Financial Statements of

NORTHERN CREDIT UNION LIMITED

Year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Members of Northern Credit Union Limited

We have audited the accompanying financial statements of Northern Credit Union Limited, which comprise the statement of financial position as at December 31, 2015, and the statements of income, comprehensive income (loss), changes in members' equity and cash flows for the year then ended, and notes, comprising 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, 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 Canadian generally accepted auditing standards. Those standards require that we comply with 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 our 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, we consider 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Northern Credit Union Limited as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 10, 2016
Sault Ste. Marie, Canada

NORTHERN CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Cash and cash equivalents (note 7)	$ 28,773,709	$ 21,934,700
Investments (note 9)	80,095,434	56,791,514
Other assets (note 10)	2,719,687	1,550,845
Loans to members (notes 5 and 6)	891,963,798	711,717,482
Deferred income taxes (note 17)	–	222,600
Property and equipment (note 11)	19,371,769	18,665,365
Intangible assets (note 11)	1,836,731	1,684,223
Total assets	$ 1,024,761,128	$ 812,566,729
Liabilities and Members' Equity		
Members' deposits (note 12)	$ 863,875,886	$ 683,237,189
Accounts payable and accrued liabilities	5,801,284	7,082,447
Short-term borrowings (note 13)	–	8,000,000
Securitized liabilities (note 8)	71,091,745	43,098,353
Liabilities qualifying as regulatory capital:		
Share capital (note 14)	30,780,821	30,563,942
Deferred income taxes (note 17)	947,000	–
Total liabilities	972,496,736	771,981,931
Members' equity:		
Contributed surplus	17,802,856	8,892,785
Retained earnings	32,975,321	31,300,298
Accumulated other comprehensive income	1,486,215	391,715
Total members' equity	52,264,392	40,584,798
Commitments and contingencies (note 16)		
Subsequent event (note 25)		
Total liabilities and members' equity	$ 1,024,761,128	$ 812,566,729

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director   ____________________ Director

NORTHERN CREDIT UNION LIMITED

Statement of Income

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Interest - residential mortgage loans	$ 17,495,672	$ 17,179,683
- personal loans	8,804,072	7,612,692
- commercial loans	8,245,485	7,240,683
Investment income	992,038	845,581
	35,537,267	32,878,639
Cost of financing:		
Interest - demand deposits	1,209,311	1,157,181
- term deposits	3,470,935	3,219,852
- registered savings plans	3,514,532	3,282,933
Distribution to members (note 14)	873,140	612,635
Interest on external borrowings	1,358,633	815,174
	10,426,551	9,087,775
Net interest income	25,110,716	23,790,864
Net impairment loss on loans (note 6)	964,323	1,468,556
Net interest income after provision for impaired loans	24,146,393	22,322,308
Non-interest revenue	8,929,396	9,273,892
	33,075,789	31,596,200
Operating expenses:		
Salaries, wages and benefits	15,239,251	15,401,732
Board, delegate and committee	546,251	508,597
Data processing and clearing	1,310,333	1,136,545
General and administration	8,467,555	8,338,922
Insurance	778,334	854,658
Occupancy	2,570,965	2,236,331
Depreciation and amortization	2,230,024	2,008,712
	31,142,713	30,485,497
Operating income	1,933,076	1,110,703
Unrealized gains (losses):		
Unrealized (loss) gain on interest rate swaps	(107,010)	28,566
Unrealized gains on investments (note 9)	110,444	140,813
Income before income taxes	1,936,510	1,280,082
Income taxes (note 17):		
Current	495,887	363,951
Deferred (recovery)	(234,400)	(150,000)
	261,487	213,951
Net income	$ 1,675,023	$ 1,066,131

See accompanying notes to financial statements.

NORTHERN CREDIT UNION LIMITED

Statement of Comprehensive Income (Loss)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Net income	$ 1,675,023	$ 1,066,131
Other comprehensive income, net of income taxes:		
Items that are or may be reclassified to profit or loss:		
Net change in fair value of available-for-sale financial assets, net of tax of $Nil (2014 - $3,700)	–	(10,553)
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial gain (losses) net of income tax of $395,000 (2014 - $537,900)	1,094,500	(1,255,100)
Comprehensive income (loss)	$ 2,769,523	$ (199,522)

Statement of Changes in Members' Equity

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Contributed surplus:		
Balance, beginning of year	$ 8,892,785	$ 8,892,785
Acquisition of Saugeen Community Credit Union Limited (note 24)	8,910,071	–
Balance, end of year	17,802,856	8,892,785
Retained earnings:		
Balance, beginning of year	31,300,298	30,234,167
Net income	1,675,023	1,066,131
Balance, end of year	32,975,321	31,300,298
Accumulated other comprehensive income (loss):		
Representing the fair value reserve:		
Balance, beginning of year	391,715	1,657,368
Net change in fair value of available-for-sale financial assets, net of tax	–	(10,553)
Defined benefit plan actuarial (losses) gains, net of tax	1,094,500	(1,255,100)
Balance, end of year	1,486,215	391,715
Members' equity, end of year	$ 52,264,392	$ 40,584,798

See accompanying notes to financial statements.

NORTHERN CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 1,675,023	$ 1,066,131
Adjustments for:		
Change in non-cash items:		
Net interest income	(25,110,716)	(23,790,864)
Provision for impaired loans	964,323	1,468,556
Provision for income tax	261,487	213,951
Depreciation and amortization	2,230,024	2,008,712
Unrealized gains on investments	(110,444)	(140,813)
Unrealized loss on interest rate swaps	107,010	(28,566)
Gain on disposal of property and equipment	(1,500)	(2,210)
	(19,984,793)	(19,205,103)
Changes in other assets:		
Changes in other assets	(1,126,450)	(272,877)
Changes in accounts payable and accrued liabilities	(186,663)	981,759
	(1,313,113)	708,882
Changes in member activities (net):		
Changes in member loans	(180,968,062)	(40,736,560)
Changes in member deposits	179,566,832	(2,603,090)
	(1,401,230)	(43,339,650)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	34,302,653	31,965,485
Interest received on investments	1,286,725	935,259
Interest paid on member deposits	(7,122,913)	(8,329,193)
Interest paid on external borrowings	(1,358,633)	(815,174)
Dividends paid	(873,140)	(612,635)
Income taxes paid	(166,700)	(212,931)
	26,067,992	22,930,811
	3,368,856	(38,905,060)
Cash flows from financing activities:		
Issuance of membership shares	145,933	8,399
Redemption of Class A patronage shares	(56,448)	(80,284)
Issuance of Class B investment shares	127,394	20,216,717
Repayment of Central 1 Credit Union loan	(8,002,204)	(1,998,287)
Proceeds from securitized loans	27,993,392	28,205,892
	20,208,067	46,352,437
Cash flows from investing activities:		
(Purchase of) proceeds from sale of investments	(23,488,955)	(1,828,034)
Additions to intangible assets	(457,862)	(47,949)
Additions to property and equipment	(2,633,900)	(2,507,377)
Disposal of property and equipment	2,825	259,863
Net cash inflow from purchase of Saugeen Community Credit Union Limited (note 24)	9,839,978	–
	(16,737,914)	(4,123,497)
Net increase in cash and cash equivalents	6,839,009	3,323,880
Cash and cash equivalents, beginning of year	21,934,700	18,610,820
Cash and cash equivalents, end of year	$ 28,773,709	$ 21,934,700

See accompanying notes to financial statements.

1. Reporting entity:

Northern Credit Union Limited (the “Credit Union”), was incorporated under the laws of Ontario and operates in compliance with the Credit Union (“Unions”) and Caisse Populaires (“Caisses”) Act of Ontario (the “Act”). The Credit Union is a member of the Deposit Insurance Corporation of Ontario (“DICO”) and of the Central 1 Credit Union (“Central 1”). The Credit Union is domiciled in Canada. The address of the Credit Union’s registered office is 280 McNabb Street, Sault Ste. Marie, Ontario. The Credit Union is primarily involved in corporate and retail banking.

2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements have been authorized for issue by the Board of Directors on March 10, 2016.

(b) Functional and presentation currency:

The Credit Union’s functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

(c) Use of estimates and judgments:

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Loans receivable from members:

Loans are initially measured at fair value plus incremental direct transaction costs less loan fees received and subsequently remeasured at their amortized cost using the effective interest method. Loans receivable from members are reported net of an allowance for credit losses.

(i) Loan interest:

Interest income from loans is recorded on the effective yield basis. Accrued but uncollected interest is provided for when loans are determined to be impaired.

3. Significant accounting policies (continued):

(a) Loans receivable from members (continued):

(ii) Provision for credit losses:

The Credit Union maintains a provision for credit losses, which, in management's opinion, is considered adequate to provide for credit-related losses.

The Credit Union considers evidence of impairment for loans receivable at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Credit Union uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Interest income and expense:

Interest income and expense are recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(c) Non-interest revenue:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

3. Significant accounting policies (continued):

(c) Non-interest revenue (continued):

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Net income from other financial instruments designated at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities so designated, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

(d) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, current accounts, cheques and other items in transit. Given their short-term nature, the carrying value of cash and cash equivalents equals fair value.

(e) Financial instruments - non-derivative financial instruments:

The Credit Union initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognized as a separate asset or liability.

The Credit Union has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Non-derivative financial instruments comprise cash and cash equivalents, investments, loans to members, members' deposits, accounts payable and accrued liabilities and liabilities qualifying as regulatory capital.

3. Significant accounting policies (continued):

(e) Financial instruments - non-derivative financial instruments (continued):

Fair value through profit and loss:

Financial assets and liabilities designated as fair value through profit and loss ("FVTPL") are financial instruments either classified as held for trading ("HFT") or are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. HFT financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time.

FVTPL financial assets and liabilities are measured at fair value at each reporting date. Gains and losses realized on disposal together with dividends and interest earned on these instruments are reported in interest and investment income. Unrealized gains and losses from market fluctuations are reported separately in the statement of income. There are regulatory restrictions imposed by the Financial Services Commission of Ontario on the use of this designation including that loan financial assets are precluded from being designated at FVTPL and that the fair value designated financial instruments are managed on a fair value basis.

Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has the legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as the Credit Union's trading activities.

Held to maturity:

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

Available for sale:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Credit Union's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(a) (ii)), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3. Significant accounting policies (continued):

(e) Financial instruments – non-derivative financial instruments (continued):

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Other liabilities:

The Credit Union has designated all financial liabilities with the exception of derivatives as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense. Transaction costs related to Other Liabilities are capitalized and then amortized over the life of the instrument using the effective interest method.

(f) Financial instruments - derivative financial instruments:

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices such as interest rate swaps and equity swap agreements. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are closely related to the host contracts. Changes in the fair value of those derivative instruments are recognized in net income for the year. The Credit Union does not apply hedge accounting on its derivative portfolio.

(g) Financial instruments - derecognition:

For securitization transactions initiated prior to the date of transition to IFRS, in accordance with pre-changeover Canadian GAAP, the loan securitizations were treated as a sale, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. Gains on these transactions were reported as non-interest revenue. The amount of these gains are based on the present value of expected future cash flows using management's best estimates and key assumptions such as prepayment rates, excess spread, credit (losses) and discount rates. The Credit Union has a contractual obligation to service the loans on behalf of the transferee.

3. Significant accounting policies (continued):

(g) Financial instruments – derecognition (continued):

For securitization transactions initiated after the date of transition to IFRS, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

(h) Investments:

Investments are recorded at fair value unless the investment is designated as Loans and Receivables. Any gains and losses on disposal of investments are recorded in the year they occur and are included in other investment income in the Statement of Income.

(i) Other assets:

Included in other assets are costs incurred in equity swap agreement hedge premiums and prepaid software maintenance costs. Hedge premiums are recorded as expense using the effective interest rate method over the term of the agreement.

(j) Intangible assets:

Computer software that is not an integral part of other property and equipment is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization and is presented as part of property and equipment on the statement of financial position. Amortization of computer software is calculated by applying the straight-line method at rates based on estimated useful lives between 3 and 10 years.

(k) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 50 years
Parking areas	3 to 10 years
Furniture, office and computer equipment	3 to 20 years
Automated banking machines	5 to 10 years
Leasehold improvements	5 to 15 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(l) Revenue recognition:

Loan interest and revenue is recognized on the effective yield basis.

3. Significant accounting policies (continued):

(m) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has 30 cash-generating units. Impairment charges are included in net income.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies (continued):

(o) Foreign currency translation:

The financial statements are presented in Canadian dollars, which is the Credit Union's presentation and functional currency. Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchanges rates in effect on the date of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(p) Employee retirement benefits:

i) Defined benefit plans:

The Credit Union's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Credit Union, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Credit Union recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3. Significant accounting policies (continued):

(p) Employee retirement benefits (continued):

ii) Defined contribution plans:

The Credit Union also has defined contribution plans providing pension benefits for eligible employees not included in the defined benefit plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(q) Leased assets:

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized in the Credit Union’s statement of financial position.

(r) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as financing cost.

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet effective:

i) IFRS 15 *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Credit Union intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

ii) IFRS 9 *Financial Instruments* (“IFRS 9”(2014))

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet effective (continued):

ii) IFRS 9 *Financial Instruments* ("IFRS 9"(2014)) (continued):

The Credit Union intends to adopt IFRS 9 in its financial statements for its fiscal year beginning on January 1, 2018. It is expected that IFRS 9, when initially applied, will have a significant impact on the Credit Union's financial statements. As well, the implementation and ability to elect options provided by the new standards may be influenced by the regulators (DICO).

iii) IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This 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 asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Credit Union intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Critical accounting estimates and judgments:

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

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

Fair value of financial instruments:

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 19.

Member loan loss provision:

In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in note 6.

Income taxes:

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit by the tax authorities based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

5. Loans to members:

			2015
	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 522,978,670	$ 60,384	$ 522,918,286
Personal loans	159,581,976	2,305,996	157,275,980
Commercial loans	212,430,712	661,180	211,769,532
	$ 894,991,358	$ 3,027,560	$ 891,963,798

			2014
	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 446,149,799	$ 37,470	$ 446,112,329
Personal loans	130,972,417	2,002,690	128,969,727
Commercial loans	137,433,402	797,976	136,635,426
	$ 714,555,618	$ 2,838,136	$ 711,717,482

Commercial loans consist of the following loan types:

	2015	2014
Commercial	$ 148,637,992	$ 116,465,964
Syndicated	20,578,887	18,353,228
Agricultural	40,679,402	–
Institutional	2,332,406	2,422,976
Unincorporated associations	202,025	191,234
Allowance for impaired loans	(661,179)	(797,976)
	$ 211,769,533	$ 136,635,426

5. Loans to members (continued):

Certain Residential Mortgage Loans are securitized and have been legally transferred to other entities for funding purposes. These loans are administered by the Credit Union and recognized on the statement of financial position to the extent of the Credit Union's continuing involvement. The remaining balance of loans securitized at December 31, 2015, is $71,091,745 (2014 - $43,098,353).

Total fees paid to third parties associated with lending activities capitalized in other assets were $1,211,566 as at December 31, 2015 (2014 - $1,026,998). Charges amortized into interest expense in respect of these fees was $92,626 (2014 - $64,799).

The following summarizes the Credit Union's loan portfolio by the contractual repricing or maturity date, whichever is earlier:

	2015		2014	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	$ 203,652,546	5.15%	$ 156,878,387	5.48%
Within 1 year	147,473,182	4.54%	160,237,004	5.63%
Over 1 year	543,865,630	3.99%	397,440,227	4.44%
	894,991,358	4.34%	714,555,618	4.93%
Allowance for impaired loans	3,027,560		2,838,136	
	$ 891,963,798		$ 711,717,482	

6. Allowance for impaired loans:

Details of the activity in the allowance for impaired loans are as follows:

	Residential Mortgage Loans	Personal Loans	Commercial Loans	2015 Total	2014 Total
Balance, beginning of year	$ 37,470	2,002,690	797,976	2,838,136	$ 2,675,172
Recoveries	–	113,256	–	113,256	145,429
Loans written-off	(26,076)	(1,117,358)	(152,266)	(1,295,700)	(1,451,021)
Provision for impaired loans during the year	(12,066)	1,270,171	(293,781)	964,323	1,468,556
Provision acquired from Saugeen Community CU	61,056	37,237	309,251	407,544	–
Balance, end of year	$ 60,384	2,305,996	661,180	3,027,560	$ 2,838,136

For the year ended December 31, 2015, accrued interest of $155,900 was recorded on impaired loans (2014 - $124,343).

6. Allowance for impaired loans:

Details of the impaired loans, net of specific allowances are as follows:

2015	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 12,971,464	3,744,720	4,637,335	21,353,519
Specific allowance	44,663	2,108,913	320,712	2,474,288
Net	$ 12,926,801	1,635,807	4,316,623	18,879,231

2014	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 8,275,048	3,140,455	6,036,248	17,451,751
Specific allowance	37,222	1,936,299	274,461	2,247,982
Net	$ 8,237,826	1,204,156	5,761,787	15,203,769

The Credit Union's commercial loan portfolio contains Member concentration risk, whereby a large amount of the loans are connected to certain individuals. Collectively, the largest five commercial Members by loan dollar value are associated with approximately 16% (2014 - 20%) of the commercial loan portfolio.

The Credit Union's commercial loan portfolio consists of the following industry sectors:

	2015	2014
Hospitality	18%	24%
Retail and Commercial Buildings	33%	49%
Agriculture	20%	–
Other	29%	27%

Past due but not impaired loans:

The Credit Union has the following loans that are past due but not impaired:

	2015	2014
31 to 90 days past due	$ 4,421,581	$ 3,938,846

6. Allowance for impaired loans (continued):

Collateral:

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation exercise of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and (or) the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loan.

The amount and type of collateral and other credit enhancements required depend upon the Credit Union's assessment of counterparty credit quality and repayment capacity. The Credit Union complies with industry standards for collateral valuation, frequency of recalculation of the collateral requirements, documentation, registration and perfection procedures and monitoring.

Non-financial assets accepted by the Credit Union as collateral include vehicles, residential real estate, real estate under development, commercial real estate and certain business assets (accounts receivable, inventory, property and equipment). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees and are also accepted to reduce credit risk. The Credit Union also uses credit insurance on mortgage loans to reduce the credit risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $25,966,605 as at December 31, 2015 (2014 - $19,480,705).

Credit risk:

The following tables illustrate the credit quality of loans that are neither past due nor impaired:

Credit quality of loans – December 31, 2015			
Retail Mortgage and Personal Loans		**Commercial Loans**	
Rating	**% of Portfolio**	**Rating**	**% of Portfolio**
Undoubted	19%	Undoubted	5%
Superior	18%	Superior	14%
Satisfactory	62%	Satisfactory	74%
Watch List	1%	Watch list	7%

6. Allowance for impaired loans (continued):

Credit quality of loans – December 31, 2014

Retail Mortgage and Personal Loans		Commercial Loans	
Rating	**% of Portfolio**	**Rating**	**% of Portfolio**
Undoubted	15%	Undoubted	0%
Superior	21%	Superior	6%
Satisfactory	63%	Satisfactory	90%
Watch List	1%	Watch list	4%

Refer to Note 22 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

7. Cash and cash equivalents:

	2015	2014
Cash on hand	$ 6,597,520	$ 6,682,052
Cash at Central 1	22,257,589	15,282,110
Other cash and cash equivalents	(81,400)	(29,462)
	$ 28,773,709	$ 21,934,700

8. Securitized liabilities:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund loan growth by selling residential mortgages to unrelated third parties.

As part of these mortgage receivable transfers, the Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. The Credit Union's retained interest in the mortgages sold also consists of their right to future cash flows arising from any excess of the mortgage cash flows over and above the contractual return due to the mortgage pool investors. The Credit Union's retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

8. Securitized liabilities (continued):

In accordance with the Credit Unions accounting policy, the transferred financial assets continue either to be recognized in their entirety or to the extent of the continuing involvement, are derecognized in their entirety.

i) Transferred Financial Assets that are recognized in their entirety:

At year end, Mortgage Backed Securities secured by residential mortgage loans of $71,091,745 (2014 - $43,098,353) bearing a weighted average fixed interest rate of 1.7382% (2014 – 1.8611%), expected weighted average maturity date of 2019 were outstanding under this arrangement.

The total amount of securitized mortgages under administration as at December 31, 2015 was $71,091,745 (2014 - $43,098,353).

9. Investments:

	2015	2014
Available for sale:		
Central 1 Credit Union Limited:		
Class A shares	$ 3,540,730	$ 2,782,660
Class E shares	3,373,200	2,970,700
Cost, net of distributions received	6,913,930	5,753,360
Other investments	6,682	6,682
Fair value through profit and loss:		
CUCO Cooperative Association	2,066,075	1,710,389
Loans and receivables:		
Central 1 liquidity reserve deposits	70,451,704	48,479,105
Accrued interest on investments	376,943	561,978
Other investment	280,100	280,000
	$ 80,095,434	$ 56,791,514

9. Investments (continued):

The following summarizes the Credit Union's investments by the contractual repricing or maturity date, whichever is earlier:

	2015		2014	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Within 1 year	$ 64,138,727	0.95%	$ 24,855,480	1.48%
Over 1 year	6,312,977	1.09%	23,623,625	1.23%
	70,451,704	0.97%	48,479,105	1.36%
Non-rate sensitive	9,266,787		7,750,431	
Accrued interest	376,943		561,978	
	$ 80,095,434		$ 56,791,514	

a) Shares in Central 1:

As a member of Central 1, the Credit Union is required to maintain an investment in Central 1 shares equal to its share of the level of capital required by Central 1. The Credit Union's Share of Central 1 capital requirements are based on asset size relative to other Class "A" members. Central 1 rebalances the investment annually. During 2015, the Credit Union purchased 338,377 (2014 - 296,850) Central 1 Class A shares and received $185,356 (2014 - $114,573) in dividends. In addition, in 2015 as part of the merger with Saugeen Community Credit Union Limited, an additional 419,693 Central 1 Class A shares and 402,500 Central 1 Class E shares were acquired.

When Credit Union Central of Ontario Limited ("CUCO") and Credit Union Central of British Columbia ("CUCBC") merged to form Central 1, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. As there is no active market for these shares, the shares are not sellable, and, as a result of continued investment in these shares, the Credit Union receives significant benefits from Central 1, fair market value is not reliably determinable as future cash flows cannot be adequately predicted with a standard valuation technique. As a result, these shares are carried at cost. The Credit Union does not intend to dispose of the shares in the near future.

The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of its share capital.

b) Investment in CUCO Cooperative Association:

As a result of the merger between CUCO and CUCBC to form Central 1 in 2008, member credit unions were required to invest in a limited partnership ("ABCP LP") in order to acquire third-party asset-backed commercial paper ("ABCP"). Members of CUCO were required to purchase units in the ABCP LP based on their proportionate asset size.

9. Investments (continued):

b) Investment in CUCO Cooperative Association (continued):

On August 31, 2011, ABCP LP sold all of its assets to the CUCO Cooperative Association ("CUCO Co-op") in exchange for CUCO Co-op Class B Investment Shares. Subsequently, on September 2, 2011, ABCP transferred to the Credit Union its proportionate share of CUCO Co-op Class B Investment Shares. As a result, the Credit Union received 1,081,848,866 Class B Shares.

An independent valuation was completed on the underlying investments of the CUCO Co-op utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the statement of financial position date. As a result of this valuation and distributions from CUCO Co-op, the carrying value of the investment in the CUCO Co-op on the Credit Union's balance sheet was decreased to $2,066,075 (2014 - $1,710,388). During the year, the Credit Union received $Nil from the CUCO Co-op, of which $Nil has been recorded as a return of the initial capital invested and $Nil has been recorded as interest income. In addition, as these investments have been designated as FVTPL a fair value adjustment of $110,444 has been recorded in income for 2015 (2014 - $140,813).

c) Central 1 Liquidity reserve deposits:

The Credit Union is a member of Central 1. As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit an amount equal to 6% of its assets as at each preceding month end. The deposits bear interest at varying rates, dependent upon the term of the investment, and have been designated as Loans and Receivables.

d) Other shares:

The Credit Union maintains other instruments which are non-interest bearing. These shares have been designated as Available for Sale, but carried at cost as they are not traded in an active market and fair value cannot be measured reliably.

10. Other assets:

	2015	2014
Other	$ 259,602	$ 535,725
Prepayments	2,460,085	1,015,120
	$ 2,719,687	$ 1,550,845

11. Property and equipment and intangible assets:

			2015
	Cost	Accumulated depreciation	Carrying amount
Land	$ 2,569,622	$ –	$ 2,569,622
Parking areas	190,552	131,317	59,235
Buildings and improvements	17,766,209	8,023,510	9,742,699
Leasehold improvements	5,303,455	2,253,509	3,049,946
Furniture, office and computer equipment	14,516,509	11,296,339	3,220,170
Automated banking machines	1,427,690	697,593	730,097
Tangible assets	41,774,037	22,402,268	19,371,769
Intangible assets (software)	3,009,237	1,172,506	1,836,731
	$ 44,783,274	$ 23,574,774	$ 21,208,500

			2014
	Cost	Accumulated depreciation	Carrying amount
Land	$ 2,495,352	$ –	$ 2,495,352
Parking areas	154,820	99,220	55,600
Buildings and improvements	16,420,650	7,400,434	9,020,216
Leasehold improvements	4,356,694	1,965,338	2,391,356
Furniture, office and computer equipment	13,205,880	9,521,151	3,684,729
Automated banking machines	1,247,848	543,660	704,188
Construction-in-progress	313,924	–	313,924
Tangible assets	38,195,168	19,529,803	18,665,365
Intangible assets (software)	2,551,375	867,152	1,684,223
	$ 40,746,543	$ 20,396,955	$ 20,349,588

11. Property and equipment and intangible assets (continued):

Depreciation and amortization in respect of the above assets for the year amounts to $2,230,024 (2014 - $2,008,712). Reconciliations of the carrying amount for each class of fixed asset are summarized below.

	2015	2014
Land		
Carrying amount at the beginning of the year	$ 2,495,352	$ 2,495,352
Additions	74,270	–
Carrying amount at the end of the year	$ 2,569,622	$ 2,495,352
Parking areas		
Carrying amount at the beginning of the year	$ 55,600	$ 65,686
Addition	14,059	–
Depreciation	(10,424)	(10,086)
Carrying amount at the end of the year	$ 59,235	$ 55,600
Buildings and improvements		
Carrying amount at the beginning of the year	$ 9,020,216	$ 9,635,492
Additions	1,353,666	–
Depreciation	(631,183)	(615,276)
Carrying amount at the end of the year	$ 9,742,699	$ 9,020,216
Leasehold improvements		
Carrying amount at the beginning of the year	$ 2,391,356	$ 1,474,170
Additions	946,760	1,128,525
Depreciation	(288,170)	(211,339)
Carrying amount at the end of the year	$ 3,049,946	$ 2,391,356

11. Property and equipment and intangible assets (continued):

	2015	2014
Furniture, office and computer equipment		
Carrying amount at the beginning of the year	$ 3,684,729	$ 3,524,135
Additions	376,402	1,193,243
Disposals	–	(259,863)
Depreciation	(840,960)	(772,786)
Carrying amount at the end of the year	$ 3,220,170	$ 3,684,729
Automated banking machines		
Carrying amount at the beginning of the year	$ 704,188	$ 741,987
Additions	179,842	81,637
Depreciation	(153,933)	(119,436)
Carrying amount at the end of the year	$ 730,097	$ 704,188
Construction in progress		
Carrying amount at the beginning of the year	$ 313,924	$ 209,952
Additions	–	1,232,499
Disposal	(2,825)	–
Transfer to service	(311,099)	(1,128,527)
Carrying amount at the end of the year	$ –	$ 313,924
Intangible assets (computer software)		
Carrying amount at the beginning of the year	$ 1,684,223	$ 1,916,063
Additions	457,862	47,949
Amortization	(305,354)	(279,789)
Carrying amount at the end of the year	$ 1,836,731	$ 1,684,223
Total carrying amount	$ 21,208,500	$ 20,349,588

12. Members' deposits:

		2015		2014
Non-interest bearing deposits	$	1,465,197	$	1,651,069
Deposits with variable interest rates:				
Chequing		243,500,674		200,436,137
Savings		186,834,765		143,791,615
Registered retirement plans		28,592,832		26,267,387
		458,928,271		370,495,139
Deposits with fixed interest rates:				
Term deposits		213,048,887		162,425,421
Registered retirement plans		186,083,797		145,387,690
Accrued interest		4,349,734		3,277,870
		403,482,418		311,090,981
	$	863,875,886	$	683,237,189

The following summarizes the Credit Union's Members' deposits by the contractual repricing or maturity date, whichever is earlier:

	2015			2014		
		Principal Balance	Average Yield		Principal Balance	Average Yield
Floating	$	458,928,271	0.30%	$	370,495,139	0.36%
Within 1 year		180,498,997	1.82%		155,544,606	1.53%
Over 1 year		218,633,687	2.03%		152,268,505	1.42%
		858,060,955	0.90%		678,308,250	0.67%
Non-rate sensitive		5,814,931			4,928,939	
	$	863,875,886		$	683,237,189	

13. Short-term borrowings with Central 1 Credit Union:

The Credit Union has authorized credit facilities available with Central 1 in the aggregate amount of $49,500,000 million. These credit facilities are secured by a general security agreement and an assignment of book debts. At the end of the year, $Nil (2014 - $8,000,000) was outstanding under this facility.

14. Liabilities qualifying as regulatory capital:

	2015	2014
Membership shares	$ 1,485,369	$ 1,339,436
Patronage shares	1,303,957	1,360,405
Investment shares	27,991,495	27,864,101
	$ 30,780,821	$ 30,563,942

Patronage and Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Cooperative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost net of transaction costs. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and Conditions

Membership Shares

Membership shares have a par value of $5 per share and members eighteen years of age and over are required to have a minimum of five shares. Members under the age of eighteen are required to have one share. Membership share balances can be withdrawn only upon termination of membership and approval of the directors. At December 31, 2015, there were 60,656 members of the Credit Union holding 297,073 membership shares (2014 – 54,284 members holding 267,887 shares). Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see note 15), as is the payment of any dividends on these shares. Membership shares are available for redemption and based on their features are classified as a liability.

Patronage Shares

The Credit Union is authorized to issue an unlimited number of non-voting, non-participating, Class A non-cumulative, redeemable patronage shares. Class A non-cumulative redeemable patronage shares can only be withdrawn subject to any restrictions imposed by the Credit Unions and Caisses Populaires Act, 1994. Issued and outstanding shares as at December 31, 2015 were 1,303,957 (2014 – 1,360,405). Patronage shares are available for redemption and based on their features are classified as a liability.

Patronage share redemptions are at the discretion of the Directors to a maximum of 10% of the shares outstanding at the previous year end.

14. Liabilities qualifying as regulatory capital (continued):

Investment Shares

Class B investment shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares, to a maximum of 10% of the shares outstanding at the previous year end. The Credit Union has the option to redeem these shares in whole or in part or on a pro-rata basis any time after five years from the date of issuance. Issued and outstanding shares as at December 31, 2015 were 27,991,495 (2014 – 27,864,101). Investment shares are non-voting, are available for redemption and based on their features are classified as a liability.

On December 10, 2015, the Board of Directors declared a dividend of 3.11% on Class B investment shares. The value of the dividend is $873,140.

15. Capital management:

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are to implement a policy that:

- ensures that the quantity, quality and composition of capital needed that reflects the inherent risks of the Credit Union and to support the current and planned operations; and
- provides distributions of dividends and redemptions of capital instruments to members.

The Credit Union Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

The Act requires credit unions to maintain a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The current minimum ratios per board policy are a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. The Credit Union is in compliance with the Act as indicated by the table below:

	Regulatory Capital	Capital leverage minimum	Capital leverage actual	Risk weighted minimum	Risk weighted actual
December 31, 2015	$ 82,112,270	4.00%	8.01%	8.00%	15.44%
December 31, 2014	$ 71,347,179	4.00%	8.78%	8.00%	16.92%

The Credit Union manages its Tier 1 and Tier 2 capital in accordance with internal policies and regulatory requirements. Tier 1 capital is the highest quality and consists of retained earnings, membership shares and the portion of the value of Class A and B investment and patronage shares that are not redeemable within 12 months. Tier 2 capital is comprised of the value of Class A and B investment and patronage shares ineligible as Tier 1 capital and the eligible portion of the allowance for impaired loans.

15. Capital management (continued):

The amount of composition of Tier 1 and Tier 2 capital was as follows:

	2015	2014
Tier 1 Capital		
Retained earnings	$ 32,975,321	$ 31,300,298
Contributed surplus	17,802,856	8,892,785
Membership shares	1,485,369	1,339,436
Class A non-cumulative redeemable patronage shares (90%)	1,224,364	1,296,621
Class B non-cumulative, non-voting, non-participating investments shares (90%)	25,529,366	27,210,397
Tier 2 Capital		
Class A non-cumulative redeemable patronage shares (10%)	79,593	63,784
Class B non-cumulative, non-voting, non-participating investment shares (10%)	2,462,129	653,703
Non-specific collective allowance for impaired loans	553,272	590,154
Total regulatory capital	$ 82,112,270	$ 71,347,178

16. Commitments and contingencies:

(a) As at December 31, 2015, commitments for authorized but not issued loans to members amounted to approximately $19,684,266 (2014 - $21,237,927).

(b) As at December 31, 2015, commitments for unused lines and letters of credit amounted to approximately $139,909,901 and $2,129,034 respectively (2014 - $114,131,761 and $2,033,121, respectively).

(c) The Credit Union has commitments for the rental of branch premises under long-term non-cancelable operating leases and other rental agreements which expire on various dates to 2028. Future annual minimum lease payments are approximately as follows:

2016	$ 549,198
2017	495,477
2018	496,977
2019	491,277
2020	453,899
Thereafter	1,016,582

16. Commitments and contingencies (continued):

(d) The Credit Union is involved in certain legal matters and litigation from time to time, the outcomes of which are not presently determinable. The effects, if any, from such contingencies will be accounted for in the periods in which the matters are probable.

17. Income taxes:

The components of income tax expense (benefit) are as follows

	2015	2014
Current income tax expense	$ 495,887	$ 363,951
Deferred income tax (recovery) expense	(234,400)	(150,000)
Total income tax expense	$ 261,487	$ 213,951

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 26.5% (2014 - 26.5%) to income before income taxes. The reasons for the difference are as follows:

	2015	2014
Income before income tax	$ 1,936,510	$ 1,280,082
Statutory tax rate	26.5%	26.5%
Computed tax expense	$ 513,175	$ 339,222
Increase (decrease) resulting from:		
Lower rate on preferred rate amount	(238,248)	(37,022)
Small business deduction	–	(55,000)
Non-deductible expense	19,240	15,567
Other	(32,680)	(48,816)
Total income tax expense	$ 261,487	$ 213,951

17. Income taxes (continued):

The movements of deferred tax assets and liabilities are presented below:

2015		Opening Balance	Recognized in OCI	Recognized Directly in Equity	Recognized in Profit or loss	Closing Balance
Deferred tax assets:						
Employee retirement benefits	$	621,000	(395,000)	–	223,000	449,000
Allowance for impaired loans		216,000	–	–	(4,000)	212,000
Non-capital loss		–	–	1,512,000	–	1,152,000
Total deferred tax assets	$	837,000	(395,000)	1,512,000	219,000	2,173,000
Deferred tax liabilities:						
Investments	$	367,000	–	–	(68,000)	299,000
Property, equipment and intangible assets		247,400	–	–	52,600	300,000
Bargain purchase gain		–	–	2,521,000	–	2,521,000
Total deferred tax liabilities	$	614,400	–	2,521,000	(15,400)	3,120,000
Total movement taken to income tax expense	$	222,600	(395,000)	(1,009,000)	234,400	(947,000)

2014		Opening Balance		Recognized in OCI		Recognized in Profit or loss		Closing Balance
Deferred tax assets:								
Employee retirement benefits	$	175,300	$	537,900	$	(92,200)	$	621,000
Allowance for impaired loans		–		–		216,000		216,000
Mortgage securitization		22,800		–		(22,800)		–
Total deferred tax assets	$	198,100	$	537,900	$	101,000	$	837,000
Deferred tax liabilities:								
Investments	$	304,400	$	(3,700)	$	66,300	$	367,000
Property, equipment and intangible assets		205,100		–		42,300		247,400
Allowance for impaired loans		157,600		–		(157,600)		–
Total deferred tax liabilities	$	667,100	$	(3,700)	$	(49,000)	$	614,400
Total movement taken to income tax expense	$	(469,000)	$	541,600	$	150,000	$	222,600

17. Income taxes (continued):

The ultimate realization of future tax assets is dependent upon generation of taxable income during future periods in which the unused tax losses are available.

The Credit Union has net capital loss carryforwards of $154,000 with no expiry date which are available to reduce future taxable income. The tax benefit of the losses will be recognized in the year that it is determined that it is probable that they will be realized.

18. Employee future benefits:

The Credit Union has a defined benefit pension plan for certain management employees. All other employees of the Credit Union may elect to participate in the Canadian Credit Union Employees Pension Plan, a defined contribution plan, as provided by CUMIS Life Insurance Company.

The total expense for the pension plans are as follows:

	2015	2014
Defined benefit pension plan net benefit expense	$ 1,315,600	$ 802,800
Defined contribution pension plan	186,172	163,000
	$ 1,501,772	$ 965,800

Information about the Credit Union's defined benefit plan is as follows:

	2015	2014
Accrued benefit obligation:		
Balance, beginning of year	$ 13,529,700	$ 10,277,800
Current service cost	1,388,300	1,000,900
Interest cost	585,000	533,900
Benefits paid	(424,100)	(626,000)
Actuarial losses (gains)	(1,617,000)	2,412,200
Administration fees	(80,300)	(69,100)
Balance, end of year	$ 13,381,600	$ 13,529,700
Plan assets:		
Fair value, beginning of year	$ 11,468,500	$ 9,868,100
Expected return on plan assets	463,000	495,400
Employer contributions	522,200	944,300
Employees' contributions	194,700	236,600
Benefits paid	(424,100)	(626,000)
Actuarial gains (losses)	(127,500)	619,200
Administration fees	(80,300)	(69,100)
Fair value, end of year	$ 12,016,500	$ 11,468,500

18. Employee future benefits (continued):

Experience adjustments incurred were as follows:

	Defined Benefit Pensions 2015	2014
Accrued benefit obligation	$ 1,617,000	$ (2,412,200)
Plan assets	(127,500)	619,200
Total for the year	$ 1,489,500	$ (1,793,000)

The accrued benefit liability is included in accounts payable and accrued liabilities.

The following table provides the amount recognized in the statement of financial position:

	Defined Benefit Pensions 2015	2014
Funded status (deficit) being accrued benefit liability included in other liabilities	$ (1,365,100)	$ (2,061,200)
Net amount recognized	$ (1,365,100)	$ (2,061,200)

The significant actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are as follows:

	Defined Benefit Pensions 2015	2014
Discount rate	4.10%	4.00%
Rate of compensation increase	3.00%	3.50%
Expected long-term rate of return on plan assets	4.10%	4.00%
Rate of maximum pension increase	3.00%	3.00%

The expected rate of return on plan assets is based on the risks and associated returns expected of the underlying plan assets. Plan assets are held in balanced funds which include equities and fixed income investments.

18. Employee future benefits (continued):

The Credit Union's net benefit plan expense is as follows:

	Defined Benefit Pensions 2015	2014
Current service cost, net of employees' contributions	$ 1,193,600	$ 764,300
Interest cost	585,000	533,900
Expected return on plan assets	(463,000)	(495,400)
Net benefit plan expense	$ 1,315,600	$ 802,800

These net benefit plan expenses are included in salaries and employee benefits on the statement of income. Aggregate contributions relating to the defined benefit pensions plan for the year ended December 31, 2015 is $522,200 (2104 - $944,300).

The defined benefit plan assets comprise:

	2015	2014
Mawer balanced fund	$ 6,567,089	$ 5,827,243
Howson Tattersall Saxon balanced fund	5,436,223	5,629,844
CUMIS retirement security fund	13,195	11,427
	$ 12,016,507	$ 11,468,514

The actual return on plan assets for the year-ended December 31, 2015 was $463,000 (2014 - $495,400).

A 1% decrease in the discount rate would increase the pension benefit obligation at December 31, 2015 by 18.9% or $2,528,800 to $15,910,400. In addition, a 1% decrease in the discount rate would increase the fiscal 2016 net service cost by 26.8% or $218,200 to $1,031,600.

A 1% decrease in the salary scale would decrease the pension benefit obligation at December 31, 2015 by 3.2% or $430,600 to $12,951,000. In addition, a 1% decrease in the salary scale would decrease the fiscal 2016 net service cost by 9.8% or $79,500 to $733,900.

19. Fair value of financial instruments:

Estimated fair value of on-balance sheet financial instruments:

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in the market rates that have occurred since their origination. Due to the use of judgement and estimates, the fair value amounts should not be interpreted as being necessarily realizable in immediate settlements of the instruments.

The estimated fair value of the Credit Union's financial instruments is set out as follows:

(000's of $'s)				2015	2014
		Fair Value	Book Value	Fair Value Over (Under) Book Value	Fair Value Over (Under) Book Value
Financial assets					
Cash resources	$	28,774	28,774	–	–
Loans to members		897,096	891,964	5,132	3,739
Investments		80,443	80,095	347	655
Financial liabilities					
Members' deposits	$	867,685	863,876	3,809	1,635
Payables and accruals		5,801	5,801	–	–
Loans payable		–	–	–	4
Securitized liabilities		71,092	71,092	–	–
Liabilities qualifying for regulatory capital		30,781	30,781	–	–

The following methods and assumptions were used to estimate the fair values.

Investments are valued using quoted market value prices when available. Book values are used when no quoted market prices are available and fair value cannot be determined reliably.

The estimated fair value of fixed rate member loans and fixed rate member deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

20. Derivative financial instruments:

a) Notional amounts of derivatives:

The notional amounts of derivatives shown in the tables below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Credit Union through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates.

The Credit Union is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

b) Interest rate risk management:

The Credit Union has entered into interest rate contracts to manage interest rate risk and variable rates to alter interest rate exposure. Interest rate swaps allow the Credit Union to finance transactions and effectively swap them into fixed rate terms. Under interest rate swaps, the Credit Union agrees with the counterparty to exchange, at the maturity date, the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount.

The following table indicates the swaps and options in place at December 31, 2015 and the interest rate.

Date Agreement Entered	Notional Principal	Fixed Rate	Start Date	Expiry Date	2015 Fair Value
Interest Rate Swaps					
May 30, 2013	25,000,000	1.71%	Jan 15, 2015	Jan 15, 2016	$ 186,216
July 9, 2015	3,000,000	0.774%	Jan 20, 2016	Jan 20, 2017	(129)
July 9, 2015	5,000,000	0.77%	Feb 17, 2016	Feb 17, 2017	(672)
					$ 185,415

Date Agreement Entered	Notional Principal	Fixed Rate	Start Date	Expiry Date	2014 Fair Value
Interest Rate Swaps					
May 30, 2013	50,000,000	1.43%	Jan 15, 2014	Jan 15, 2015	$ 76,211
May 30, 2013	25,000,000	1.71%	Jan 15, 2015	Jan 15, 2016	35,741
					$ 111,952

20. Derivative financial instruments (continued):

c) Foreign exchange forward contracts:

As part of its ongoing program of managing foreign currency exposure, the Credit Union enters into forward rate agreements to purchase US dollars. These agreements function as a hedge against the Credit Union's net US dollar denominated liability position. The net fair value of these contracts as at December 31, 2015 was $(19,702) (2014 - $4,924).

d) Equity swap agreements:

The fair value of the index linked swap contracts at year end is approximately $175,428 (2014 - $430,954).

21. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union.

	2015	2014
Compensation:		
Salaries and other short-term employee benefits	$ 853,572	$ 834,516
Total pension and other post-employment benefits	167,022	110,860
	$ 1,020,594	$ 945,376
Loans to key management personnel:		
Aggregate value of loans advanced	$ 750,327	$ 793,770
Interest received on loans advanced	23,826	19,163
Aggregate value of unadvanced loans	83,357	76,695

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

	2015	2014
Deposits from key management personnel:		
Aggregate value of term and savings deposits	$ 628,177	$ 536,929
Total interest paid on term and saving deposits	8,778	8,059

21. Related party transactions (continued):

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

The total remuneration paid to the directors and committee members amounted to $143,728 (2014 - $140,075). The aggregate value of loans to related parties is as follows:

	2015	2014
Directors and officers	$ 749,059	$ 762,532
Staff	15,217,772	14,686,922
	$ 15,966,831	$ 15,449,454

All loans issued to related parties conform to the Credit Union's policies for terms, interest rates, limits and credit.

In accordance with the required disclosure under Ontario Regulation 237/09, section 28, of the Credit Unions and Caisses Populaires Act 1994, Mr. Albert W. Suraci, President and Chief Executive Officer earned a salary of $323,441 and earned benefits amounting to $64,897. Mr. Richard Adam, Senior Vice-President Finance and Administration earned a salary of $204,817 and earned benefits amounting to $38,107. Mr. Tony Dunham, Senior Vice-President Sales and Service earned a salary of $190,365 and earned benefits amounting to $38,107. Ms. Brandy Heikoop, Vice-President of Human Resources earned a salary of $134,949 and earned benefits amounting to $25,911. No other officer or employee of the Credit Union had remuneration greater than $150,000 during the year.

22. Financial risk management:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. An Asset Liability Committee (ALCO) has been established consisting of senior management and an external consultant. This committee meets on a monthly basis to review the results of income simulation models and duration analysis and reports regularly to the Board on its activities.

a) Liquidity risk:

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of polices and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The Credit Union believes that liquidity risk management is a necessary part of prudent financial administration, and is committed to engaging in proper liquidity risk management practices to comply with regulatory requirements and to guarantee the orderly funding of member needs and obligations. The Credit Union will ensure responsible liquidity risk management at all times to provide a cushion for unforeseen liquidity needs.

The key elements of the Credit Union's liquidity risk management framework establishes an overall framework of liquidity risk management which ensures that the Credit Union faces limited exposure to all material risks as well as addressing limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals, and regulatory requirements.

The Credit Union targets to maintain operating liquidity within the range of 6% to 14%. The low end of the range has been established to maintain membership in Central 1. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2015, the Credit Union's liquidity ratio was 10.66% (2014 - 9.63%).

Assets held for liquidity purposes consist of cash resources designated as held for trading in the amount of $28,773,709 and liquidity reserve deposits and term deposits held by Central 1 designated as loans and receivables totaling $70,451,704.

22. Financial risk management (continued):

a) Liquidity risk (continued):

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in note 16.

December 31, 2015

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets						
Financial assets:						
Cash and cash equivalents	$ 28,774	–	–	–	–	28,774
Investments	47,871	25,911	6,313	–	–	80,095
Loans to members	236,771	111,327	488,685	55,181	–	891,964
	313,416	137,238	494,998	55,181	–	1,000,833
Non-financial assets:						
Other assets	–	–	–	–	23,928	23,928
Total assets	$ 313,416	137,238	494,998	55,181	23,928	1,024,761
Liabilities and Members' Equity						
Members' deposits	$ 509,691	135,551	218,634	–	–	863,876
Other liabilities	–	–	–	–	77,840	77,840
Share capital	30,781	–	–	–	–	30,781
Members' equity	52,264	–	–	–	–	52,264
Total liabilities and members' equity	$ 592,736	135,551	218,634	–	77,840	1,024,761

22. Financial risk management (continued):

a) Liquidity risk (continued):

December 31, 2014

(in $000's)		Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Financial assets:							
Cash and cash equivalents	$	21,935	–	–	–	–	21,935
Investments		22,589	10,343	23,860	–	–	56,792
Loans to members		198,920	116,687	385,163	10,947	–	711,717
		243,444	127,030	409,023	10,947	–	790,444
Non-financial assets:							
Other assets		–	–	–	–	22,123	22,123
Total assets	$	243,444	127,030	409,023	10,947	22,123	812,567
Liabilities and Members' Equity							
Members' deposits	$	397,192	133,777	152,268	–	–	683,237
Other liabilities		58,181	–	–	–	–	58,181
Share capital		30,564	–	–	–	–	30,564
Members' equity		40,585	–	–	–	–	40,585
Total liabilities and members' equity	$	526,522	133,777	152,268	–	–	812,567

It is estimated that immediate and sustained parallel increase in interest rates of 1% across all maturities and currencies would increase net interest income by approximately $428,000 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately $9,000 over the next twelve months using the following assumptions:

(i) accrued interest receivable and payable as at December 31, 2015 are excluded from the calculation;
(ii) no hedging or interest rate exposures are made;
(iii) instruments reprice evenly within their respective time bands, and;
(iv) existing credit commitments will not be drawn upon.

22. Financial risk management (continued):

b) Credit risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to its credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- Ensuring that credit quality is not compromised for growth;
- Diversifying credit risks in transactions, relationships and portfolios;
- Using our credit risk weighting and scoring systems, policies and tools;
- Pricing appropriately for the credit risk taken;
- Mitigating credit risk through preventive and detective controls;
- Transferring credit risk to third parties where appropriate through approved credit; and, risk mitigation techniques including insurance coverage.

c) Interest rate risk:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with our members, primarily deposit and lending activities. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is re-priced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board.

22. Financial risk management (continued):

c) Interest rate risk (continued):

At the reporting date the interest rate profile of the Credit Union's interest-bearing financial instruments was:

	Carrying amount 2015	2014
Fixed rate instruments		
Financial assets	$ 761,790,517	$ 605,129,338
Financial liabilities	399,132,684	307,813,111
	$ 362,657,833	$ 297,316,227
Variable rate instruments		
Financial assets	$ 200,624,985	$ 153,989,576
Financial liabilities	458,928,271	370,495,139
	$ (258,303,286)	$ (216,505,563)

Fair value sensitivity analysis for fixed rate instruments

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Credit Union does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model; therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by $666,000 (2014 - $267,000).

d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Credit Union uses income simulation modeling to measure exposure to changes in interest rates over short term periods. Earnings at risk, is calculated by forecasting the net interest margin for the next 12 months using the most likely assumptions. These assumptions include management's estimates of future growth rates, and future interest rates and term preferences of members. Future growth rates are initially based on the board approved budget. Future interest rates are based on the most current interest rate path. These earnings at risk are then shocked by a change in rates sustained for a 12 month period. The resulting change in the forecast as a result of the rate shock then determines the earnings at risk. Maximum limits are established under these scenarios and are approved by the Board of Directors.

22. Financial risk management (continued):

d) Market risk (continued):

Long-term interest rate risk is measured using duration analysis. The duration of an asset, is an expression of its term to maturity taking into account the yield of the asset.

Maximum limits are established for both earnings at risk and duration of capital and are approved by the Board of Directors. The current maximum limit and projected change is indicated below:

	Maximum limit	Projected change
0.50% shock down	$ 750,000	$ (76,000)
1.0% shock up	750,000	1,475,000

e) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The Credit Union's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices.

Prudent limits will be placed on unhedged liquid assets denominated in a foreign currency. Limits are established in relation to the size of the overall liquidity portfolio and are to apply at the time of purchase.

At December 31, 2015, the Credit Union was in compliance with Board policy on financial risk management.

23. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year net income.

24. Acquisition of Saugeen Community Credit Union Limited:

Effective August 31, 2015, the Credit Union acquired the net assets and operations of Saugeen Community Credit Union Limited. This acquisition was accounted for by the purchase method and the results of operations have been included in the financial statements from the date of the acquisition.

A summary of the acquisition is as follows:

Assets acquired:	
Cash and cash equivalents	$ 9,839,978
Loans	102,262,873
Investments	10,640,924
Other assets	770,124
Fixed assets	1,429,344
Total assets	$ 124,943,243
Liabilities assumed:	
Members' deposits	$ 113,526,506
Other liabilities	1,497,666
Deferred tax liability	1,009,416
Total liabilities	$ 116,033,588
Fair value of net assets and consideration paid	$ 8,909,655
Comprised of:	
Contributed surplus	$ 9,919,071
Deferred tax liability	(1,009,000)
	$ 8,910,071

25. Subsequent event:

On August 25, 2015, the Credit Union entered into an agreement to acquire the assets of Espanola and District Credit Union Limited (Espanola) in exchange for the assumption of Espanola's liabilities. The acquisition is effective January 1, 2016. Due to the financial statements of Espanola not being completed at this time, an estimate of the financial effect of this acquisition cannot be made reliably.