Grant Thornton

Financial Statements

Tandia Financial Credit Union Limited

December 31, 2015

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Independent auditor's report

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To the Members of
Tandia Financial Credit Union Limited (operating as Tandia Cooperative Banking):

We have audited the accompanying financial statements of Tandia Financial Credit Union Limited (operating as Tandia Cooperative Banking) (the "Credit Union"), which comprise the statement of financial position as at December 31, 2015, the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union'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 Credit Union'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 Tandia Financial 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.

Grant Thornton LLP

Mississauga, Canada
February 24, 2016

Chartered Professional Accountants
Licensed Public Accountants

Tandia Financial Credit Union Limited
Statement of Financial Position

(In thousands)

December 31	2015	2014
Assets		
Cash and cash equivalents (Note 5)	**$ 8,190**	$ 6,068
Investments (Note 6)	**85,666**	56,023
Loans to members (Note 7)	**801,488**	753,170
Property and equipment (Note 9)	**8,937**	9,236
Other assets (Note 10)	**4,125**	3,522
Derivative financial instruments (Note 12)	**597**	868
Intangible asset (Note 11)	**365**	786
Income taxes recoverable	**122**	13
	$ 909,490	$ 829,686
Liabilities		
External borrowings (Note 13)	**$ 10,000**	$ 10,000
Secured borrowings (Note 8)	**153,456**	82,194
Payables and accruals	**154**	4,481
Deferred income taxes (Note 17)	**77**	221
Deposits of members (Note 14)	**702,340**	689,078
Derivative financial instruments (Note 12)	**1,039**	1,352
Shares (Note 15)	**1,461**	1,510
	868,527	788,836
Equity		
Shares (Note 15)	**12,618**	12,496
Retained earnings	**15,161**	15,262
Accumulated other comprehensive income	**1,185**	1,093
Contributed surplus	**11,999**	11,999
	40,963	40,850
	$ 909,490	$ 829,686

Commitments (Note 21)

On behalf of the board

________________________________ Director ________________________ Director

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Comprehensive Income

(In thousands)

Year Ended December 31	2015	2014
Financial income		
Interest on member loans	$ **26,072**	$ 27,089
Other interest revenue	**1,002**	1,230
	27,074	28,319
Financial expense		
Interest on member deposits	**10,464**	10,412
Other interest expense	**152**	280
	10,616	10,692
Financial margin	**16,458**	17,627
Other income (Note 18)	**7,343**	6,973
Provision for impaired loans (Note 7)	**21**	1,548
Operating margin	**23,780**	23,052
Operating expenses		
Salaries and benefits	**12,322**	12,234
Occupancy	**1,912**	1,809
Computer, office and other equipment	**2,305**	1,692
Advertising and communications	**643**	1,140
Member security	**875**	842
Administration	**1,967**	2,495
Other	**3,299**	2,693
	23,323	22,905
Net income before taxes	**457**	147
Income tax expense (recovery) (Note 17)	**33**	(121)
Net income for the year	**424**	268
Other comprehensive income (net of tax)		
Items that may subsequently be reclassified to profit or loss		
Change in unrealized gains on available-for-sale investments	**92**	99
Total other comprehensive income for the year	**92**	99
Total comprehensive income for the year	$ **516**	$ 367

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Changes in Members' Equity

(In thousands)
Year Ended December 31, 2015

	Shares	Retained earnings	Accumulated other compre-hensive income	Contributed surplus	Total
Balance at December 31, 2013	$10,333	$ 15,470	$ 994	$ 1,275	$ 28,072
Net income	-	268	-	-	268
Distributions to members (Note 16)	-	(476)	-	-	(476)
Acquisition of profit shares	519	-	-	-	519
Acquisition of investment shares	1,709	-	-	-	1,709
Issue of profit shares	37	-	-	-	37
Issue of investment shares	371	-	-	-	371
Redemption of profit shares	(310)	-	-	-	(310)
Redemption of investment shares	(163)	-	-	-	(163)
Change in unrealized gains on available-for sale-investments	-	-	99	-	99
Increase in contributed surplus from Business Combination	-	-	-	10,724	10,724
Balance at December 31, 2014	12,496	15,262	1,093	11,999	40,850
Net income	-	424	-	-	424
Distributions to members (Note 16)	-	(525)	-	-	(525)
Issue of profit shares	39	-	-	-	39
Issue of investment shares	393	-	-	-	393
Redemption of profit shares	(310)	-	-	-	(310)
Change in unrealized gains on Available-for-sale investments		-	92	-	92
Balance at December 31, 2015	**$12,618**	**$ 15,161**	**$ 1,185**	**$ 11,999**	**$ 40,963**

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Cash Flows

(In thousands)

Year Ended December 31		2015		2014
Increase (decrease) in cash and cash equivalents				
Operating				
Net income	**$**	**424**	$	268
Provision for impaired loans		**21**		1,548
Depreciation and amortization		**1,274**		1,214
Deferred income taxes		**(144)**		(291)
Income taxes recoverable		**(109)**		(13)
Fair value of interest rate swap contracts		**(42)**		(80)
Distributions to members		**(525)**		(476)
Other non-cash items (Note 22)		**(4,930)**		113
		(4,031)		2,283
Financing				
Repayment of external borrowings (net)		**-**		(7,500)
Increase in secured borrowings		**71,262**		11,873
Increase in deposits of members (net)		**13,488**		45,895
Increase in shares (net)		**73**		155
		84,823		50,423
Investing				
Increase in loans to members (net)		**(48,400)**		(70,344)
(Purchase of) proceeds from investments (net)		**(29,552)**		2,746
Distributions received from CUCO Co-op investment		**-**		956
Purchase of property and equipment		**(718)**		(796)
Cash resources acquired upon business combination		**-**		5,746
		(78,670)		(61,692)
Net increase (decrease) in cash and cash equivalents		**2,122**		(8,986)
Cash and cash equivalents				
Beginning of year		**6,068**		15,054
End of year	**$**	**8,190**	$	6,068
Interest received	**$**	**27,081**	$	28,178
Interest paid	**$**	**10,717**	$	8,562
Income taxes paid	**$**	**321**	$	245
Patronage dividends paid	**$**	**9**	$	21

See accompanying notes to the financial statements.

1. Governing legislation and nature of operations

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act and its operations are subject to the Financial Institutions Act of Ontario. The Credit Union serves members in southern Ontario. The Credit Union's head office is located at 1100 Burloak Drive, Suite 300, Burlington, Ontario.

The Credit Union exists to help members meet their financial needs in their local communities. The Credit Union's principal activities are the provision of deposit-taking and other financial services on a co-operative basis.

These financial statements have been approved and authorized for issue by the Board of Directors on February 24, 2016.

2. Basis of presentation and compliance

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

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

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. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with Central 1 Credit Union (Central 1), net of bank indebtedness and short term deposits with original maturities of three months or less from the date of acquisition.

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

3. Summary of significant accounting policies (continued)

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value. Subsequent measurement is as described below.

Financial assets
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

At least at each reporting date, all financial assets are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'financial income' or 'financial expense'.

Financial assets at fair value through profit or loss
Portfolio investments are recorded at fair value through profit or loss. Investment income is recorded using the accrual method of accounting.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables. These include cash and cash equivalents, liquidity reserves, portfolio investments and loans to members in this category.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.
Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. These include some portfolio investments in this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any change to the carrying amount of the investment, including impairment loss, is recognized in profit or loss.

3. Summary of significant accounting policies (continued)

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's available-for-sale financial assets include the Credit Union's investments in Central 1 Credit Union shares and CUCO Co-op.

These investments are measured at cost less any impairment charges, when their fair value cannot currently be estimated reliably. Impairment charges are recognized in profit or loss.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the accumulated and other comprehensive income, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the members' equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'other income'.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Financial liabilities
The Credit Union's financial liabilities include deposits of members, derivative financial instruments, external borrowings, secured borrowings, payables and accruals and shares classified as liabilities.

Financial liabilities are initially measured at fair value and are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'other interest revenue' or 'other interest expense'.

Loans to members
Loans are initially measured at fair value and subsequently re-measured at their amortized cost, net of allowance, using the effective interest rate method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest for all loans is accounted for on the accrual basis.

3. Summary of significant accounting policies (continued)

Loan fees

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be material and an adjustment to loan yield are deferred and amortized using the effective interest method. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgages.

Allowances for impaired loans

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Discounting is omitted where the effect of discounting is immaterial.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

Loans classified as impaired include loans for which interest or principal payments are 90 days past due, unless the loan is both well secured and in the process of collection, in which case they are only classified as impaired if the payments are 180 days past due. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

Specific allowances are established for individual loans identified as impaired. These allowances are supplemented by a collective allowance for losses on mortgage, personal and other loans established based on payment arrears, known risks in the portfolio, historical loan loss experience, current economic conditions, and management's judgement.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

3. Summary of significant accounting policies (continued)

Bad debts written off
Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

Mortgage securitization
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 cost, using the effective interest rate method.

Interest income and expense
Interest income and expense is recognized in the Statement of Comprehensive Income for all interest-bearing financial instruments classified as held to maturity, available for sale, loans and receivables and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, the Credit Union estimates cash flows (using projections based on its experience of members' behavior) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

3. Summary of significant accounting policies (continued)

Foreign currency translation
Monetary 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 exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

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. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.

Hedges
The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a monthly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

3. Summary of significant accounting policies (continued)

For fair value hedges that meet the hedging documentation criteria, the hedged asset is adjusted for fair value changes attributable to the risk being hedged and the hedging instrument is measured at fair value. Gains and losses resulting from changes in the fair value are recorded in the statement of comprehensive income as other income.

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the accumulated other comprehensive income to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss.

Other non-hedge derivatives
The Credit Union classifies certain financial assets upon initial recognition at fair value through profit or loss. Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits, foreign exchange forward contracts and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Foreign exchange contracts are used to hedge the Credit Union’s net US dollar liability position.

Property and equipment
Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses), with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	20 to 40 years
Equipment and furniture	3 to 10 years
Electronic equipment	5 years
Capital and leasehold improvements	5 to 10 years
Vehicles	5 years

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

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within 'other income' or 'other expenses'.

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets consist of the fair value of core deposit intangibles representing the cost savings inherent in acquiring a deposit portfolio with a lower cost of funding versus going into the market for the funds. Intangible assets with a limited life are amortized to income on a straight-line basis over the period which the assets are anticipated to provide economic benefit, which is currently 3 years. Residual values and useful lives are reviewed at each reporting date.

Leased assets

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, the shares are classified as equity, as per IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Patronage distributions are recognized in net income or members' equity when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

3. Summary of significant accounting policies (continued)

Income taxes (continued)
Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Standards, Amendments and Interpretations not yet effective
Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2016 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

IFRS 9 'Financial Instruments' (2014)
The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Credit Union's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognized on the Credit Union's loans to members and investments in debt-type assets currently classified as AFS and HTM, unless classified as fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the Credit Union makes an irrevocable designation to present them in other comprehensive income. This will affect the Credit Union's investment in Central 1 shares.
- if the Credit Union continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Credit Union's own credit risk.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

3. Summary of significant accounting policies (continued)

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Credit Union is currently evaluating the impact of IFRS 15 on its financial statements.

4. Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

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. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Estimates

Impairment
An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

The actual results may vary, and may cause significant adjustments to the Credit Union's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets
Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2015, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

4. Significant management judgment in applying accounting policies and estimation uncertainty (continued)

Business combinations
Management applies valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. Management's estimates were based on observable market data when available and its best estimate to determine the fair values of all assets acquired and liabilities assumed. Actual results may vary from management's estimate.

Impairment of intangible assets
The Credit Union performs an assessment of its core deposit intangible assets at each reporting date to determine whether an impairment loss should be recorded in the statement of comprehensive income. The carrying value of the core deposit intangible is significantly impacted by estimates about the future runoff patter for the portfolio to which the intangible asset relates as well as estimates used in determining the net cost of servicing the deposits compared to the alternative cost of borrowing. Management assesses actual runoff patterns on a regular basis to determine the impact of the remaining runoff estimates.

Fair value of financial instruments
Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Member loan loss provision
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 7.

Judgments

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 thousands)

5. Cash and cash equivalents

	2015	2014
Cash, current accounts, items in transit net of bank indebtedness	**$ 8,184**	$ 6,062
Net term deposits callable or maturing in three months or less	**6**	6
	$ 8,190	$ 6,068

The Credit Union maintains its current accounts and term deposits with Central 1.

6. Investments

	2015	2014
Liquidity reserves	**$ 52,500**	$ 49,325
Portfolio investments	**25,968**	-
Central 1 Credit Union shares	**5,666**	5,257
CUCO Co-op Class B investment shares	**1,532**	1,441
	$ 85,666	$ 56,023

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets as at the conclusion of each month. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from

Central 1. The liquidity reserves are due within three years. At maturity, these deposits are reinvested at market rates for various terms.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. The Credit Union's allocation of Central 1 shares is based on asset size relative to other Class "A" members. Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. The Credit Union does not intend to dispose of any Central 1 shares in the near future. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

The portfolio investments are comprised of redeemable GICs, high interest savings, and mortgage backed securities purchased in 2015. The investments are classified as loans and receivables and held to maturity.

6. Investments (continued)

On June 18, 2011, Credit Unions voted on the purchase of the investment portfolio and certain other assets and liabilities of the ABCP LP by CUCO Co-op, and the subsequent dissolution of the ABCP LP (the "LP"). The first step was fulfilled when CUCO officially become the CUCO Co-operative Association ("CUCU Co-op") on August 17, 2011 on the authority of approvals received from the Financial Services Commission of Ontario and from Industry Canada. The second step was completed on August 31, 2011, CUCO Co-op and the LP fulfilled the terms of the purchase agreement whereby the LP assets were sold to CUCO Co-op in exchange for Class B Investment Shares. On September 2, 2011, the LP distributed to each Credit Union such Credit Union's proportionate share of CUCO Co-op Class B Investment Shares. The value previously held in the form of a Credit Union's LP units has effectively transferred to its new CUCO Co-op Class B Investment Shares and the LP units have no value. As of September 2, 2011, the Credit Union received 542,618,918 Class B Investment Shares, which is 1.55553% of the total Class B Investment Shares outstanding. As of December 31, 2015, the Credit Union holds 911,440,540 Class B Investment Shares, which is 2.6128% of the total Class B Investment Shares outstanding.

The Credit Union received distributions of $ Nil (2014 - $ 956,000) which were recorded directly as a reduction to the cost of the investment. In addition, as these investments are classified as available-for-sale instruments, a fair value adjustment net of taxes of $ 92,000 (2014- $ 99,000) has been recorded in other comprehensive income.

(In thousands)

7. Loans to members

	2015	2014
Residential mortgage loans bear interest at an average annual rate of 3.21% and are receivable in blended principal and interest instalments for a maximum amortization period of 35 years. Some mortgages are open and at the option of the borrower may be paid off at any time without notice or penalty. Principal amount due within one year is estimated at $ 211,123.	**$ 562,170**	$ 532,118
Personal loans and lines of credit bear interest at an average annual rate of 5.81% and are receivable in blended principal and interest instalments for a maximum amortization period of 15 years. Principal amount due within one year is estimated at $ 18,570.	**53,234**	56,719
Commercial mortgage loans bear interest at an average annual rate of 4.60% and are receivable in blended principal and interest instalments for a maximum amortization period of 20 years. Principal amount due within one year is estimated at $ 72,524.	**186,581**	165,103
Accrued interest receivable	**985**	953
	802,970	754,893
Less: allowance for impaired loans	**1,482**	1,723
	$ 801,488	$ 753,170

Concentration of risk

The Credit Union has an exposure to groupings of individual loans or related groups of member loans which exceed 10% of members' equity. There are 16 loan connections with balances outstanding greater than 10% of members' equity ranging from $ 3,699,000 to $ 7,808,000.

(In thousands)

7. Loans to members (continued)

The Credit Union's allowance for impaired loans was calculated in accordance with By-Law No. 6 of the Deposit Insurance Corporation of Ontario (DICO).

Total allowance for impaired loan provision:

	2015	2014
Individual specific provision	**$ 464**	$ 560
Collective provision	**1,018**	1,163
Total provision	**$ 1,482**	$ 1,723

Allowance for impaired loans

	Beginning Balance	Provision	Write-offs Less Recoveries	**2015 Ending Balance**	2014 Ending Balance
Specific	$ 560	$ 166	$ (262)	**$ 464**	$ 560
Collective	1,163	(145)	-	**1,018**	1,163
	$ 1,723	$ 21	$ (262)	**$ 1,482**	$ 1,732
Percentage of total loans and accrued interest				**.18%**	.23%

Allowance for impaired loans

	Beginning Balance	Provision	Write-offs Less Recoveries	**2015 Ending Balance**	2014 Ending Balance
Personal	$ 671	$ 129	$ (255)	**$ 545**	$ 671
Commercial	1,052	(108)	(7)	**937**	1,052
	$ 1,732	$ 21	$ (262)	**$ 1,482**	$ 1,723

(In thousands)

7. Loans to members (continued)

Key Assumptions in determining the allowance for impaired loans collective provision

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

At December 31st, the balances of loans in arrears within the portfolio (excluding accrued interest) were as follows:

2015

	Residential Mortgages	Personal Loans	Commercial Mortgages	**Total**
Current	$ 552,250	$ 51,837	$ 173,270	**$ 777,357**
Days in arrears:				
Less than 30 days	8,327	983	12,287	**21,597**
30-89 days	1,060	120	1,024	**2,204**
90-179 days	-	104	-	**104**
More than 180 days	533	190	-	**723**
Total	$ 562,170	$ 53,234	$ 186,581	**$ 801,985**

2014

	Residential Mortgages	Personal Loans	Commercial Mortgages	Total
Current	$ 526,387	$ 55,671	$ 164,769	$ 746,827
Days in arrears:				
Less than 30 days	3,712	553	104	4,369
30-89 days	1,358	115	-	1,473
90-179 days	339	57	-	396
More than 180 days	322	323	230	875
Total	$ 532,118	$ 56,719	$ 165,103	$ 753,940

8. Mortgage securitizations

The Credit Union enters into loan securitization transactions. In accordance with the Credit Union's 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.

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the Statement of Financial Position.

	2015	2014
Carrying amounts of assets, included in loans to members	**$ 170,027**	$ 81,014
Carrying amount of associated liabilities, recognized as secured borrowings	**153,456**	82,194

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

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Notes to the Financial Statements

(In thousands)
December 31, 2015

9. Property and equipment

	Land	Buildings	Equipment & Furniture	Electronic Equipment	Leasehold Improvements	Vehicles	Total
Cost							
Balance at December 31, 2013	$ 920	$ 888	$ 2,479	$ 2,578	$ 2,429	$ -	$ 9,294
Additions	1,650	3,470	347	555	677	57	6,756
Disposals	-	-	-	(45)	(70)	-	(115)
Balance on December 31, 2014	$ 2,570	$ 4,358	$ 2,826	$ 3,088	$ 3,036	$ 57	$ 15,935
Additions	-	-	164	299	255	-	718
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2015	$ 2,570	$ 4,358	$ 2,990	$ 3,387	$ 3,291	57	$ 16,653
Accumulated depreciation							
Balance at December 31, 2013	$ -	$ 597	$ 1,712	$ 1,750	$ 1,770	$ -	$ 5,829
Depreciation expense	-	121	221	373	239	5	959
Disposals	-	-	-	(15)	(74)	-	(89)
Balance on December 31, 2014	$ -	$ 718	$ 1,933	$ 2,108	$ 1,935	$ 5	$ 6,699
Depreciation expense	-	121	227	398	260	11	1,017
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2015	$ -	$ 839	$ 2,160	$ 2,506	$ 2,195	$ 16	$ 7,716
Net book value							
December 31, 2014	$ 2,570	$ 3,640	$ 893	$ 980	$ 1,101	$ 52	$ 9,236
December 31, 2015	**$ 2,570**	**$ 3,519**	**$ 830**	**$ 881**	**$ 1,096**	**$ 41**	**$ 8,937**

(In thousands)

10. Other assets

		2015		2014
Prepaid expenses	**$**	**1,947**	$	1,585
Other accounts receivable		**2,178**		1,937
	$	**4,125**	$	3,522

11. Intangible asset

The Credit Union has recorded an intangible asset for the core deposits obtained from the acquisitions of Toronto Catholic School Board Employees Credit Union in 2013 and Prosperity ONE Credit Union in 2014.

		Core Deposits
Cost		
Balance at December 31, 2013	$	283
Additions		978
Balance on December 31, 2014 and 2015		1,261
Accumulated amortization		
Balance at December 31, 2013	$	55
Amortization expense		420
Balance on December 31, 2014		475
Amortization expense		421
Balance on December 31, 2015	$	896
Net book value		
December 31, 2014	$	786
December 31, 2015	**$**	**365**

12. Derivative financial instruments

a) **Asset liability management**

In the ordinary course of business, the Credit Union purchases derivative instruments from Central 1 and Concentra in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates; the purpose of these instruments is to provide a hedge against interest rate fluctuations by improving the Credit Union's matching of its asset and liability position.

b) **Foreign exchange forward contracts:**

The Credit Union offers deposit products denominated in US dollars. In order to meet liquidity reserve requirements the Credit Union sells US dollars and purchases US dollar foreign exchange contracts to hedge the exchange risk.

The following table summarizes the notional amounts and fair value of the Credit Union's derivative portfolio as at December 31, 2015 and 2014.

(in thousands)						**December 31, 2015**
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Fair Value Assets**	**Liabilities**
Pay fixed interest rate swaps	**$ -**	**$ -**	**$ 4,612**	**$ 4,612**	**$ -**	**$ 410**
Rec. fixed interest rate swaps	**10,000**	**-**	**-**	**10,000**	**-**	**-**
Bond forwards	**20,800**	**-**	**-**	**20,800**	**-**	**174**
Foreign exchange forward contracts	**2,902**	**-**	**-**	**2,902**	**142**	**-**
December 31, 2015 Total	**$ 33,702**	**$ -**	**$ 4,612**	**$ 37,864**	**$ 142**	**$ 584**

(in thousands)						December 31, 2014
	Within 1 year	1 to 5 years	Over 5 years	Total	Fair Value Assets	Liabilities
Pay fixed interest rate swaps	$ 5,000	$ -	$ 4,753	$ 9,753	$ -	$ 334
Rec. fixed interest rate swaps	10,000	-	-	10,000	-	-
Forward starting Rec. fixed interest rate swaps	-	10,000	-	10,000	-	34
Foreign exchange forward contracts	3,492	-	-	3,492	-	116
December 31, 2014 Total	$ 18,492	$ 10,000	$ 4,753	$ 33,245	$ -	$ 484

(In thousands)

12. Derivative financial instruments (continued)

Index linked term deposits

The Credit Union offers deposit products linked to changes in the stock exchange index. The Credit Union hedges the underlying risk of these products by entering into an interest rate contract with an approved counterparty.

Consequently, the Credit Union has entered into a hedge agreement with Central 1 to offset the exposure associated with this product, whereby the Credit Union pays Central 1 a fixed rate of interest for three or five years on the face value of the Index-Linked Term Deposits sold. At the end of the term, Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the terms and conditions of the index linked contract. The Credit Union has sold $ 7,636,000 (2014 - $ 9,159,000) of various Index-Linked Term Deposit products to its members.

As at December 31, 2015, the hedge agreements had fair values of $ 455,000 (2014 – $ 868,000) which have been recorded as both an asset and liability on the statement of financial position.

13. External borrowings

Assets have been pledged as security for $ 33,110,000 (2014 - $ 36,310,000) of authorized credit facilities at Central 1 by an assignment of book debts and a general security agreement. As at December 31, 2015, the Credit Union had utilized $ Nil (2014 - $ Nil) of the line of credit and $ 10,000,000 (2014 - $ 10,000,000) of the term loans.

14. Deposits of members

	2015	2014
Term and other deposits	**$ 298,382**	$ 291,409
Registered retirement savings plan deposits	**123,135**	126,309
Registered retirement income fund deposits	**38,062**	35,281
Other registered deposits	**4,749**	4,367
Chequing and savings	**233,250**	226,849
Accrued interest on deposits	**4,762**	4,863
	$ 702,340	$ 689,078

The average composite interest rate in force at December 31, 2015 was 1.53% (2014 – 1.69%).

(In thousands)

15. Shares

	2015 Liability	2015 Equity	2014 Liability	2014 Equity
Membership shares	**$ 701**	**$ -**	$ 723	$ -
Profit shares	**291**	**2,323**	320	2,594
Investment shares	**469**	**10,295**	467	9,902
	$ 1,461	**$12,618**	$1,510	$ 12,496

These shares are not covered by deposit insurance.

Membership shares
Membership shares, which are classified as a liability, represent a residual interest in the equity of the Credit Union. Membership shares are redeemable upon the request of the member and approval of the directors.

Shares are subscribed for at a par value of $5 per share, but payment may be made in instalments. A member is not liable to the Credit Union for amounts subscribed for in excess of the amount actually paid. Members over the age of 18 are required to retain a minimum of 5 shares as a condition of membership. There were 30,292 members with membership shares at December 31, 2015 (2014 – 31,470).

Profit shares
The Credit Union is authorized to issue an unlimited number of Class A non-voting, non-cumulative, non-participating, non-transferable, redeemable profit shares. These shares have been distributed to the membership based on average loan and deposit balances outstanding.

Profit shares are a special class of patronage shares created by the Credit Union. The Credit Union by-law restricts aggregate annual redemptions to a maximum of ten percent of the number of Class A shares issued and outstanding at the end of the immediately preceding fiscal year. There were approximately 2,614,000 profit shares issued and outstanding at December 31, 2015. (2014 – 2,914,000).

(In thousands)

15. Shares (continued)

Investment shares

The Credit Union is authorized to issue an unlimited number of Class B non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 2,000 shares per member required to a maximum of 100,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of the Credit Union. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that the Credit Union is in compliance with Section 84 of the Credit Union and Caisses Populaires Act, 1994. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 Basis Points the simple average of the Credit Union's posted non-callable five-year term deposit rates as of the end of each quarter of the Credit Union's fiscal year. There were approximately 4,959,000 investment shares issued and outstanding at December 31, 2015 (2014 – 4,087,000).

The Credit Union is authorized to issue an unlimited number of Class B – Series 2 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 185,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of the Credit Union. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that the Credit Union is in compliance with Section 84 of the Act. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 Basis Points the simple average of the Credit Union's posted non-callable five-year term deposit rates as of the end of each quarter of the Credit Union's fiscal year. There were approximately 5,805,000 investment shares issued and outstanding at December 31, 2015 (2014 – 6,281,000).

16. Distributions to members	**2015**	2014
Investment share dividends	**$ 525**	$ 476

(In thousands)

17. Income taxes

The significant components of tax expense included in net income are composed of:

	2015	2014
Current tax expense		
Based on current year taxable income	**$ 177**	$ 170
Deferred tax benefit		
Origination and reversal of temporary differences	**(148)**	(295)
Tax rate changes	**4**	4
	(144)	(291)
Total income tax expense	**$ 33**	$ (121)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2015	2014
Current tax		
Unrealized gains on available-for-sale investments	**$ -**	$ 20
Total tax effect of amounts recorded in other comprehensive income	**$ -**	$ 20

	2015	2014
Deferred tax (liabilities) assets relate to:		
Non-deductible allowance for doubtful accounts	**$ 240**	$ 303
Contributed surplus and core deposits	**(189)**	(138)
Property, plant and equipment	**(76)**	(251)
Unrealized gain on securitization loans	**-**	(5)
Intangible assets	**(52)**	(130)
Total deferred tax (liabilities) assets	**$ (77)**	$ (221)

(In thousands)

17. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 17.9% (2014 – 17.1%) are as follows:

	2015	2014
Net income for the year	**$ 457**	$ 147
Expected taxes based on the statutory rate of 17.9% (2014 – 17.1%)	**82**	25
Distributions to members charged against retained earnings	**(94)**	(87)
Other non-deductible portion of expenses	**5**	3
Rate differences	**4**	4
Contributed surplus and other	**36**	(66)
Total income tax expense	**$ 33**	$ (121)

The increase in statutory tax rate is due to the staged elimination of the Credit Union preferred rate deduction.

18. Other Income

	2015	2014
Service charges, commissions, and other	**$ 2,679**	$ 3,672
Wealth management	**1,158**	444
Securitizations	**3,506**	2,857
	$ 7,343	$ 6,973

19. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including executive management and the board of directors. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures.*

(In thousands)

19. Related party transactions (continued)

	2015	2014
Compensation		
Salaries and other short-term employee benefits	**$ 1,405**	$ 1,192
Total pension and other post-employment benefits	**70**	64
	$ 1,475	$ 1,256

	2015	2014
Loans to key management personnel		
Aggregate value of loans balance	**$ 298**	$ 477
Interest received on loans advanced	**37**	45
Total value of lines of credit advanced	**2,668**	1,238
Unused value of lines of credit	**872**	255

The Credit Union's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

	2015	2014
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 2,202**	$ 1,390
Total interest paid on term and saving deposits	**13**	11

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

20. Other required disclosures

The following disclosures are required under the Credit Union and Caisses Populaires Act, 1994.
The Credit Union and Caisses Populaires Act, 1994 requires disclosure of the five highest paid officers and employees of the Credit Union over $150,000. The names, positions and remuneration paid during 2015 of those officers and employees are as follows:

Name	Title	Salary & Variable Compensation	Benefits	Total Remuneration
Richard Davies	President & CEO	$ 435,173	$ 88,253	$ 523,426
Kathy Clark	SVP, Sales/Service & Operations	$ 196,107	$ 25,529	$ 221,636
Cathie Vaillancourt	Sr Wealth Advisor	$ 191,894	$ 14,967	$ 206,861
Sandy Alward	SVP, Finance	$ 181,327	$ 24,306	$ 205,633
Ray Hall	VP, Lending	$ 145,151	$ 17,853	$ 163,004

The aggregate remuneration paid to directors was $143,750 in 2015 (2014 - $148,000).

(In thousands)

20. Other required disclosures (continued)

At December 31, 2015 loans to directors and officers of the Credit Union amounted to $ 2,966,000 (2014 - $ 1,721,000). All such loans were granted in accordance with normal lending terms, except for certain loans to officers at reduced rates.

21. Commitments

Lease commitments and banking system support contract
The Credit Union is committed to the use of an outside data processing service until December 31, 2020. Charges for these services are based on usage.

The Credit Union rents space for its branches under long term leases.

The future minimum commitments in each of the next five years are as follows:

2016	$	969
2017		966
2018		807
2019		804
2020		617

Mortgage and loan commitments
The Credit Union has made commitments to disburse mortgages and loans of $1,336,000 (2014 – $3,709,000) subsequent to the year end.

Total unextended lines of credit at year end are $207,157,000 (2014 - $178,779,000). Total letters of credit at year end are $4,831,000 (2014 - $1,068,000).

22. Cash flow support

		2015		2014
Changes in other non-cash items:				
Change in other assets	**$**	**(603)**	$	(99)
Change in payables and accruals		**(4,327)**		212
	$	**(4,930)**	$	113

(In thousands)

23. Regulatory capital

The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at the following minimum levels:

% leverage ratio assets	% risk capital ratio weighted assets
4.00	8.00

The Credit Union is in compliance with the Act and regulations regarding regulatory capital.

	2015	2014
Tier 1 Capital		
Membership shares	**$ 701**	$ 723
Profit shares	**2,323**	2,594
Investment shares	**10,295**	9,902
Contributed surplus	**11,999**	11,999
Retained earnings	**15,161**	15,262
Total tier 1 capital	**40,479**	40,480
Tier 2 Capital		
10% of redeemable profit shares	**291**	320
10% of redeemable investment shares	**469**	467
Collective provision	**1,018**	1,163
Accumulated other comprehensive income	**1,185**	1,093
Total tier 2 capital	**2,963**	3,043
Total regulatory capital	**$ 43,442**	$ 43,523
% of total assets	**4.8**	5.2
% of total risk-weighted assets	**10.4**	11.1

The Credit Union manages its capital under guidelines established by the Deposit Insurance Corporation of Ontario. The regulatory capital guidelines measure capital in relation to assets and risk-weighted assets. The Credit Union has capital policies, procedures and controls which it utilizes to achieve its goals and objectives including: providing sufficient capital to maintain the confidence of investors and depositors, and being an appropriately capitalized Credit Union, as measured internally, defined by regulatory authorities and compared with the Credit Union's peers.

(In thousands)

24. Financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for property and equipment or any other asset that is not a financial instrument.

			2015	2014
	Book Value	Estimated Fair Value	**Fair Value Over (Under) Book Value**	Fair Value Over (Under) Book Value
Balance at December 31				
Financial Assets				
Available for sale				
Central 1 Credit Union shares	$ 5,666	$ 5,666	**$ -**	$ -
CUCO Co-op Class B investment shares	1,532	1,532	**-**	-
Fair value through profit or loss				
Derivative financial instruments	597	597	**-**	-
Held to maturity				
Portfolio investments	5,968	5,968	**-**	-
Loans and receivables				
Portfolio investments	20,000	20,000	-	-
Cash and cash equivalents	8,190	8,190	**-**	-
Loans to members	801,488	804,767	**3,279**	3,321
Liquidity reserves	52,500	52,605	**105**	-
Financial Liabilities				
Other liabilities				
Deposits of members	$ 702,340	$ 703,696	$ **1,356**	$ 710
Shares	1,461	1,461	-	-
External borrowings	10,000	10,000	-	-
Secured borrowings	153,456	153,456	-	-
Fair value through profit or loss				
Derivative financial instruments	$ 1,039	$ 1,039	**$ -**	$ -

The differences between the book and fair values of the Credit Union's loans, deposits and of other financial instruments are due primarily to changes in interest rates. The carrying value of the Credit Union's loans to and deposits of members are not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

Financial assets and liabilities are grouped into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. Financial instruments (continued)

The level, within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of financial instruments:

(a) The fair value of cash and cash equivalents and external borrowings is assumed to approximate their book values, due to their short term nature. These assets and liabilities are classified as Level 1 financial instruments as they are valued using quoted market prices in active markets.

(b) The estimated fair value of loans carried at amortized cost reflects changes in market price that have occurred since the loans were originated. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at current market interest rates for loans with similar credit risks. Fixed rate loans and deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. For floating-rate loans, changes in interest rates have minimal impact on fair value since loans reprice to the market frequently. On that basis, fair value is assumed to approximate carrying value. Floating-rate loans are classified as Level 2 financial instruments.

(c) The estimated fair value of fixed rate investments and fixed rate deposits is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. Fixed rate deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. Fixed rate investments are classified as Level 2 financial instruments as they are valued using observable inputs other than quoted market prices. For deposits with no defined maturities, fair value is considered to approximate carrying value, and these deposits are classified as Level 2 financial instruments.

(d) The estimated fair value of the investment in the CUCO Co-op is determined on a periodic basis by the CUCO Co-operative Association based on the determined or estimated characteristics of the notes, including the interest rate, maturity date, and credit rating. The CUCO Co-operative Association estimates the yield that a potential investor would require in order to purchase each note. This information is used to calculate a net present value for each class of notes. The investment in the CUCO Co-op is classified as a Level 3 financial instrument as it is valued using unobservable inputs.

(e) The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. These are classified as a Level 2 financial instrument as it is valued using observable inputs.

(f) There have been no reclassifications between Level 2 and Level 3 during the year. A sensitivity analysis is not provided for Level 3 loans and deposits as their fair value would only change as a result of credit risk inputs and these inputs are not expected to be significant.

25. Financial instrument risk management

Market risk

Market risk is the potential for profit or loss from changes in the value of financial instruments. The value of a financial instrument can be affected by changes in interest rates, foreign exchange rates, equity and commodity prices and credit spreads.

The Credit Union is exposed to market risk in the investment portfolio as well as through non-trading activities.

Market risk in investment activities is managed by the senior management of the Credit Union and the Investment Committee. Every investment transaction is guided by policy and regulatory limitations.

Market risk exposure exists in non-trading Credit Union transactions with members which primarily includes deposit taking and lending. These are also referred to as “asset and liability” positions.

Asset and liability management deals with managing the market risks of the traditional Credit Union activities. Market risks primarily include interest rate risk and foreign currency risk.

Foreign currency risk

The Credit Union is subject to currency risk through its U.S. dollar denominated operating activities. Changes in the exchange rate may result in a decrease or increase in the gain or loss on foreign exchange. Activities that expose the Credit Union to currency risk are measured, monitored and controlled daily to minimize risk.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $ 150,000 in U.S. funds.

For the year-ended December 31, 2015, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

25. Financial instrument risk management (continued)

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Credit Union incurring a financial loss. The credit exposure is mitigated through the use of Board approved credit policies governing the Credit Union's credit portfolio and with credit practices that limit transactions according to the borrowers' credit quality. A substantial portion of the Credit Union's loans to members are secured by residential properties. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund obligations as they come due. Demand for cash can result from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Senior management manages liquidity risk and monitors the cash and funding needs on a daily basis.

The Credit Union has set a minimum liquidity ratio of 6%.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Structural risk

Structural risk is defined as the risk that the Credit Union's ability to meet business objectives will be adversely affected by volatility in market rates. The Credit Union manages structural risk using an Earnings at Risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Structural risk is monitored through the Structural Risk Management Policy with the objective of ensuring that the Credit Union manages its cash flows in a manner that contributes adequately to earnings and limits the risk to the financial margin and equity of the Credit Union. The objectives are also to ensure product terms, pricing and balance sheet mix, to balance member product demands with the need to protect the equity of the Credit Union, and to ensure that financial derivative instruments be used only to limit interest rate risk and not be used for speculative or investment purposes.

(In thousands)

25. Financial instrument risk management (continued)

The Credit Union uses income simulation modelling to measure exposure to changes in interest rates over short term periods. Earnings at risk are calculated by forecasting the net interest margin for the next 12 month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast. The resulting change in the forecast as a result of interest rate shocks is then compared to the most likely forecast to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with 50 or 100 basis point volatility. At the current time, the Credit Union is in compliance with all limits set by the Structural Risk Management Policy.

Asset/Liability Management Limits	Maximum Change Limit	Projected Change to Earnings	Status
Most Likely Shocked + 100 basis points	19,037	805	Compliant
Most Likely Shocked + 50 basis points	18,389	163	Compliant
Most Likely Forecast Scenario	18,226	-	Compliant
Most Likely Shocked - 50 basis points	18,314	88	Compliant
Most Likely Shocked - 100 basis points	18,671	445	Compliant

26. Interest rate sensitivity

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off-balance sheet instruments scheduled to re-price on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

At December 31, 2015, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of $ 14,612,000 (2014 - $ 19,785,000) maturing at various times through to 2023, excluding forward starting swaps.

(In thousands)

26. Interest rate sensitivity (continued)

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

	Interest Sensitive Balances			Non-Interest Sensitive	(000's) Total
	Within 3 months	4 Months to 1 year	Over 1 to 5 years		
Assets					
Cash and cash equivalents	$ 8,190	$ -	$ -	$ -	**$ 8,190**
Yield					
Investments	17.700	13,269	46,584	8,113	**85,666**
Yield	1.42%	1.36%	1.40%	-	
Loans					
Fixed	19,135	66,878	473,562	-	**559,575**
Yield	*4.61%*	*4.03%*	*3.59%*	-	
Floating	240,928	-	-	985	**241,913**
Yield	*3.91%*	-	-	-	
Other	-	-	-	14,146	**14,146**
	-	-	-	-	
	$ 285,953	$ 80,147	$ 520,146	$ 23,244	**$ 909,490**
Liabilities					
Deposits					
Fixed	$ 105,908	$ 166,071	$ 148,884	$ 4,762	**$ 425,625**
Yield	*2.22%*	*1.97%*	*2.33%*	-	
Floating	276,715	-	-	-	**276,715**
Yield	*0.48%*			-	
Other	163,456	-	-	2,731	**166,187**
Yield	*1.59%*			-	
Equity	-	-	-	40,963	**40,963**
Yield				-	
	$ 546,079	$ 166,071	$ 148,884	$ 48,456	**$ 909,490**
Interest sensitivity position 2015	$ (260,126)	$ (85,924)	$ 371,262	$ (25,212)	$ -
Interest sensitivity position 2014	$ (159,192)	$ (109,295)	$ 297,387	$ (28,900)	**$** -