** – Fees and other income are recognized on the accrual basis. Loan origination fees are recognized over the life of the loan, as an adjustment to the effective yield on the loans. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.
- s) **Operating expenses** – Operating expenses are recognized on the accrual basis in the statement of profit or loss and other comprehensive income.
- t) **Employee retirement benefits costs** – The Credit Union participates in a defined contribution based pension plan. Contributions to this plan are recognized as personnel expense in the statement of profit or loss and other comprehensive income when the employees have rendered services entitling them to the contributions. This plan is administered by a separate entity. The Credit Union has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees in the current or prior periods.
- u) **Related parties** – A related party is a person or entity that is related to the entity that is preparing the financial statements. In these financial statements, current and past members of the Board of Directors, committee members (one year past), management staff and their close relatives are classified as related parties.  

The Credit Union is a member of the League and has a representative on the Board of Directors of the League.
- v) **League dues and stabilization dues** – The League has fixed its dues at \$12 annually per member, while stabilization dues are set at \$3 annually per member.

December 31, 2015

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- w) **Financial instruments** – A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity of another enterprise.

Financial Assets

The Credit Union classifies its financial assets into the following categories: *loans and receivables*; *held-to-maturity investments*; and *available-for-sale financial assets*. Management determines the classification of its financial assets at initial recognition.

- 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. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Loans are initially recorded at cost, which is the cash given to originate the loan including any transaction costs and are subsequently measured at amortized cost using the effective interest rate method, less allowance for loan losses. At the statement of financial position date, loans receivable, fixed deposits and other assets are classified as loans and receivables.
- ii) *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized in the statement of profit or loss, on an effective yield basis. If the Credit Union were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. Investment in the Bahamas Government Bridge Bonds is classified in this category at the statement of financial position date.
- iii) *Available-for-sale financial assets* – Available-for-sale financial assets are those 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. They are measured at fair values, with changes to fair value recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in investments revaluation reserve is included in profit or loss for the period. Dividends are recorded on the accrual basis, in profit or loss when declared. Quoted equity investments and shares held in the League are classified as available-for-sale.

December 31, 2015

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

w) *Financial instruments (Continued)*

Financial Assets (Continued)

iv) *Impairment of financial assets*

- a) *Loan impairment policy* – An allowance for impairment is established if there is objective evidence that it is probable that all amounts due according to the original contractual terms will not be collected. The amount of the provision is the difference between the carrying value amounts and the recoverable amounts, being the present value of the expected future cash flows including amounts recoverable from collateral.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. The provision for impairment is based on the Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, Signs of growth (PEARLS) system of estimating loan losses. Provisions are calculated at rates as outlined in Note 7(e).

Loans are placed on a non-accrual basis if they are delinquent for over 12 months in accordance with the Credit Union's Policy.

Write-offs are made when all or part of the loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written off are recognized in the statement of profit or loss as part of 'other income'. All write-offs must receive prior approval from the Department of Co-operative Development.

Renegotiated loans – Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

- b) *Assets classified as available-for-sale* – For listed equity classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of profit or loss.

Financial Liabilities

The Credit Union's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. At the statement of financial position date, the following items were classified as financial liabilities: members' and other deposits, and other liabilities. Management determines the classification of its financial liabilities at initial recognition.

December 31, 2015

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#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and contingent assets and contingent liabilities at the end of the reporting period and the income and expenses for the year then ended. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

##### Impairment losses on loans

In determining amounts recorded for impairment of loan losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant loans and loans portfolio with similar characteristics, such as credit risk.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimize any differences between loss estimates and actual loss.

##### Legal proceedings and claims

The Credit Union is involved, as a plaintiff, in a number of legal proceedings relative to outstanding loans. The Credit Union evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Credit Union to increase or decrease the amount that it provides or accrues for any matter.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**5. CASH AND CASH EQUIVALENTS AND DEPOSITS BANKS AND OTHER INSTITUTIONS****a) Cash and cash equivalents**

Cash and equivalents consist of the following:

	2015	2014
Scotiabank (Bahamas) Limited - operating account (i)	\$ 363,925	\$ 635,716
RBC Royal Bank (Bahamas) Limited - current account	103,974	928,392
Fidelity Bank (Bahamas) Limited - business chequing	59,631	(4,481)
Scotiabank (Bahamas) Limited - call deposit	50,000	50,000
Scotiabank (Bahamas) Limited - payroll account	7,735	51,697
	585,265	1,661,324
Cash in hand	700	700
	\$ 585,965	\$ 1,662,024

- (i) The Credit Union maintains a Credit Line of \$50,000 with Scotiabank (Bahamas) Limited. This facility bears interest at Nassau Prime plus 2.5% (effective interest rate of 7.25%).

The facility is secured by the hypothecation of \$50,000 of the fixed deposit in Note 5b (ii) below.

**b) Deposits with banks and other institutions**

Fixed deposit consists of the following:

	Interest Rate	2015	2014
BAF Financial & Insurance (Bahamas) Limited (i)	5.00%	\$ 1,000,000	\$ -
Scotiabank (Bahamas) Limited - fixed deposit (ii)	0.08% - 0.15%	51,462	50,800
		\$ 1,051,462	\$ 50,800

- i) This deposit is an annuity contract with no maturity date, but will incur a penalty if it is surrendered within 3 years. Interest accrues at 5% for the first year, and at a minimum guaranteed interest rate of Prime minus 2.2% thereafter.

- ii) The fixed deposit held by the Credit Union has original maturity of one (1) year, and matures on March 14, 2016 (2014: March 13, 2015).

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**6. DEPOSITS WITH THE LEAGUE**

Deposits with the League are comprised of the following:

	Interest Rate	2015	2014
<b>Statutory reserve deposits (i)</b>	1.44%		
<i>Balance, at beginning of year</i>		\$ 2,677,331	\$ 2,128,366
Additional deposits		409,454	512,550
Interest earned		41,415	36,415
<i>Balance, end of year</i>		3,128,200	2,677,331
<b>Liquidity reserve deposits (ii)</b>	1.44%		
<i>Balance, at beginning of year</i>		2,170,902	1,912,794
Additional deposits		285,836	220,982
Interest earned		33,337	37,126
<i>Balance, end of year</i>		2,490,075	2,170,902
<b>Other deposits (iii)</b>	1% - 3%		
<i>Balance, at beginning of year</i>		1,000,000	-
(Withdrawals)/additions		(500,000)	1,000,000
Interest earned		55,905	-
<i>Balance, end of year</i>		555,905	1,000,000
		<b>\$ 6,174,180</b>	<b>\$ 5,848,233</b>

i) **Statutory Reserves** – There is a shortfall in the required statutory reserves to be held at the League as follows:

	2015	2014
Statutory deposits at the League	\$ 3,128,200	\$ 2,677,331
Requirement (10% of total assets)	3,213,076	2,876,543
<i>Shortfall in statutory reserves deposits</i>	\$ (84,876)	\$ (199,212)

ii) The Act stipulates that not less than 10% of the Credit Union's members' deposits are kept in a "liquidity reserve fund". The proceeds of the liquidity reserve fund are deposits with the League. At the end of the reporting period, there was a shortfall in the liquidity reserve fund as follows:

	2015	2014
Liquidity reserve deposits at the League	\$ 2,490,075	\$ 2,170,902
Requirement (10% of members' deposits)	2,623,004	2,350,160
<i>Shortfall in liquidity reserves deposits</i>	\$ (132,929)	\$ (179,258)

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**7. LOANS RECEIVABLE, NET**

a) The movement in loans receivable during the year are as follows:

	2015	2014
<i>Balance, beginning of year</i>	\$ 18,280,037	\$ 16,060,166
Add: Loans disbursed during the year	12,286,815	11,586,885
Less: Repayments and transfers	(10,191,307)	(9,475,509)
	20,375,545	18,171,542
Accrued interest	135,296	108,495
	20,510,841	18,280,037
Less: Provision for loan impairment	(190,154)	(149,084)
<i>Balance, end of year</i>	\$ 20,320,687	\$ 18,130,953

b) Loans are classified as follows:

	Interest Rate	2015	2014
Consumer	6% - 18%	\$ 14,617,656	\$ 12,417,179
Construction and real estate	7.5% - 12%	4,436,341	4,539,828
Motor vehicle	6% - 12%	1,293,790	1,185,972
Business	9%	27,758	28,563
		\$ 20,375,545	\$ 18,171,542

c) The movements in the provision for loan impairment are as follows:

	2015	2014
<i>Balance, beginning of year</i>	\$ 149,084	\$ 344,132
Increase in provision during the year	250,950	205,609
Loans written off during the year	(209,880)	(400,657)
<i>Balance, end of year</i>	\$ 190,154	\$ 149,084
Provision for the year	250,950	205,609
Recoveries of bad debts	(68,062)	(110,160)
<b><i>Impairment losses reported in profit or loss</i></b>	<b>\$ 182,888</b>	<b>\$ 95,449</b>

Doubtful loans presented on a non-accrual basis total \$71,032 (2014: \$128,105).

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**7. LOANS RECEIVABLE, NET (Continued)**

## d) Delinquent Loans:

The following is a summary of non-performing loans:

2015						
Period in arrears	Number of accounts in arrears	Total Delinquent loans	Value of Security	Exposure	Loan loss provision	Provision rate %
Within 1 month	3	\$ 85,185	\$ 84,368	\$ 817	\$ -	n/a
2 to 3 months	48	268,213	117,468	150,745	52,761	35
4 to 6 months	49	339,760	217,160	122,600	42,910	35
7 to 12 months	41	262,579	148,339	114,240	39,984	35
Over 1 year	10	88,585	34,086	54,499	54,499	100
	151	\$ 1,044,322	\$ 601,421	\$ 442,901	\$ 190,154	

  

2014						
Period in arrears	Number of accounts in arrears	Total Delinquent loans	Value of Security	Exposure	Loan loss provision	Provision rate %
Within 1 month	7	\$ 63,459	\$ 5,639	\$ 57,820	\$ -	n/a
2 to 3 months	45	281,642	181,282	100,360	35,126	35
4 to 6 months	32	185,675	106,187	79,488	27,821	35
7 to 12 months	48	206,102	59,271	146,831	51,391	35
Over 1 year	10	38,237	3,490	34,747	34,746	100
	142	\$ 775,115	\$ 355,869	\$ 419,246	\$ 149,084	

**8. OTHER ASSETS**

Other assets are comprised of the following:

	2015	2014
Members' salary deductions receivable	\$ 869,711	\$ 824,900
Other receivables	99,798	107,024
Accrued investments income	43,194	26,280
Debt collection fees receivable	40,104	26,229
Deposits and prepaid expenses	38,716	15,562
Rent receivable - vending operations	8,490	3,000
	\$ 1,100,013	\$ 1,002,995

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**9. FINANCIAL INVESTMENTS**

Financial investments are comprised of:

	2015	2014
<b>Investments held-to-maturity (a):</b>		
<i>Bahamas Government Registered Stocks (BGRS):</i>		
Maturing in 2023 with interest at prime plus 0.3750% per annum	\$ 40,000	\$ 40,000
Maturing in 2026 with interest at prime plus 0.3125% per annum	350,000	350,000
<b>Total Bahamas Government Registered Stocks:</b>	<b>390,000</b>	<b>390,000</b>
<i>Bahamas Government Stocks (BGS):</i>		
Maturing in 2018 with interest at a fixed rate of 4% per annum	250,000	-
Maturing in 2020 with interest at a fixed rate of 4.25% per annum	100,000	-
Maturing in 2022 with interest at a fixed rate of 4.5% per annum	250,000	-
<b>Total Bahamas Government Stocks (BGS):</b>	<b>600,000</b>	<b>-</b>
<b>Total investments held-to-maturity</b>	<b>990,000</b>	<b>390,000</b>
<b>Available-for-sale investments (b):</b>		
<i>At fair value:</i>		
Freeport Oil Holdings Company Limited (4,000 shares)	26,400	24,000
Commonwealth Bank Limited (4,500 shares)	36,225	33,750
Fidelity Bank (Bahamas) Limited (500 shares)	3,300	2,375
	<b>65,925</b>	<b>60,125</b>
<i>At historical cost:</i>		
Cable Bahamas Limited 6.75% Redeemable Preference shares 2025	125,000	-
Cable Bahamas Limited 6.25% Redeemable Preference shares 2025	125,000	-
League shares: 610.2 shares (2014: 586.2 shares)	30,510	29,310
	<b>280,510</b>	<b>29,310</b>
<b>Total available-for-sale investments</b>	<b>346,435</b>	<b>89,435</b>
	<b>\$ 1,336,435</b>	<b>\$ 479,435</b>

**(a) Investments held to maturity:**

The interest rates on the government securities are tied to the Bahamian Prime Rate, which was 4.75% at December 31, 2015 (2014: 4.75%).

**(b) Available-for-sale investments:**

- i) Investments in quoted equities are measured at fair value and classified as available-for-sale financial instruments. The unrealized gains/losses on these instruments are presented in the statement of profit or loss and other comprehensive income.
- ii) Shares held in the League are measured at cost and classified as available-for-sale financial instruments. The Credit Union is required to hold these shares as a member of the League.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**10. INVESTMENT PROPERTY**

Investment property is comprised of:

	2015	2014
Land	\$ 1,153,101	\$ 1,153,101

The Credit Union owns 6.29 acres of land situated on West Bay Street, in the vicinity of Saunders Beach located in the Western District of New Providence.

Investment property is recorded at cost in the statement of financial position in accordance with IAS 40. It represents the purchase price of the land plus all other costs incurred in closing its acquisition. The fair value of the land is estimated at \$3.7 million based on an appraisal of the property done by TR Associates Limited on March 29, 2012.

**11. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are comprised of the following:

	Land	Building	Furniture & Fixtures	Computer Software	Vehicle	Total
<b><u>Cost:</u></b>						
Balance at December 31, 2013	\$ 137,379	\$ 634,140	\$ 103,237	\$ 62,481	\$ 18,630	\$ 955,867
Additions	-	-	1,980	1,646	-	3,626
Balance at December 31, 2014	137,379	634,140	105,217	64,127	18,630	959,493
Additions	-	9,656	2,519	9,660	-	21,835
Balance at December 31, 2015	137,379	643,796	107,736	73,787	18,630	981,328
<b><u>Accumulated depreciation:</u></b>						
Balance at December 31, 2013	-	360,669	55,381	33,566	18,630	468,246
Additions	-	30,963	15,190	7,209	-	53,362
Balance at December 31, 2014	-	391,632	70,571	40,775	18,630	521,608
Additions	-	30,905	14,305	5,593	-	50,803
Balance at December 31, 2015	-	422,537	84,876	46,368	18,630	572,411
<b><u>Carrying value:</u></b>						
As at December 31, 2015	<b>\$ 137,379</b>	<b>\$ 221,259</b>	<b>\$ 22,860</b>	<b>\$ 27,419</b>	<b>\$ -</b>	<b>\$ 408,917</b>
As at December 31, 2014	<b>\$ 137,379</b>	<b>\$ 242,508</b>	<b>\$ 34,646</b>	<b>\$ 23,352</b>	<b>\$ -</b>	<b>\$ 437,885</b>

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**12. MEMBERS' SHARES AND OTHER DEPOSITS**

Members' shares and other deposits are comprised of:

	2015	2014
<b><i>Regular deposits:</i></b>		
Balance, beginning of year	\$ 12,194,431	\$ 11,353,222
Add savings and interest	27,337,389	18,040,442
Less withdrawals and transfers	(26,289,467)	(17,199,233)
Balance, end of year	13,242,353	12,194,431
<b><i>Other deposits:</i></b>		
Certificate of deposits	5,723,056	4,102,499
Retirement savings	3,753,653	3,257,486
Educational savings	679,860	1,093,524
Christmas club accounts	606,049	424,864
Kid accounts	491,001	399,076
Kall accounts	114,364	122,296
Master Card accounts	81,449	74,235
Bill paying accounts	13,857	61,752
School fee deposits	51,276	51,140
Vacation club deposits	38,978	41,877
Group insurance	31,183	32,868
Queen's College accounts	15,072	14,813
Business accounts	772	4,227
Dormant accounts	2,517	2,751
Debit card accounts	111,576	-
Total other deposits	11,714,663	9,683,408
<b>Non-members deposits</b>	1,273,021	1,623,762
	<b>\$ 26,230,037</b>	<b>\$ 23,501,601</b>

Shares may be transferred to another member or anyone eligible for membership with the consent of the Board of Directors. Shares may be withdrawn in whole or in part by the member, however, the Board of Directors reserves the right at any time to require a member to give notice not exceeding 6 months, provided that no member may withdraw any shareholdings below the amount of his total liability to the Credit Union without approval of the Board of Directors.

Interest is paid on deposits at rates varying from 3% to 6% (2014: 3% to 6%) per annum.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**13. OTHER LIABILITIES**

Other liabilities are comprised of the following:

	2015	2014
Accrued interest payable	\$ 593,924	\$ 566,136
Accrued expenses	25,427	53,318
Stale dated cheques	22,931	74,292
Other payables	19,861	1,188
Unapplied receipts	18,331	26,261
Dividends payable	10,073	-
Debit cards	-	3,836
	<b>\$ 690,547</b>	<b>\$ 725,031</b>

**14. QUALIFYING SHARES AND OTHER RESERVES****i) Qualifying Shares**

The movements in qualifying shares during the year are comprised of:

	2015	2014
<i>Balance, beginning of year</i>	\$ 1,041,600	\$ 967,200
Issued during the year	183,800	144,000
Withdrawals and transfers	(54,600)	(69,600)
<i>Balance, end of year</i>	<b>\$ 1,170,800</b>	<b>\$ 1,041,600</b>

Shares in the Credit Union entitle each member to 1 vote at the Annual General Meeting. At December 31, 2015, the Credit Union has 5,854 members (2014: 5,208 members).

**ii) Statutory Reserves**

The movements in statutory reserves are comprised of:

	2015	2014
<i>Balance, beginning of year</i>	\$ 2,469,086	\$ 2,325,259
Transfer from retained earnings	160,654	143,827
Balance, end of year	2,629,740	2,469,086
Requirement (10% of total assets)	3,213,076	2,876,543
<i>Deficiency in statutory reserve</i>	<b>\$ (583,336)</b>	<b>\$ (407,457)</b>

As seen in the table above, the requirement to hold 10% of the Credit Union's assets in a statutory reserve account in members' equity has not been met. The current amount of the statutory reserve in equity is 8% (2014: 9%).

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**14. QUALIFYING SHARES AND OTHER RESERVES (Continued)****iii) Investment Revaluation Reserves**

The movements in investment valuation reserves comprise:

	2015	2014
<i>Balance, beginning of year</i>	\$ 45,200	\$ 41,670
Unrealized gain during the year	5,800	3,530
<i>Balance, end of year</i>	\$ 51,000	\$ 45,200

This represents the accumulated unrealized gains/losses arising on the revaluation of available-for-sale financial investments, which consist of equity shares traded on the Bahamas International Stock Exchange (BISX).

**iv) Retained Earnings**

The movements in retained earnings comprise:

	2015	2014
<i>Balance, beginning of year</i>	\$ 982,908	\$ 1,053,032
Profit for the year	617,694	148,952
Transfer to statutory reserve	(160,654)	(143,827)
Dividends to members	(81,312)	(75,249)
<i>Balance, end of year</i>	\$ 1,358,636	\$ 982,908

This reserve represents accumulated net surplus, after statutory appropriation and dividend declared that are agreed upon by the members at the annual general meeting.

**v) Dividends on Qualifying Shares**

Dividend on qualifying shares is an appropriation of retained earnings. During the year ended December 31, 2015, the Directors proposed a dividend of 8% (2014: 8%) be paid to the members. This will be voted on by members at the Annual General Meeting. Dividends declared and paid during the year totaled \$81,312 (2014: \$75,249).

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**15. NET INTEREST INCOME BEFORE PROVISION FOR LOAN IMPAIRMENT**

Net interest income before provision for loan impairment comprises:

	2015	2014
<b><u>Net interest on members operations:</u></b>		
Interest earned on loan to members	\$ 2,261,544	\$ 2,011,299
Interest expense on members' deposits	(892,828)	(834,849)
	1,368,716	1,176,450
<b><u>Investment interest income:</u></b>		
Fixed deposits at the League	55,905	27,205
Statutory reserve deposits at the League	41,416	36,415
Liquidity reserve deposits with the League	33,337	37,126
Bahamas Government Registered Stock	22,483	19,760
BAF Financial & Insurance (Bahamas) Ltd.	13,592	-
Fixed deposits at bank	662	753
	167,395	121,259
	\$ 1,536,111	\$ 1,297,709

**16. NON-INTEREST INCOME**

Non-interest income consists of the following:

	2015	2014
Service charges	\$ 644,971	\$ 410,949
Other income	69,316	-
Entrance fees	37,480	17,960
Bill payment fees	26,375	22,131
Dividends on equity investments	14,273	2,230
Credit card membership fees	6,400	9,267
Rental income from vending machines	6,000	6,000
Shirt sales	1,235	-
	\$ 806,050	\$ 468,537

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**17. OPERATING EXPENSES**

Operating expenses consist of the following:

	2015	2014
<i>Personnel:</i>		
Salaries	\$ 447,694	\$ 455,253
Medical and pension (Note 19)	71,163	53,831
Other benefits	25,758	123,886
National insurance	21,045	18,319
Employee training and development	650	-
	566,310	651,289
<i>Members' security:</i>		
Loans and savings insurance premium	238,471	199,513
Bond insurance	4,314	2,843
	242,785	202,356
<i>General business:</i>		
Stationery and supplies	51,936	29,174
Professional and legal fees	47,959	31,374
Bank charges	45,633	24,951
Telephone	32,043	29,170
Debit card expense	20,336	19,057
Value Added Tax (VAT)	15,935	-
Depreciation - furniture and fixtures	14,305	15,365
Other general expense	6,931	81,690
Insurance - officers liabilities	5,191	5,191
Equipment maintenance	4,410	3,865
Motor vehicle maintenance	3,395	4,381
Insurance - motor vehicle	653	559
Courier and postage	-	30
	\$ 248,727	\$ 244,807

*(Continued)*

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**17. OPERATING EXPENSES (Continued)**

	<b>2015</b>	<b>2014</b>
<i>Organizational:</i>		
Annual league dues	\$ 72,110	\$ 82,028
Board and committee meetings	65,098	45,393
WOCCU and CCCU Conventions	43,457	11,200
Annual general meeting	22,103	18,544
	<b>202,768</b>	<b>157,165</b>
<i>Occupancy:</i>		
Utilities	31,380	39,472
Depreciation - building	30,905	31,032
General maintenance	24,638	35,563
Insurance - building	14,241	10,177
Property tax	2,910	2,910
Security	1,361	5,888
	<b>105,435</b>	<b>125,042</b>
<i>Computer costs:</i>		
Maintenance and supplies	69,371	48,661
Computer hardware - depreciation	4,981	5,319
Computer software - depreciation	612	2,449
	<b>74,964</b>	<b>56,429</b>
<i>Marketing:</i>		
Advertising and promotions	97,790	79,114
Donations and gifts	2,800	5,643
	<b>100,590</b>	<b>84,757</b>
	<b>\$ 1,541,579</b>	<b>\$ 1,521,845</b>

*(Concluded)*

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**18. RELATED PARTIES**

Directors, committee members and staff members are classified as related parties and maintained the following balances and transactions with the Credit Union:

	2015	2014
<b>Directors and Committee Members:</b>		
Loans, including interest (a)	\$ 823,027	\$ 863,545
Interest income (a)	\$ 77,069	\$ 84,750
Shares and savings (b)	\$ 442,207	\$ 448,449
Interest expense (b)	\$ 13,814	\$ 22,560
<b>Staff Members:</b>		
Loans, including interest (a)	\$ 304,086	\$ 286,723
Interest income (a)	\$ 22,606	\$ 22,422
Shares and savings (b)	\$ 291,065	\$ 275,176
Interest expense (b)	\$ 2,527	\$ 30,465
<b>Family Members:</b>		
Loans, including interest (a)	\$ 275,351	\$ 181,733
Interest income (a)	\$ 29,073	\$ 22,928
Shares and savings (b)	\$ 373,112	\$ 264,323
Interest expense (b)	\$ 7,218	\$ 9,578

(a) Loans are generally granted in accordance with normal lending policies applicable to other members, (i.e. rates, terms, conditions, qualifying criteria, security, etc.) with the exception of loans to those staff members who are to receive preferential rates in their employment package and are included in loans receivable on the statement of financial position.

(b) Shares and savings accounts are maintained under the same terms and conditions as accounts of other members (i.e. rate, terms, conditions, qualifying criteria, securities, etc.) and are included in members' deposits and qualifying shares on the statement of financial position.

Key management remuneration for the year was as follows:

	2015	2014
Salaries and wages	\$ 433,557	\$ 393,834
Statutory and other costs	\$ 11,700	\$ 11,831

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**18. RELATED PARTIES (Continued)**

Board and committee expenses:

	2015	2014
Committee training	\$ 43,457	\$ 11,200
Annual league dues	\$ 72,210	\$ 75,868
Allowance	\$ 53,150	\$ 34,074
Expense	\$ 11,948	\$ 10,144

**19. PENSION PLAN**

The Credit Union provides retirement benefits for eligible employees, which is administered externally by a financial institution. The plan is a defined contribution plan and employees' participation in the plan is voluntary.

Vesting entitlement to the Credit Union's contributions is as follows:

<u>Years of service</u>	<u>Vested entitlement</u>
0 but less than 1 years	0%
1 but less than 2 years	20%
2 but less than 3 years	40%
3 but less than 4 years	60%
4 but less than 5 years	80%
> 5 years	100%

The contribution paid by the Credit Union for each employees ranges from 5% to 6% (2014: 5% to 6%) of the employee's monthly salary.

For the year ended December 31, 2015, the Credit Union's pension plan expense was \$11,258 (2014: \$12,746).

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## **20. FINANCIAL RISK MANAGEMENT**

By its nature, the Credit Union's activities are principally related to the use of financial instruments. This will involve analysis, evaluation and management of some degree of risk or combination of risks. The Credit Union's aims are, therefore, to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Credit Union's financial performance.

The Board of Directors (the "Board") is ultimately responsible for the establishment and oversight of the Credit Union's risk management framework. The Credit Union's risk management policies are designed to identify and analyze the risk faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits by means of regularly generated reports. Risk management procedures are closely integrated into all key business processes. The Credit Union regularly reviews its risk management policies, procedures and systems to reflect recommendations and best practice, as well as changes in markets and products.

The Board, through the following committees, is responsible for monitoring compliance with the Credit Union's risk management policies and procedures:

i) Supervisory Committee

The Supervisory Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. This Committee undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Board.

ii) Credit Committee

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

The Credit Union accepts deposits from members at agreed rates of interest and seeks to earn above average interest margins by investing these funds in high quality assets, as well as lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

These activities expose the Credit Union to a variety of financial risks, the most important risks are:

**20.1. Credit Risk**

**20.2. Liquidity Risk**

**20.3. Market Risk (including currency risk, interest rate risk and other price risk)**

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**20. FINANCIAL RISK MANAGEMENT** *(Continued)*

**20.1. Credit risk**

Credit risk is the risk that borrowers or other counterparties will cause a financial loss for the Credit Union by failing to discharge their contractual obligations when they become due, and that any collateral provided does not cover the Credit Union's claims. Credit risk is the most important risk for the Credit Union's business. As a consequence of the Credit Union's mandate and resulting financial structure, credit risk arise principally from lending activities and are concentrated in loans to members.

For loans, credit decisions are primarily made by the Board of Directors, with some delegation of credit approval authority to the Credit Committee and the Credit Union's Manager. There is a documented credit policy in place, which forms the basis for lending operations. The policy aims at maintaining a high quality loan portfolio, as well as enhancing the Credit Union's mission and strategy. The policy sets the basic criteria for acceptable risk and identifies risk areas that require special attention.

Additionally, the Credit Union is exposed to credit risk in its treasury activities, arising from financial assets that the Credit Union uses for investing its liquidity and managing currency and interest rate risks, as well as other market risks.

Credit risk management

The Credit Union manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees.

The principal collateral types for loans are:

- Shares or deposits held at the Credit Union (except qualifying shares); and
- Charges over assets such as automobiles and premises.

Management monitors the fair value of collateral held during its review of the adequacy of the provision for credit losses.

Borrowers of the Credit Union are segmented into two internal classes, performing and non-performing.

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**20. FINANCIAL RISK MANAGEMENT** *(Continued)*

**20.1. Credit risk** *(Continued)*

Impairment and provisioning policies

The Credit Union assesses at each statement of financial position date whether there is evidence of impairment in accordance with general principles and methodology set out in IAS 39 and the relevant implementation guidance. These procedures include the following steps:

- Identification of events that provide objective evidence that a loan is impaired.
- Establishment of criteria for assessment on an individual or collective basis.
- Establishment of groups of assets with similar characteristics.
- Establishing methodology to determine cash flows from impaired loans.
- Determining interest income recognition
- Recoveries

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than thirty (30) days based on the established PEARLS grid recommended by the League or based on any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Credit Union addresses impairment assessment in two areas; individually assessed allowances and collectively assessed allowances. The assessment applied to individually significant accounts normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed allowances are determined through the application of PEARLS prescribed percentages to the aging profiles of the loan portfolio.

The internal rating system described above focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the end of the reporting periods based on objective evidence of impairment.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Credit Union:

- Delinquency in contractual payments of principal or interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral; and
- Downgrading to 12 months and over delinquency grade level.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**20. FINANCIAL RISK MANAGEMENT (Continued)****20.1. Credit risk (Continued)**Maximum exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements on loans totaled \$20,565,699 (2014: \$18,320,626).

For all other financial assets on the statement of financial position, the maximum exposure to credit risk is based on the net carrying amounts as reported in the statement of financial position.

Credit quality of loans

The credit quality of loans is summarized as follows:

	2015	2014
Neither past due nor impaired	\$ 19,521,377	\$ 17,545,511
Past due but not impaired	989,823	740,368
Impaired	54,499	34,747
<b>Gross</b>	<b>20,565,699</b>	<b>18,320,626</b>
Less: allowance for impairment	(190,154)	(149,084)
<b>Net</b>	<b>\$ 20,375,545</b>	<b>\$ 18,171,542</b>

The impairment provision for loans represents the individually impaired loans.

Renegotiated loans

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payments will most likely continue. These policies are continuously reviewed.

Repossessed collateral

The Credit Union repossessed the following collaterals:

Nature of assets	2015	2014
Automobile	\$ 26,452	\$ -

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**20. FINANCIAL RISK MANAGEMENT** *(Continued)*

**20.2. Liquidity risk**

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

The Credit Union is exposed to daily calls on its available cash resources from general savings deposits, maturing loans draw-downs, guarantees, withdrawal of shares and operating commitments. The Credit Union does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Liquidity risk management process

The liquidity management process is monitored by the Manager and includes:

- Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of the Credit Union's source of funds which includes, cash and bank balances, items in the course of collection and investment maturities in order to determine their ability to meet its commitments;
- Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruptions to cash flow;
- Maintaining committed lines of credit with its Bankers and the League;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to liabilities; and
- Matching and mismatching of the maturities and interest rates of financial assets and financial liabilities. An unmatched position potentially enhances profitability, but can increase risk.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

**20. FINANCIAL RISK MANAGEMENT (Continued)****20.2. Liquidity risk (Continued)**Financial liabilities cash flows

The table below summarizes the Credit Union's exposure to liquidity risk based on relevant contractual repayment obligations.

<b>As at December 31, 2015</b>				
	<b>Within 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Total</b>
<b>Liabilities:</b>				
Members' shares and other deposits	\$ 13,242,353	\$ 3,510,975	\$ 9,476,709	\$ 26,230,037
Other liabilities	690,547	-	-	690,547
<b>Total liabilities</b>	<b>\$ 13,932,900</b>	<b>\$ 3,510,975</b>	<b>\$ 9,476,709</b>	<b>\$ 26,920,584</b>

<b>As at December 31, 2014</b>				
	<b>Within 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Total</b>
<b>Liabilities:</b>				
Members' shares and other deposits	\$ 12,194,431	\$ 3,947,185	\$ 7,359,985	\$ 23,501,601
Other liabilities	725,031	-	-	725,031
<b>Total liabilities</b>	<b>\$ 12,919,462</b>	<b>\$ 3,947,185</b>	<b>\$ 7,359,985</b>	<b>\$ 24,226,632</b>

Assets available to meet the liabilities and to cover outstanding loan commitments include cash balances, unrestricted deposits, and items in the course of collection.

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**20. FINANCIAL RISK MANAGEMENT** *(Continued)*

**20.3. Market risk**

The Credit Union takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk arise from open position in foreign currencies (currency risk), interest rates (interest rate risk), and equity products (other price risk), all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Currency risk

Currency risk or foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union has minimum exposure to currency risk, as all its assets and liabilities are stated in the Bahamian dollars, which is the Credit Union's functional and presentational currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and arises mainly from interest bearing deposits, loans receivable, debt securities, bank overdraft and members' and non members' deposits.

Floating rate instruments expose the Credit Union to cash flow interest rate risk, whereas fixed interest rate instruments expose the Credit Union to fair value interest rate risk. The Credit Union takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Credit Union's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments as determined by the League. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

December 31, 2015

**20. FINANCIAL RISK MANAGEMENT (Continued)**
**20.3. Market risk (Continued)**
Interest rate risk (Continued)

The table below summarizes the Credit Union's exposure to interest rate risk. They include the Credit Union's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

As at December 31, 2015						
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
<b>Assets:</b>						
Cash at Banks	\$ -	\$ -	\$ -	\$ -	\$ 585,265	\$ 585,265
Deposits with banks and other institutions	-	-	1,051,462	-	-	1,051,462
Deposits with League	-	555,905	-	5,618,275	-	6,174,180
Loans	24,973	347,312	9,300,196	10,512,910	135,296	20,320,687
Financial investments	-	-	600,000	390,000	346,435	1,336,435
Other assets	-	-	-	-	1,100,013	1,100,013
<b>Total assets</b>	<b>24,973</b>	<b>903,217</b>	<b>10,951,658</b>	<b>16,521,185</b>	<b>2,167,009</b>	<b>30,568,042</b>
<b>Liabilities:</b>						
Members' and other deposits	13,589,304	7,008,965	5,425,750	-	2,517	26,026,536
Other liabilities	-	-	-	-	690,547	690,547
<b>Total liabilities</b>	<b>13,589,304</b>	<b>7,008,965</b>	<b>5,425,750</b>	<b>-</b>	<b>693,064</b>	<b>26,717,083</b>
<b>Total interest gap</b>	<b>\$ (13,564,331)</b>	<b>\$ (6,105,748)</b>	<b>\$ 5,525,908</b>	<b>\$ 16,521,185</b>	<b>\$ 1,473,945</b>	<b>\$ 3,850,959</b>
<b>Cumulative gap</b>	<b>\$ (13,564,331)</b>	<b>\$ (19,670,079)</b>	<b>\$ (14,144,171)</b>	<b>\$ 2,377,014</b>	<b>\$ 3,850,959</b>	

As at December 31, 2014						
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
<b>Total assets</b>	\$ 55,535	\$ 1,499,998	\$ 12,223,400	\$ 10,404,453	\$ 2,990,354	\$ 27,173,740
<b>Total liabilities</b>	12,597,639	5,620,887	5,280,324	-	727,782	24,226,632
<b>Total interest gap</b>	<b>\$ (12,542,104)</b>	<b>\$ (4,120,889)</b>	<b>\$ 6,943,076</b>	<b>\$ 10,404,453</b>	<b>\$ 2,262,572</b>	<b>\$ 2,947,108</b>
<b>Cumulative gap</b>	<b>\$ (12,542,104)</b>	<b>\$ (16,662,993)</b>	<b>\$ (9,719,917)</b>	<b>\$ 684,536</b>	<b>\$ 2,947,108</b>	

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**20. FINANCIAL RISK MANAGEMENT** *(Continued)*

**20.3. Market risk** *(Continued)*

Other price risk

Other price risk is the risk that the fair 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 is exposed to other price risk on its available-for-sale equity financial instruments (equity price risk), held as a part of its investment portfolio. Equity price risk arises out of price fluctuations in equity prices. The risk arises out of holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (system risk). The goal is to earn dividend income and realize gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio, which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristics of these instruments, the Credit Union limits the amount invested in them.

- Sensitivity analysis – The Credit Union's equity investments are traded on the Bahamas International Stock Exchange (BISX). A 5% increase or decrease in quoted bid prices at the statement of financial position date would have increased/decreased total comprehensive income by \$3,296 (2014: \$3,006).

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## **21. FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair values of assets and liabilities are determined as follows:

a) *Financial instruments not measured at fair value:*

- i) The fair value of liquid 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.
- ii) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans, the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognized separately by deducting the amount of the provisions for credit losses from both book and fair values.
- iii) The fair values of all other financial instruments not mentioned above are assumed to approximate their carrying values.

b) *Financial instruments measured at fair value:*

Investments securities classified as available-for-sale are measured by reference to quoted market prices on Bahamas International Stock Exchange (BISX).

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

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**21. FAIR VALUE MEASUREMENTS (Continued)**c) *Fair value hierarchy:*

The Credit Union adopted the amendment of IFRS 7. This requires the Credit Union to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level consists of listed equity securities traded on the Bahamas International Stock Exchange (BISX).
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The Credit Union has no financial instruments categorized in this level.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Credit Union has no financial instruments categorized in this level.

The following table analyzes within the fair value hierarchy the Credit Union's financial assets measured at fair value through profit or loss as at December 31, 2015:

<b>As at December 31, 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial instruments:				
Available-for-sale equity securities	\$ 65,925	\$ -	\$ -	\$ 65,925

<b>As at December 31, 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial instruments:				
Available-for-sale equity securities	\$ 60,125	\$ -	\$ -	\$ 60,125

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

## Notes to the Financial Statements

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**22. CAPITAL RISK MANAGEMENT**

The Credit Union's objectives when managing capital are as follows:

- To comply with the capital requirements set by the regulator of the Co-operatives Societies;
- To safeguard the Credit Union's ability to continue as a going concern so that it can continue to provide returns for its members and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Credit Union's Board reviews the capital structure on a quarterly basis. As part of the review, the Board considers the provision of the Bahamas Co-operative Credit Unions Act, 2015, Section 65, which states that:

*Every society shall ensure that –*

- a) Not less than 10% of its members deposits are kept in a liquidity reserve fund; and*
- b) Statutory reserves, retained earnings and equity shares are at no stage less than 10% of its total assets, except during the phase in period as permitted by regulations.*

The table below summarizes the computation of the Credit Union's regulatory capital and the ratios for the years ended December 31.

	2015	2014
<b>Provision (a)</b>		
Liquidity reserves deposits	\$ 2,490,075	\$ 2,170,902
Members' deposits	\$ 26,230,037	\$ 23,501,601
Actual ratio	9%	9%
Required ratio	10%	10%
Shortfall of regulation	-1%	-1%
<b>Provision (b)</b>		
Regulatory reserves	\$ 5,159,176	\$ 4,493,594
Total assets	\$ 32,130,760	\$ 28,765,426
Actual ratio	16%	16%
Required ratio	10%	10%
Excess over regulation	6%	6%

**BAHAMA ISLANDS CO-OPERATIVE CREDIT UNION LIMITED**

Notes to the Financial Statements

December 31, 2015

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**23. CONTINGENT LIABILITIES**

Litigation

The Credit Union is involved in several actions arising from the normal course of business. Management believes that the resolution of these matters will not have a material impact on the Credit Union's financial position.

**24. EVENTS AFTER THE REPORTING PERIOD**

There were no material events of significance impacting the Credit Union since December 31, 2015 and up to May 4, 2016 that require disclosure in the financial statements.