



联合国
粮食及
农业组织

Food and Agriculture
Organization of the
United Nations

Organisation des Nations
Unies pour l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-ninth Session

Rome, 6 - 10 November 2017

Audited Accounts - FAO Credit Union 2016

Queries on the substantive content of this document may be addressed to:

Mr Gerald Murphy
Manager, FAO Credit Union
Tel: +3906 5705 6825

This document is printed in limited numbers to minimize the environmental impact of FAO's processes and contribute to climate neutrality. Delegates and observers are kindly requested to bring their copies to meetings and to avoid asking for additional copies. Most FAO meeting documents are available on the Internet at

www.fao.org

EXECUTIVE SUMMARY

- The 2016 Accounts of the FAO Credit Union have been audited, with the issuance of an unqualified audit opinion and have been approved by the FAO Credit Union Membership at the Annual General Meeting held on 8 June 2017.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- In accordance with Article 2, Section 7, (a) of the FAO Credit Union's Statutes, the Audited Accounts are presented to the Finance Committee for such action as the Committee deems appropriate.



FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

CREDIT UNION

**Financial Statements for the Period
01 January to 31 December 2016**

TABLE OF CONTENTS

	<u>Page</u>
External Auditor's Report on the Financial Statements	3
Balance Sheet	7
Statement of Income and Expenses	8
Statement of Changes in Members' Equity	9
Statement of Cash Flows	10
Notes to Financial Statements	12



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
FAO Credit Union (FAOCU)**

Opinion

We have audited the accompanying financial statements of the FAOCU, which comprise the Balance Sheet as at 31 December 2016, and the Statement of Income and Expenses, Changes in Members' Equity, and Cash Flows for the year then ended, and the supporting explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAOCU as at 31 December 2016, and the results of its operations, changes in members' equity and cash flows for the year then ended, in accordance with the United States generally accepted accounting principles (Statement of Financial Accounting Standards series) applicable to credit unions, as recommended by the National Credit Union Administration of the United States, applied on a basis consistent with that of the preceding financial period.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the FAO in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 FAOCU Annual Report for 2016 including audited financial statements for 2016, but does not include the financial statements and our auditor's 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 United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the FAOCU'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 FAOCU or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics 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 entity'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 entity's ability to continue as a going concern. If we conclude that a material uncertainty exists,

we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of the FAOCU that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with its Statutes and the Financial Regulations and Rules of the Food and Agriculture Organization and legislative authority.



Lito Quijano Martin
Director of External Audit
Commission on Audit
Republic of the Philippines

Quezon City, Philippines
16 March 2017

FAO CREDIT UNION
BALANCE SHEET
31 December 2016
(With corresponding figures for 2015)
(Expressed in US dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
ASSETS			
CASH AND CASH EQUIVALENTS	2.2, 3	13,518,324	12,332,451
INVESTMENTS	2.3, 4		
Due in one year or less		16,165,071	17,062,293
Due after one year		34,722,034	41,758,610
		<u>50,887,105</u>	<u>58,820,903</u>
LOANS TO MEMBERS	2.4, 2.5, 5		
Due in one year or less		9,777,055	9,696,932
Due after one year		29,644,169	29,704,357
Allowance for loan losses		(173,778)	(245,539)
		<u>39,247,446</u>	<u>39,155,750</u>
ACCRUED INTEREST RECEIVABLE	7	422,090	523,584
PROPERTY, PLANT AND EQUIPMENT, Net of accumulated depreciation	2.6, 8	42,687	101,652
PREPAID EXPENSES AND OTHER ASSETS	9	125,689	-
		<u>104,243,341</u>	<u>110,934,340</u>
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
MEMBER SAVINGS ACCOUNTS	2.7, 10	98,700,041	99,852,527
OTHER LIABILITIES	13	8,523	1,160,287
TOTAL LIABILITIES		<u>94,594,564</u>	<u>101,012,814</u>
MEMBERS' EQUITY			
RETAINED EARNINGS	14		
APPROPRIATED		7,085,653	7,385,452
UNAPPROPRIATED		4,855,351	4,535,408
		<u>11,941,004</u>	<u>11,920,860</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME			
CUMULATIVE EFFECT OF CURRENCY TRANSLATION	2.10	(1,755,979)	(1,446,546)
UNREALIZED HOLDINGS GAIN/LOSS ON INVESTMENTS	2.3, 4	(536,248)	(552,788)
		<u>(2,292,227)</u>	<u>(1,999,334)</u>
TOTAL MEMBERS' EQUITY		<u>9,648,777</u>	<u>9,921,526</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY		<u>104,243,341</u>	<u>110,934,340</u>

The accompanying notes are an integral part of the financial statements.

S. Colaiacomo
Assistant Treasurer

S. Katz
Chairperson

FAO CREDIT UNION
STATEMENT OF INCOME AND EXPENSES

Year Ended 31 December 2016

(With corresponding figures for 2015)

(Expressed in US dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
INTEREST INCOME			
Interest on loans to members, net of loan rebates	2.8, 6	1,647,013	1,728,779
Interest on invested funds		714,202	838,872
		<u>2,361,215</u>	<u>2,567,651</u>
INTEREST EXPENSE			
Dividends on member savings accounts, including Bonus on Dividends paid	2.7, 2.8, 11	(490,533)	(500,577)
NET INTEREST INCOME		<u>1,870,682</u>	<u>2,067,074</u>
Provision for loan losses		(97,580)	(207,913)
NET INTEREST INCOME AFTER PLL		<u>1,773,102</u>	<u>1,859,161</u>
NON-OPERATING INCOME/EXPENSES			
Net gain (loss) on disposal of securities	2.3, 4	(373,041)	(560,682)
Non-interest income		145,025	90,955
		<u>(228,016)</u>	<u>(469,727)</u>
OPERATING EXPENSES			
Personnel	2.9	(1,205,589)	(1,022,229)
Administrative and overhead charges		(82,563)	(81,755)
Office operations		(41,391)	(37,101)
Data processing and Depreciation		(48,288)	(59,587)
Insurance		(28,453)	(28,534)
Investment management fees		(118,658)	(121,256)
		<u>(1,524,942)</u>	<u>(1,350,462)</u>
NET INCOME		<u>20,144</u>	<u>38,972</u>

The accompanying notes are an integral part of the financial statements.

FAO CREDIT UNION
STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended 31 December 2016

(With corresponding figures for 2015)

(Expressed in US dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
RETAINED EARNINGS	14		
APPROPRIATED			
STATUTORY RESERVES – GENERAL			
Beginning of year		1,957,788	2,079,545
Distribution to Reserves as per statutory formula		25,534	26,977
Transfer to Liquidation Reserve		<u>(20,950)</u>	<u>(148,734)</u>
End of Year		<u>1,962,372</u>	<u>1,957,788</u>
STATUTORY RESERVES – LIQUIDATION			
Beginning of year		4,978,736	5,548,163
Distribution to Reserves as per statutory formula		25,534	26,977
Transfer to Liquidation Reserve		20,950	148,734
Transfer to Unappropriated Retained earnings		<u>(350,867)</u>	<u>(745,138)</u>
End of Year		<u>4,674,353</u>	<u>4,978,736</u>
ADDITIONAL RESERVES – EQUALIZATION ACCOUNT			
Beginning of year		448,928	448,928
Transfer to Equalization Account		-	-
End of Year		<u>448,928</u>	<u>448,928</u>
TOTAL APPROPRIATED		<u>7,085,653</u>	<u>7,385,452</u>
UNAPPROPRIATED			
Beginning of year		4,535,408	3,805,252
Prior Year Adjustment		-	-
Net Income		<u>20,144</u>	<u>38,972</u>
		4,555,552	3,844,224
Distribution to Reserves as per statutory formula		<u>(51,068)</u>	<u>(53,954)</u>
Transfer of Excess to Unappropriated		<u>350,867</u>	<u>745,138</u>
End of Year		<u>4,855,351</u>	<u>4,535,408</u>
TOTAL RETAINED EARNINGS		<u>11,941,004</u>	<u>11,920,860</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME			
CUMULATIVE EFFECT OF TRANSLATION	2.10		
Beginning of year		(1,446,546)	(643,407)
Effect of currency translation		<u>(309,433)</u>	<u>(803,139)</u>
End of year		<u>(1,755,979)</u>	<u>(1,446,546)</u>
UNREALIZED HOLDINGS GAIN/LOSS ON INVESTMENTS	2.3, 4		
Beginning of year		(552,788)	(598,923)
Net market value change on debt securities		<u>16,540</u>	<u>46,135</u>
End of year		<u>(536,248)</u>	<u>(552,788)</u>
OTHER COMPREHENSIVE INCOME		<u>(292,893)</u>	<u>(757,004)</u>
COMPREHENSIVE INCOME		<u>(272,749)</u>	<u>(718,032)</u>
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME		<u>(2,292,227)</u>	<u>(1,999,334)</u>
TOTAL MEMBERS' EQUITY		<u>9,648,777</u>	<u>9,921,526</u>

The accompanying notes are an integral part of the financial statements.

FAO CREDIT UNION
STATEMENT OF CASH FLOWS
Year Ended 31 December 2016
(With corresponding figures for 2015)
(Expressed in US dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Interest received on			
- loans to members		1,891,842	1,967,170
- investments		-	7,763
- deposited funds		1,697	855
Cash paid for operating expenses		<u>(1,285,612)</u>	<u>(1,323,661)</u>
Net cash provided by operating activities		<u>607,927</u>	<u>652,127</u>
Cash flows from investing activities:			
Principal collected on loans to members		14,022,632	13,229,896
Loans disbursed to members	2.4	-	-
Investment maturities, proceeds from sale of securities		6,483,729	16,914,538
Investments placed and securities purchased		-	<u>(10,600,393)</u>
Net cash provided by investing activities		<u>20,506,361</u>	<u>19,544,041</u>
Cash flows from financing activities:			
Deposits to member savings accounts		42,870,385	43,991,489
Withdrawals from member savings accounts, including loan disbursements	2.4	<u>(62,338,672)</u>	<u>(61,045,336)</u>
Net cash provided by (used in) financing activities		<u>(19,468,287)</u>	<u>(17,053,847)</u>
Effect of exchange rate changes on cash		<u>(460,128)</u>	<u>(579,905)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,185,873	2,562,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>12,332,451</u>	<u>9,770,035</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>13,518,324</u>	<u>12,332,451</u>

The accompanying notes are an integral part of the financial statements.

FAO CREDIT UNION
STATEMENT OF CASH FLOWS
Year Ended 31 December 2016
(With corresponding figures for 2015)
(Expressed in US dollars)

Reconciliation of net income to net cash provided by operating activities:

	<u>2016</u>	<u>2015</u>
Net income	20,144	38,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58,169	59,622
Dividends credited to member savings accounts	490,533	500,577
Investments and debt securities purchased with investments interest	(302,047)	(311,923)
Loan interest collected from member savings accounts	(6,986)	(7,190)
Provision for loan losses	97,580	207,913
Decrease (increase) in accrued interest receivable	84,961	171,537
Others	165,573	(7,381)
	<u>587,783</u>	<u>613,155</u>
Net cash provided by operating activities	<u>607,927</u>	<u>652,127</u>

Supplemental schedule of non-cash investing and financing activities:

Loan interest and principal collected from member savings accounts	<u>1,779,192</u>	<u>983,744</u>
Loans credited to member savings accounts	<u>17,266,949</u>	<u>15,235,999</u>
Investments renewed using investment maturities	<u>-</u>	<u>-</u>

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

1. INTRODUCTION

The FAO Credit Union (FAO CU) is an integral part of the Food and Agriculture Organization (FAO) of the United Nations pursuant to Conference Resolution 37/75 and is operated by a Board of Directors under the authority of the Director-General of FAO in accordance with the FAO CU's Statutes and, where applicable, the Rules and Regulations of the Organization. The FAO CU is located in Rome, Italy, with the purposes to encourage thrift by providing a convenient means of savings, and to provide credit for emergency needs and for the general benefit of its Members, the active staff members of the FAO and World Food Programme (WFP). All costs incurred by the FAO CU and any financial liability or loss arising out of its activities are to be charged to the FAO CU's funds and reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of Financial Statements

Financial statements and related notes are prepared in accordance with the United States Generally Accepted Accounting Principles applicable to credit unions, as recommended by the National Credit Union Administration (NCUA) of the United States. The FAO CU adopts the historical cost convention, except for investments in debt securities which are carried at fair market values, and the accrual basis of accounting in recording transactions. Operations are carried out in US dollars and Euro.

2.2 Cash and Cash Equivalents

Cash comprises petty cash and current accounts with financial institutions that are available for immediate withdrawal. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates as per Statement of Financial Accounting Standards (SFAS) No. 95.

2.3 Investments

Investments in bank time deposits and certificates of deposit are placed with maturities of less than six months and are carried at cost. Investments in debt securities are accounted for in accordance with SFAS No. 115, which requires that debt securities that an enterprise has the positive intent and ability to hold to maturity be classified as "held-to-maturity securities" and reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of sale in the near term be classified as "trading securities" and reported at fair value, with unrealized gains and losses included in the statement of income; debt and equity securities not classified as held-to-maturity securities or trading securities be classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income in members' equity until realized.

The FAO CU does not maintain a trading account and no debt securities are classified as trading securities. Debt securities owned by the FAO CU are bought and sold by investment management specialists in accordance with written investment guidelines provided by the FAO CU. The debt securities are available to be sold in response to changes in market interest rates, yield on alternative investments, funding sources and terms, or needs for liquidity. Debt securities held by the FAO CU are therefore classified as available-for-sale and are carried at fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income in members' equity until realized. Fair values for debt securities are based on quoted market prices. The acquisition cost

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

of debt securities is adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income in the period from the purchase date to the maturity date of investments. Any realized gains or losses on sales of debt securities are based on the net proceeds and the amortized cost of the debt securities sold, using the specific identification method.

2.4 Loans to Members and Allowance for Loan Losses

Loans are offered to Members for a maximum total amount not to exceed the ceilings established by the Board of Directors. Each Member's eligibility criteria varies within these limits depending on a variety of factors generally related to the contractual status with the Organization. Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses.

Loan proceeds net of existing loans are credited to the Member's Savings Account from which member may request withdrawal of the proceeds. Interest on loans is calculated using the simple interest method on principal amounts outstanding and is recognized in the accounts over the term of the loan.

The allowance for loan losses is established through a provision for loan losses, it is an amount that management and the Board believe will be adequate to absorb possible losses on existing loans that may become uncollectible due to members' death and disability or bad debts. The allowance for loan losses is comprised of an allowance for individual loans and a general allowance for the remaining loan portfolios. The individual allowance is increased by the loan amounts that are identified as having credit problems thus considered potential bad debts. The general allowance is an estimation of probable loan losses in the remaining loan portfolios due to members' death and disability or unexpected bad debts, calculated based on FAO CU's average historical loan losses ratio in the prior two years, adjusted for relevant environmental factors, such as demographic, economic, organizational factors, and trends in loan impairments and write-offs.

Loans are charged against the allowance for loan losses when management believes, and the Board of Directors concurs, that the collection of principal is unlikely. Loan losses from bad debts that were previously identified are charged against the individual allowance, loan losses from cases that were not recognized before are charged against the general allowance. Accrual of interest is discontinued on a loan when management believes that the collection of interest is doubtful.

2.5 Concentration of Credit Risk

All of the FAO CU's lending and savings account activities are with its members who are active employees of the FAO and WFP. Loans are required to be repaid by monthly deductions from salary, effected by the FAO CU in conjunction with FAO Administration and not revocable without the consent of the FAO CU. In case the amount recovered from payroll is not sufficient to cover the monthly repayment of loan principal and interest, the balance is recovered from the Member's Savings Account.

The FAO CU's policy for requiring collateral is stated in the loan contract wherein each borrower irrevocably instructs the Organizations to make deductions from salary for repayments and, in the event of default, to pay to the FAO CU all sums due to the staff member until the debt is settled.

2.6 Property, Plant and Equipment

Equipment, furniture and computer software are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over five years for equipment

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

and furniture. Costs for computer software developed for internal use, relating to the project to upgrade the FAO CU's System and further referred to on Note 8 is computed on the straight line basis over 10 years based on previous years' experience and related expected useful life of the developed software.

2.7 Member Savings and Dividend Expense

Member savings accounts have no contractual maturity and funds are payable on demand. The Board of Directors establishes the minimum and maximum amounts to the savings that any Member may place with the FAO CU as well as the amounts that earn a dividend.

Dividend rates are set by the Board of Directors for each quarter based on prevailing market conditions and FAO CU earnings. Dividend expense is charged to operations as incurred.

2.8 Dividend Bonus and Loan Rebate

Being not-for-profit, at the end of each year the FAO CU aims to pay back to its members a portion of the yearly surplus in the form of a dividend bonus and loan rebate. The dividend bonus is an extra dividend which increases the effective annual dividend rates whereas the loan rebate returns part of the loan interest received, reducing the effective annual loan rates.

The dividend bonus rate is applied to the total dividend paid on members' shares and the loan rebate rate is applied to the total interest received on members' loans during the year. The rates to be applied are calculated in such a way that a net income is still recorded for the financial year. The dividend bonuses and loan rebates are credited back to members' share accounts in the same currency of the dividend paid or loan interest received by the FAO CU during the year.

2.9 Operating Expenses

Costs charged to the FAO CU only in dollars or only in Euro are allocated between dollar and Euro operations according to use or purpose of the cost. Actual payment is then effected proportionally in both dollars and Euro so that internal accounts reflect each currency's share of costs.

The allocations and payments are made using the exchange rate in force at the time of each transaction. The presentation of financial statements is made in accordance with SFAS No. 52, which calls for the use of the average rate of exchange during the year for the statement of income and expenses. Amounts reported in the statement of income and expenses, translated from Euro using the average rate, may therefore differ slightly from original apportioned dollar charges.

2.10 Cumulative Effects of Currency Translation

The FAO CU is required by Statute to present its annual consolidated financial statements in dollars. In accordance with SFAS No. 52, the translation of Euro assets and liabilities into dollars is made at the year-end exchange rate while lira/euro retained earnings are translated at historical rates. The amount required to balance translated assets with translated liabilities and retained earnings each year is represented by the cumulative effect of year-end currency translation. The currency translation does not affect the statement of income and expenses. The account is a component of accumulated other comprehensive income in members' equity, which is brought forward and adjusted after each year's translation of lira/euro into dollar.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

Effective 01 January 2002, Italian lira assets and liabilities were converted into Euro at the fixed parity rate of 1936.27, while historical data of lira operations has been left in its original currency in the FAO CU operating system. The translation of Euro income and expenses into dollars is made at the average exchange rate for the year. The FAO CU's statement of income and expenses in Euro was translated at the 2016 average U.N. operational rate of exchange of 0.904 Euro per Dollar while the Euro balance sheet was translated at the year-end U.N. rate of 0.956 Euro per Dollar. The income statement and balance sheet exchange rates used in 2015 were 0.902 and 0.914 Euro to the Dollar, respectively.

3. CASH AND CASH EQUIVALENTS

Short term, highly liquid investments that fall under SFAS No. 95 requirements are classified as Cash Equivalents. The breakdown of cash and cash equivalents and comparison with prior year's figures is as follows:

	<u>2016</u>	<u>2015</u>
Cash		
Petty Cash	\$ 428	\$ 501
Current Accounts	8,887,123	11,904,500
Current Accounts with External Investment Manager	2,990,773	427,450
	<u>11,878,324</u>	<u>12,332,451</u>
Cash Equivalents	<u>1,640,000</u>	<u>-</u>
Cash and Cash Equivalents	\$ <u>13,518,324</u>	\$ <u>12,332,451</u>

4. INVESTMENTS

At 31 December investments in bank time deposits with maturities of less than one month and stated at cost, were as follows:

	<u>2016</u>	<u>2015</u>
Bank time deposits	\$ -	-

Investments in debt securities are classified as available-for-sale and are summarized as follows at 31 December:

2016	Weighted Average Interest Income	Amortized Cost	Gross Unrealized Holdings Gains	Gross Unrealized Holdings (Losses)	Estimated Fair Value
US Government debt securities	0.98%	8,005,468	11,573	(87,240)	7,929,801
Euro-zone Government debt securities	1.44%	26,818,756	167,567	(553,483)	26,432,839
Mortgage-backed debt securities	3.24%	76,048	2,748	(217)	78,579
Corporate and other debt securities	1.17%	16,523,082	63,927	(141,123)	16,445,886
		<u>\$ 51,423,353</u>	<u>245,815</u>	<u>(782,063)</u>	<u>50,887,105</u>

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

2015

	Weighted Average Interest Income	Amortized Cost	Gross Unrealized Holdings Gains	Gross Unrealized Holdings (Losses)	Estimated Fair Value
US Government debt securities	0.62%	\$ 9,595,721	\$ 2,639	\$ (37,018)	\$ 9,561,342
Euro-zone Government debt securities	1.74%	26,103,795	90,937	(472,633)	25,722,099
Mortgage-backed debt securities	2.84%	108,548	4,738	(380)	112,906
Corporate and other debt securities	1.23%	23,565,627	67,892	(208,963)	23,424,556
		\$ 59,373,691	\$ 166,206	\$ (718,994)	\$ 58,820,903

The effect of applying SFAS No. 115 in 2016 resulted in a net unrealized holding loss of US\$536,248 while the 2015 financial statements showed an unrealized holding loss of US\$552,788. In accordance to SFAS No. 115 such balances, with the related net increase of US\$16,540 as of 31 December 2016, have been included in accumulated other comprehensive income in members' equity.

The amortized cost and estimated fair values of investments, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because bond issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2016		2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Bank time deposits				
Due in 1 year or less	\$		\$ -	\$ -
US Government debt securities				
Due in 1 year or less	3,618,152	3,601,010	6,780,295	6,757,702
Due after 1 year through 5 years	4,387,315	4,328,791	2,815,427	2,803,640
Due after 5 years through 10 years	-		-	-
Due after 10 years	-		-	-
Euro-zone Government debt securities				
Due in 1 year or less	9,063,938	8,604,580	5,428,242	5,235,632
Due after 1 year through 5 years	13,589,650	13,712,004	20,675,553	20,486,466
Due after 5 years through 10 years	4,165,167	4,116,255	-	-
Due after 10 years	-		-	-
Corporate and other debt securities				
Due in 1 year or less	4,013,255	3,959,481	5,172,716	5,068,959
Due after 1 year through 5 years	10,934,906	10,912,221	18,392,910	18,355,598
Due after 5 years through 10 years	1,574,922	1,574,184	-	-
Due after 10 years	-		-	-
	<u>51,347,305</u>	<u>50,808,526</u>	<u>59,265,143</u>	<u>58,707,997</u>
Mortgage-backed debt securities	76,048	78,579	108,548	112,906
	\$ 51,423,353	\$ 50,887,105	\$ 59,373,691	\$ 58,820,903

Expected maturities of mortgage backed securities may differ from contractual maturities because borrowers may have the right to call or repay the obligations and are, therefore, classified separately with no specific maturity date. Proceeds from sales of investments in debt securities during 2016 and 2015 were US\$20,366,178 and US\$25,243,567 respectively. Gross gains of US\$4,164 and gross losses of US\$377,205 were realized on those sales in 2016 and gross gains of US\$4,216 and gross losses of US\$564,898 were realized on those sales in 2015.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

5. LOANS TO MEMBERS

The FAO CU offers five categories of commercial loans, which are differentiated by amount, repayment terms and purpose. Housing related loans are offered for real-estate purposes and have repayment periods ranging from 1 to 144 months. Eco Loans are granted for purchasing eco-sustainable products with repayment periods ranging from 1 to 84 months. Rapid loans, Education loans and Ordinary loans have repayment periods ranging from 1 to 120 months. Their composition as at 31 December was as follows:

	<u>2016</u>	<u>2015</u>
Loans in Euro	€ 25,525,444	€ 25,679,352
Exchange rate	0.956	0.914
US Dollar equivalent	\$ 26,700,256	\$ 28,095,571
Loans in US Dollars	12,720,968	11,305,718
Total loans	39,421,224	39,401,289
Less: Allowance for loan losses	(173,778)	(245,539)
Net loans	\$ <u>39,247,446</u>	\$ <u>39,155,750</u>

Maturities of loans at 31 December were as follows:

	<u>2016</u>	<u>2015</u>
Housing Related Loans	\$	\$
Within one year	2,318,374	2,181,217
One to three years	3,483,867	2,965,271
Four to five years	2,420,172	1,978,383
Six to twelve years	3,230,597	2,674,440
Ordinary Loans		
Within one year	6,229,056	4,346,469
One to three years	8,591,748	7,875,294
Four to five years	5,206,963	5,560,051
Six to twelve years	6,468,359	7,422,299
Other Loans		
Within one year	1,229,626	3,169,246
One to three years	234,969	1,179,738
Four to five years	7,493	46,944
Six to twelve years	-	1,937
	\$ <u>39,421,224</u>	\$ <u>39,401,289</u>

The allowance for loan losses consists of an allowance for individually identified doubtful loans and a general allowance for possible loan losses representing 0.31% of the remaining loan portfolios, calculated in accordance with the earlier described accounting policies. With Euro components translated at the year-end U.N. rates, the following table shows the movements in the allowance for loan losses as at 31 December 2016:

	<u>Individual Allowance</u>	<u>General Allowance</u>	<u>Total</u>
Beginning Balance, 1 January 2016	48,776	196,763	245,539
Additions	\$ 51,732	42,153	93,885
Bad debt write-offs	(48,112)	-	(48,112)
Loan losses due to death and disability	-	(159,720)	(159,720)
Recoveries	-	49,019	49,019
Effect of foreign currency translation	(664)	(6,169)	(6,833)
Ending Balance, 31 December 2016	<u>51,732</u>	<u>122,046</u>	<u>173,778</u>
Ending Balance, 31 December 2015	\$ <u>48,776</u>	<u>196,763</u>	<u>245,539</u>

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

6. INTEREST ON LOANS

Interest rates on loans are reviewed on a quarterly basis by the Board of Directors. The effective interest rates for the years 2016 and 2015 were as follows:

<u>Loan Type</u>	<u>2016</u>		<u>2015</u>	
	€	US\$	€	US\$
Housing Loan	3.16%	3.52%	3.48%	3.16%
Home Purchase Loan	1.89%	3.34%	-	-
Home Improvement Loan	3.13%	3.52%	-	-
Ordinary Bridge Loan	4.55%	4.51%	-	-
Ordinary Loan	4.55%	4.51%	5.15%	3.96%
Rapid Loan	4.69%	4.77%	5.24%	4.24%
Eco-Home Loan	2.99%	2.94%	3.30%	2.64%
Eco Vehicle Loan	3.67%	3.47%	4.05%	3.12%
Education Loan	2.75%	2.85%	3.08%	2.56%

In 2016 the loan rebate rates declared by the Board of Directors were 18% and 11% for Euro and US Dollar accounts respectively (12% and 20% in 2015 respectively). A summary of interest income on loans, by loan type, to members during the year, with Euro operations translated at the average U.N. rates of 0.904 and 0.902 for 2016 and 2015, respectively, was as follows:

	<u>2016</u>		<u>2015</u>	
Housing related Loans	\$	391,461	\$	391,429
Ordinary Loans		1,412,252		1,402,020
Other Loans		156,229		218,285
		<u>1,959,942</u>		<u>2,011,734</u>
Less: Loan rebate		(312,929)		(282,955)
Interest on Loans, net of loan rebate	\$	<u>1,647,013</u>	\$	<u>1,728,779</u>

7. ACCRUED INTEREST RECEIVABLE

The Accrued Interest Receivable caption consists of accrued investment interest income, accrued loan interest income and accrued interest income on bank current accounts, summarized as follows at 31 December:

	<u>2016</u>		<u>2015</u>	
Accrued Investment Interest	\$	378,974	\$	475,476
Accrued Loan Interest		42,941		47,923
Accrued Bank Current Account Interest		175		185
Accrued Interest Receivable	\$	<u>422,090</u>	\$	<u>523,584</u>

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

8. PROPERTY, PLANT AND EQUIPMENT

This account consists of equipment, furniture, computer hardware and FAO CU System (iCUSYS) software developed for internal use, summarized as follows at 31 December:

	Equipment, Furniture & Computer Hardware	iCUSYS Software	Total
Costs			
01 January 2016	\$ 67,337	466,836	534,173
Acquisitions (disposal)	121	-	121
Effect of foreign currency translation	(2,153)	(14,217)	(16,370)
31 December 2016	<u>65,305</u>	<u>452,619</u>	<u>517,924</u>
Accumulated depreciation / amortization			
01 January 2016	35,710	396,811	432,521
Current Depreciation	11,127	47,042	58,169
Additions (disposals)	-	-	-
Effect of foreign currency translation	(1,589)	(13,864)	(15,453)
31 December 2016	<u>45,248</u>	<u>429,989</u>	<u>475,237</u>
Net Book Value, 31 December 2016	<u>20,057</u>	<u>22,630</u>	<u>42,687</u>
Net Book Value, 31 December 2015	\$ <u>31,627</u>	<u>70,025</u>	<u>101,652</u>

Depreciation charged to operations for equipment, furniture, computer hardware and software in 2016 and 2015 amounted to US\$11,127 and US\$12,508 respectively.

Following the tender process for the upgrade of the iCUSYS, the Board of Directors awarded the project to the FAO Knowledge and Communications Department, Information Technology Division (CIO). The project started in May 2006 and went live on 01 July 2007, with the completion of a stage stabilization in March 2008 and further dedicated-maintenance support ended in December 2008. Actual project costs incurred as at 30 June 2007 have been capitalized and are being amortized over a period of 10 years on a straight line basis as shown in the table below, which provides the breakdown of project costs by currency:

	€uro Book	US \$ Book
Capitalized project costs	<u>295,770</u>	<u>143,237</u>
Annual amortization charge	<u>29,578</u>	<u>14,324</u>

The net balance of iCUSYS software costs as at 31 December 2016 resulted from the aggregation of the relevant US\$ and € components, the latter ones being translated at the applicable exchange rates for Balance Sheet (0.956) and Income Statement (0.904) purposes.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

9. PREPAID EXPENSES AND OTHER ASSETS

The account Prepaid Expenses and Other Assets consists of the prepaid loan insurance premium, the loan insurance claims receivable and other assets at the year-end. At 31 December the balances were as follows

	<u>2016</u>	<u>2015</u>
Prepaid Loan Insurance Premium	\$ -	\$ -
Loan Insurance Claims Receivable	125,689	-
Other Assets	-	-
Prepaid Expenses and Other Assets	\$ <u>125,689</u>	\$ <u>-</u>

10. MEMBER SAVINGS ACCOUNTS

The breakdown by currency and comparison with prior year's figures is as follows:

	<u>2016</u>	<u>2015</u>
Savings in Euro	€ 68,064,555	€ 69,924,087
Year-end exchange rate	0.956	0.914
US Dollar equivalent	\$ 71,197,233	\$ 76,503,378
Savings in US Dollars	<u>22,542,808</u>	<u>23,349,149</u>
Total Savings	\$ <u>93,740,041</u>	\$ <u>99,852,527</u>

The combined balance of a Member's savings in the two currencies should not exceed the established individual limit in any of the two currencies. The established individual limit is currently US\$120,000 or €120,000. Funds received to the credit of a savings account in excess of the established ceiling is returned to the sender, unless originated from the FAO, WFP, the Organization's medical insurance provider or the United Nations Joint Staff Pension Fund. Over-ceiling amounts do not qualify for dividend.

Euro savings decreased by 2.7% year on year while US\$ savings decreased by 3.5%.

11. INTEREST EXPENSE – DIVIDENDS ON MEMBER SAVINGS

Dividend rates are set by the Board of Directors for each quarter based on prevailing market conditions and FAO CU earnings. Dividends are credited to member savings accounts each quarter based on amounts on deposit at the dividend date, covering the number of full months funds have been on deposit. Deposits with a value date up to and including the 5th of each month earn dividends for that month, while no dividend is paid on amounts withdrawn before the dividend date. Dividends are charged to operations.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

In 2016 the dividend bonuses declared by the Board of Directors were 18% and 11% for Euro and US Dollar accounts respectively (12% and 20% in 2015 respectively). The effective dividend rates for savings held in Euro and US dollars for 2016 and 2015 are as follows:

<u>Savings Account</u>	<u>2016</u>	<u>2015</u>
Euro	0.47%	0.48%
US Dollar	0.78%	0.72%

The dividends on member savings accounts and bonus on dividends paid for the year, with Euro operations translated at the average UN rates of 0.904 and 0.902, for 2016 and 2015, respectively, are shown below:

	<u>2016</u>	<u>2015</u>
Dividends on member saving accounts	\$ 424,074	\$ 437,907
Dividend Bonus	66,459	62,670
	\$ 490,533	\$ 500,577

12. PROVISION FOR LOAN LOSSES

Individual and general allowances for loan losses are increased/decreased to the required levels through debiting/crediting the provision for loan losses expense account. With Euro components translated at the average U.N. rates of 0.904 and 0.902 for 2016 and 2015 respectively, the composition of provision for loan losses is shown below:

	<u>2016</u>	<u>2015</u>
Provision for Individual Allowance	\$ 54,708	\$ -
Provision for General Allowance	42,872	207,913
	\$ 97,580	\$ 207,913

13. OTHER LIABILITIES

Bonus and rebates are included in the Other Liabilities Account to be credited to the Member Savings Accounts on the 1st day of January of the following year. This is in line with the declaration and payments of bonus and rebates which are done at the end of January of the following year. Bonus and rebate rates declared by the Board of Directors were 18% and 11% for Euro and US Dollar accounts respectively.

Monies awaiting withdrawal by separated members pertain to the share balances left with the FAO Credit Union by separated members. Pursuant to Bylaws 1.3.6, the right of a person to claim such balances shall lapse three years after the cessation of membership.

Previously accrued FAO CU staff's terminal emoluments, namely the after-service medical coverage (ASMC) and unused annual leaves upon separation, are confirmed as having been included in FAO's ASMC and Termination Payments Fund (TPF) liabilities which FAO CU participates by making yearly contributions, hence do not need to be carried as a FAO CU liability and thus released to non-interest income.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

The balance of other liabilities at 31 December, with the Euro balance sheet translated at the year-end U.N. rate, consisted of the following amounts:

	<u>2016</u>	<u>2015</u>
Bonus on dividends paid	\$ 63,689	\$ 62,180
Loan rebate on loan interest charged	299,381	280,535
Monies awaiting withdrawal by separated members	245,790	616,762
Employee accrued terminal emoluments	-	139,081
Other creditors	<u>245,663</u>	<u>61,729</u>
Total Other Liabilities	\$ <u>854,523</u>	\$ <u>1,160,287</u>

14. Retained Earnings

The FAO CU is required to maintain a General Reserve and a Liquidation Reserve in accordance with Article Five of the Statutes. The level of the General Reserve is not to exceed 5 percent of loans outstanding at the end of the corresponding financial year. The level of the Liquidation Reserve is not to exceed 5 percent of member savings at the FAO CU at the end of the corresponding year.

Ten percent of the amount resulting from the subtraction of all expenses except interest expense from all income is required to be transferred in equal amounts from unappropriated retained earnings to the General and Liquidation Reserves. Should either reserve exceed its maximum, the excess must be transferred to the other reserve until both have reached their maximum. At 31 December 2016 the General Reserve and the Liquidation Reserve stood at US\$1,962,372 and US\$4,674,353 respectively.

The Board of Directors has the authority under Article Five of the Statutes to establish any additional reserves, which it may deem necessary. In this regard and on the basis of the provision of Article 7, Section 3 of the Statutes, for the year ended 31 December 2009 the Board decided to establish an Equalization Account for the purpose of meeting dividend or interest rebate requirements in succeeding financial periods. In reviewing the results for the 2016 financial year, the Board has decided not to set aside an additional amount. At 31 December 2016 the Equalization Account stands at US\$448,928. The Board will review the composition of this reserve, whose level must not exceed two percent of members' savings at the end of the corresponding year, at the end of the 2017 financial year.

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the FAO CU enters into lending and saving transactions with its staff and elected officers. The aggregate amount of these loans and savings accounts at 31 December 2016 was US\$635,949 and US\$2,085,793 respectively (related amounts at 31 December 2015 were US\$424,805 and US\$2,071,687 respectively). Transactions are made with interest rates, terms and collateral requirements identical to those required of other members. The Statutes also provide that loans to FAO CU officers and staff require approval of the Board of Directors and may not take priority over other outstanding loan requests.

FAO CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
31 December 2016

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107 requires disclosures about estimated fair value of financial instruments, defined as the amount at which instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time, based on available market information and appropriate valuation methodologies used by financial entities. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents - The carrying amount is a reasonable estimate of fair value.

Investments - The cost of short-term instruments with maturities of less than six months, such as bank time deposits and certificates of deposit, approximates fair value. The fair values of debt securities are based on quoted market prices.

Loans to members - Loans in dollars and Euro are priced according to the nature of the loan product and applicable rates are subject to quarterly revision. Accordingly, the outstanding loans are stated at amortized cost.

Accrued interest receivable - Accrued income is interest receivable arising from contractual obligations connected to investments and loans, to be paid to the FAO CU within six months. The carrying amount is a reasonable estimate of fair value.

Member savings accounts - The fair value of member savings accounts is the amount payable on demand at the reporting date.

Other liabilities (monies awaiting withdrawal) - Monies awaiting withdrawal represent savings of separated members, payable on demand at the reporting date and carried at fair value.

The carrying amounts and estimated fair values of the FAO CU's financial instruments at 31 December were as follows (amounts in US dollars):

	2016		2015	
	Carrying Amount	Estimated Fair value	Carrying Amount	Estimated Fair value
<u>Financial assets</u>				
Cash and Cash Equivalents	\$ 13,518,324	13,518,324	\$ 12,332,451	12,332,451
Investments	50,887,105	50,887,105	58,820,903	58,820,903
Loans to members, net	39,247,446	39,247,446	39,155,750	39,155,750
Accrued interest receivable	422,090	422,090	523,584	523,584
<u>Financial liabilities</u>				
Member savings	93,740,041	93,740,041	99,852,527	99,852,527
Other liabilities (monies awaiting withdrawal)	245,790	245,790	616,762	616,762