iNOVA CREDIT UNION LIMITED

FINANCIAL STATEMENTS
DECEMBER 31, 2015

Levy Casey Carter MacLean
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF iNOVA CREDIT UNION LIMITED:

We have audited the accompanying financial statements of iNova Credit Union Limited, which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive income, changes in members' equity and 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 the 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 of material misstatement.

Terry Carter Ltd.
Stuart S. MacLean Inc.
J.E. Melvin Inc.
Greg T. Strange Inc.
Tracey Wright Inc.

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 iNova Credit Union Limited as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Levy Casey Carter MacLean

Halifax, Nova Scotia
March 17, 2016

LEVY CASEY CARTER MACLEAN
Chartered Accountants

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iNOVA CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

ASSETS

	2015	2014
Cash and cash equivalents (note 4)	**$ 5,709,378**	$ 4,899,966
Members' loans (note 5)	**24,112,544**	23,335,360
Investments (note 7)	**707,321**	718,161
Accrued receivables	**263,047**	458,613
Income taxes receivable	**-**	10,181
Prepaids	**17,825**	25,714
Property and equipment (note 8)	**496,069**	545,773
	$ 31,306,184	$ 29,993,768

LIABILITIES

	2015	2014
Payables and accruals	**$ 71,913**	$ 60,813
Members' deposits (note 9)	**26,767,194**	25,621,000
Accrued term loan interest (note 10)	**14,781**	14,494
Deposit interest payable	**98,758**	106,823
Income taxes payable	**3,468**	-
Term loan (note 10)	**750,000**	750,000
Deferred income taxes (note 17)	**1,218**	432
	27,707,332	26,553,562

Commitment (note 11)
Contingencies (note 12)

MEMBERS' EQUITY

	2015	2014
Members' shares (note 14)	**8,390**	8,290
Retained earnings	**3,590,462**	3,431,916
	3,598,852	3,440,206
	$ 31,306,184	$ 29,993,768

On Behalf of the Board

Alexander MacKay
Director

Director

Levy Casey Carter MacLean

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iNOVA CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2015

	2015	2014
Financial revenue		
Interest on members' loans	$ 1,239,500	$ 1,316,433
Other interest revenue	62,466	54,639
	1,301,966	1,371,072
Financial expenses		
Interest on members' deposits	283,925	281,262
Interest on term loan	16,125	16,125
	300,050	297,387
Financial margin	1,001,916	1,073,685
Other income (note 15)	430,572	441,744
Impairment losses on members' loans	(27,627)	(186,873)
Gross margin	1,404,861	1,328,556
Operating expenses		
Depreciation	56,466	63,196
Deposit insurance	21,205	20,822
General operating and administrative (note 16)	353,424	385,305
Occupancy	145,684	144,201
Salaries and benefits	650,401	560,723
	1,227,180	1,174,247
Income before other items and income taxes	177,681	154,309
Other item		
Gain on disposal of property and equipment	250	7,965
Income before income taxes	177,931	162,274
Current income taxes (note 17)	18,599	16,506
Deferred income taxes (note 17)	786	2,677
	19,385	19,183
Net comprehensive income	$ 158,546	$ 143,091

iNOVA CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2015

	Membership Shares	Retained Earnings	Total Members' Equity
Balance at January 1, 2015	**$ 8,290**	**$ 3,431,916**	**$ 3,440,206**
Net comprehensive income	**-**	**158,546**	**158,546**
Membership shares issued	**670**	**-**	**670**
Membership shares redeemed	**(570)**	**-**	**(570)**
Balance at December 31, 2015	**$ 8,390**	**$ 3,590,462**	**$ 3,598,852**

	Membership Shares	Retained Earnings	Total Members' Equity
Balance at January 1, 2014	$ 8,535	$ 3,288,825	$ 3,297,360
Net comprehensive income	-	143,091	143,091
Membership shares issued	535	-	535
Membership shares redeemed	(780)	-	(780)
Balance at December 31, 2014	$ 8,290	$ 3,431,916	$ 3,440,206

iNOVA CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	2015	2014
Operating Activities		
Net comprehensive income	$ 158,546	$ 143,091
Depreciation	56,466	63,196
Deferred income taxes	786	2,677
Gain on disposal of property and equipment	(250)	(7,965)
	215,548	200,999
Net change in non-cash working capital balances related to operations (note 18)	220,424	(260,825)
	435,972	(59,826)
Financing Activities		
Net change in members' deposits	1,146,194	280,502
Increase (decrease) in members' shares	100	(245)
	1,146,294	280,257
Investing Activities		
Net change in members' loans	(777,183)	491,752
Proceeds on disposal of property and equipment	250	22,000
Purchase of		
Leasehold improvements	-	(14,599)
Furniture and fixtures	(5,617)	(1,214)
Computer equipment	(1,144)	(23,986)
Proceeds on disposal of investments	10,840	-
Purchase of investments	-	(80)
	(772,854)	473,873
Increase in cash and cash equivalents during year	809,412	694,304
Cash and cash equivalents, beginning of year	4,899,966	4,205,662
Cash and cash equivalents, end of year	$ 5,709,378	$ 4,899,966
Supplemental Cash Flow Information		
Interest received	$ 1,301,966	$ 1,371,072
Interest paid	$ 300,050	$ 297,387
Income taxes paid	$ 15,087	$ 26,643

1. Nature of operations

iNova Credit Union Limited is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act. iNova is a full-service financial institution and is located in Halifax, Nova Scotia.

These financial statements have been authorized for issue by the Board of Directors on March 17, 2016.

2. Basis of presentation

(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).

(b) Basis of measurement

These financial statements were prepared under the historical cost principal using a going concern basis, with the exception of available for sale financial assets accounted for at fair value, which have been measured at fair value.

(c) Functional and presentation currency

The Credit Union's functional and presentation currency is the Canadian dollar.

3. Significant accounting policies

The Credit Union has applied the following significant accounting policies:

(a) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances with banks, and short term highly liquid securities which are readily convertible into known amounts of cash. The Credit Union considers securities with original maturities of three months or less as meeting the definition of convertible to known amounts of cash.

(b) Members' loans

Members' loans 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. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

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

3. Significant accounting policies (continued)

(c) Allowance for impaired loans

Loans are continuously monitored by management taking into account the payment history, security pledged and the financial condition of the borrower. Impairment of a loan is determined when there is objective evidence that a loss event has occurred such as when there has been deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest.

The Credit Union first assesses whether objective evidence of impairment exists on an individual loan basis, if evidence does exist this loan is placed directly in the allowance. If it is determined that no evidence of impairment exists for individually assessed members loans then assets are pooled into groups with similar risk characteristics that are expected to behave in similar fashions to identified loss events. A collective allowance is determined for each pool.

Bad debts are written off from time to time as determined by management. Accounts under $5,000 are approved for write-off by management and over this amounbt are approved by the Board of Directors. If a provision for bad debts on the loan has been previously recognized the bad debt is written off against the provision, if no provision was recognized the write off is recognized in net income.

(d) Members' shares

Members' shares are classified as equity, and represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance.

(e) Financial instruments

The Credit Union classifies its financial instruments into one of the following categories:

(i) Fair value through profit

Financial instruments classified as fair value through profit or loss are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred. Cash and cash equivalents have been classified as fair value through profit or loss.

(ii) Assets available-for-sale

Financial instruments classified as available-for-sale are reported at fair value at each balance sheet date, and any change in fair value is recognized as an unrealized gain or loss until the financial instrument is sold or derecognized, at which time the cumulative gain or loss is transferred to net income. The Credit Union has classified its investments as available-for-sale.

(iii) Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in net income over the expected life of the instrument. Transaction costs are expensed when incurred. The Credit Union has classified its members' loans and Atlantic Central liquidity deposits as loans and receivables and classified its member deposits and term loan as other financial liabilities.

3. Significant accounting policies (continued)

(f) Patronage distributions

The Credit Union's policy is to accrue a patronage distribution when approved by the Board of Directors, which is recorded in net income in the year which it relates.

(g) 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 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 Canada Revenue Agency. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. Recognition of deferred tax asses 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.

(h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies (US dollars) are translated into Canadian dollars at the prevailing rates at the end of each month. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. Realized and unrealized exchange gains and losses are included in earnings. The Credit Union does not use derivative instruments to mitigate foreign exchange risk.

(i) Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation. Depreciation is recognized in net income and is provided on a declining balance basis, except for leasehold improvements which are depreciated using the straight-line method, at rates based on the estimated useful life of the assets as follows:

Leasehold improvements	Term of lease plus two renewal terms
Computer equipment	33%
Furniture and fixtures	20%
Sign	20%
Vault	10%

3. Significant accounting policies (continued)

(j) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts in revenue and expenses during the reporting year. Actual future results could differ from those estimates.

The item which results in the most significant area of application of judgment and estimates is the allowance for impairment on loans. The Credit Union reviews its loan portfolio frequently to assess impairment, and uses considerable judgment in determining whether or not a loan is impaired as a result of observable evidence. If a loan is considered to be impaired, the amount of the loss is estimated based on management's best estimates. Refer to note 5 for information relating to these estimates.

(k) Revenue recognition

Interest on loans and advances is recognized on an accrual basis using the effective interest rate method. Revenue from the provision of services is recognized when earned and the ability to collect is reasonably assured.

(l) Accounting standards adopted

The Credit Union has adopted no new standards effective January 1, 2015.

(m) Standard and interpretation issued but not yet effective

Certain new standards and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2015 that the Credit Union has decided not to early adopt. The standards and interpretations that will be relevant to the Credit Union are:

IFRS 9, *"Financial Instruments"*, is part of the IASB's three phase project to replace IAS 39, *"Financial Instruments: Recognition and Measurement"*. IFRS 9 retains the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis for classification depends on the entities business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of the adoption of the standard has not yet been determined.

IFRS 15, *"Revenue from Contracts with Customers"*, will be effective for annual periods beginning on or after January 1, 2017. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *"Revenue"*, IAS 11, *"Construction Contracts"*, and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. The extent of the impact of the adoption of the standard has not yet been determined.

4. Cash and cash equivalents

	2015	2014
Cash and cash equivalents	$ 1,806,193	$ 1,351,081
Atlantic Central liquidity deposits	3,903,185	3,548,885
	$ 5,709,378	$ 4,899,966

5. Members' loans

	Total Loans	Collective Allowance	Specific Allowance	Net Loans
December 31, 2015				
Consumer loans	$ 7,948,213	$ 27,728	$ 11,463	$ 7,909,022
Consumer lines of credit	5,110,674	6,731	133,917	4,970,026
Consumer mortgages	5,372,984	-	-	5,372,984
Commercial loans	4,076,735	50,400	40,189	3,986,146
Commercial lines of credit	1,580,258	55,452	53,319	1,471,487
Commercial mortgages	359,984	-	-	359,984
Overdrafts	42,895	-	-	42,895
	$ 24,491,743	$ 140,311	$ 238,888	$ 24,112,544
December 31, 2014				
Consumer loans	$ 8,097,841	$ 31,205	$ 12,858	$ 8,053,778
Consumer lines of credit	5,176,561	6,646	129,279	5,040,636
Consumer mortgages	3,251,757	-	-	3,251,757
Commercial loans	4,521,878	51,685	9,075	4,461,118
Commercial lines of credit	1,969,211	52,561	30,454	1,886,196
Commercial mortgages	609,652	-	-	609,652
Overdrafts	32,223	-	-	32,223
	$ 23,659,123	$ 142,097	$ 181,666	$ 23,335,360

Members' loans can have either prime-plus, variable or fixed rate of interest and they mature up to five years. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate. The Credit Union's prime rate at December 31, 2015 was 2.85% (2014 - 3%).

Commercial loans that are not subject to a government guarantee are secured by collateral ranging from specific assets to a general security agreement or personal guarantee. Consumer loans are also secured by collateral such as vehicles, investments and property.

Maturity analysis:

	2015 Principal Balance	2014 Principal Balance
Overdrafts and lines of credit	$ 6,733,827	$ 7,177,995
Within one year	2,861,999	1,014,463
One to three years	5,908,682	5,163,035
Over three years	8,987,235	10,303,630
	$ 24,491,743	$ 23,659,123

6. Allowance for impaired loans

	2015	2014
Allowance, beginning of year	$ 323,763	$ 357,110
Provision for impaired loans	49,556	186,873
Recovery of loans written-off in prior years	22,733	22,562
Loans written off	(16,853)	(242,782)
Allowance, end of year	$ 379,199	$ 323,763

The summary of loans past due but not impaired are as follows:

	2015				2014
	31-60 days	61-90 days	> 90 days	Total	Total
Consumer loans and lines of credit	$ 160,123	$ 21,365	$ -	$ 181,488	$ 8,132
Commercial loans and lines of credit	10,043	-	-	10,043	222,982
Balance, end of year	$ 170,166	$ 21,365	$ -	$ 191,531	$ 231,114

The carrying amount of loans that were renegotiated during the year that otherwise would have been listed as past due greater than 90 days were Nil (2014 - Nil).

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair value of non-financial collateral is updated 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 expected future cash flows and 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, and fixed assets). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees are also accepted to reduce credit risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $1,356,877 as at December 31, 2015 (2014 - $326,653).

7. Investments

	2015	2014
Shares:		
Atlantic Central	$ 275,650	$ 286,490
Atlantic Central - Class NS shares	83,000	83,000
League Data Limited	11,970	11,970
League Savings and Mortgage Company	336,201	336,201
Nova Scotia Co-operative Council	500	500
	$ 707,321	$ 718,161

The investments do not have a quoted market price in an active market. The Credit Union has determined the fair value of these investments cannot be measured accurately and therefore measures these investments at cost.

8. Property and equipment

	Leasehold Improvements	Computer Equipment	Furniture & Fixtures	Sign	Vault	Total
Cost						
Balance at January 1, 2014	$ 396,974	$ 179,539	$ 418,569	$ 26,450	$ 48,372	$ 1,069,904
Additions, 2014	14,599	23,986	1,214	-	-	39,799
Disposals, 2014	-	-	(35,832)	-	-	(35,832)
Balance on December 31, 2014	411,573	203,525	383,951	26,450	48,372	1,073,871
Additions, 2015	-	1,144	5,617	-	-	6,761
Disposals, 2015	-	(173,773)	(200,488)	-	-	(374,261)
Balance on December 31, 2015	**$ 411,573**	**$ 30,896**	**$ 189,080**	**$ 26,450**	**$ 48,372**	**$ 706,371**
Accumulated depreciation						
Balance at January 1, 2014	$ 39,115	$ 172,240	$ 260,923	$ 7,406	$ 7,014	$ 494,104
Depreciation expense, 2014	18,258	6,430	30,564	3,809	4,136	63,197
Disposals, 2014	-	-	(21,797)	-	-	(21,797)
Balance on December 31, 2014	57,373	178,670	269,690	11,215	11,150	528,098
Depreciation expense, 2015	17,710	8,572	23,414	3,047	3,722	56,465
Disposals, 2015	-	(173,773)	(200,488)	-	-	(374,261)
Balance on December 31, 2015	**$ 75,083**	**$ 13,469**	**$ 92,616**	**$ 14,262**	**$ 14,872**	**$ 210,302**
Net book value						
December 31, 2014	$ 354,200	$ 24,855	$ 114,261	$ 15,235	$ 37,222	$ 545,773
December 31, 2015	**$ 336,490**	**$ 17,427**	**$ 96,464**	**$ 12,188**	**$ 33,500**	**$ 496,069**

9. Members' deposits

	2015	2014
Savings accounts	$ 8,795,305	$ 8,293,062
Consumer term deposits	3,240,345	3,526,568
Registered Retirement Savings Plan	4,741,195	5,146,830
Registered Retirement Income Funds	1,305,355	1,356,650
Personal chequing accounts	3,537,698	3,044,990
Business demand deposits	3,981,036	3,005,923
Business term deposits	1,166,260	1,246,977
	$ 26,767,194	$ 25,621,000

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

	2015 Principal Balance	2014 Principal Balance
Floating	$ 17,432,315	$ 15,530,812
Within one year	6,003,787	5,682,342
One to three years	2,085,608	3,663,900
Over three years	1,245,484	743,946
	$ 26,767,194	$ 25,621,000

Members' deposits held in registered plans are as follows:

	2015	2014
Tax Free Savings Accounts	$ 3,055,141	$ 2,895,304
Registered Retirement Savings Plan	4,741,195	5,146,830
Registered Retirement Income Funds	1,305,355	1,356,650
	$ 9,101,691	$ 9,398,784

10. Term loan

	2015	2014
2.15% interest only loan with Atlantic Central, amortized and maturing on January 1, 2016. Annual interest payments of $16,125 are due on the anniversary date of the loan and is repayable in full along with any accrued interest on the maturity date. Secured by general security agreement over the assets of the Credit Union.	$ 750,000	$ 750,000

The Credit Union is not required to make principal payments under the terms of the loan until the maturity date at which time the entire principal balance will be due. As of December 31, 2015, the accrued interest owing on the loan was $14,781 (2014 - $14,494). The principal and accrued interest outstanding at yearend was repaid on January 4, 2016.

11. Commitment

The Credit Union entered an operating lease agreement for their premises on April 1, 2012 for a term of ten years plus four five year renewal options. The rent required, including base rent and an estimation of the Credit Union's proportionate share of operating expenses and municipal tax, is as follows:

	2015	2014
Less than 1 year	**$ 123,049**	$ 123,049
Between 1 and 5 years	**$ 492,196**	$ 492,196
More than 5 years	**$ 153,811**	$ 153,811

During the year ended December 31, 2015, an amount of $123,049 (2014 - $121,586) was recognized as an expense through the statement of comprehensive income in respect of operating leases.

12. Contingent liabilities

Sick leave

In accordance with the Credit Union's sick time policies, the staff have accumulated sick days, at a total possible cost of approximately $79,661. These days are only available for required sick leave, and will not be paid out upon termination of employment. Any sick leave settlements will be charged to income in the period which they occur.

13. Credit facility

The credit union has a $725,000 line of credit with Atlantic Central, which bears interest at 2.2%. The line of credit is subject to annual renewal and is secured by a general assignment of book debts. As at December 31, 2015, no advances were outstanding.

14. Members' shares

Each member must subscribe to a minimum of one $5 unit which has the same attributes generally associated with regular common shares issued by a limited company, ie. voting, at risk, etc.

Continuity of member' shares:

	2015		2014	
	Number	**$**	Number	$
Balance, beginning of year	**1,658**	**$ 8,290**	1,707	$ 8,535
Issued	**134**	**670**	107	535
Redeemed	**(114)**	**(570)**	(156)	(780)
Balance, end of year	**1,678**	**$ 8,390**	1,658	$ 8,290

15. Other income

	2015	2014
Dividend income	**$ 16,358**	$ 19,694
Commissions and fees	**383,311**	396,433
Rebates	**30,903**	25,617
	$ 430,572	$ 441,744

16. General operating and administrative

	2015	2014
Advertising and promotion	**$ 11,758**	$ 12,729
Board, travel and meetings	**32,921**	26,628
Credit Union Central fees	**35,820**	33,299
Data processing	**57,098**	56,265
Education and training	**5,660**	12,834
Electronic service fees and bank charges	**121,511**	126,649
Foreign exchange gain	**(30,551)**	(24,808)
Miscellaneous	**8,881**	4,704
Office and stationery	**50,344**	53,684
Professional fees	**23,164**	50,091
Registered plan fees	**4,350**	4,200
Stabilization fund	**27,424**	23,829
Telephone	**5,044**	5,201
	$ 353,424	$ 385,305

17. Income taxes

(a) Current income taxes

The impact of differences between the Credit Union's reported current income tax expense and the expense that would otherwise result from the application of statutory rates is as follows:

	2015	2014
Current income tax expense at the combined federal and provincial rate	$ 24,909	$ 22,720
Capital cost allowance in excess of depreciation	(1,566)	(1,103)
Non-deductible expenses	100	113
Change in recoveries	3,183	3,159
Change in reserve for loan provision	(7,211)	3,317
Change in bad debt	3,868	26,162
Current year writeoffs	(2,359)	(33,990)
Gain on disposal of equipment	(35)	(1,115)
Non-taxable dividends	(2,290)	(2,757)
Income tax expense for the year	$ 18,599	$ 16,506

(b) Deferred income taxes

The impact of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2015 are presented below:

	2015	2014
Difference in net book value and undepreciated capital cost of property and equipment	$ (4,562)	$ (2,961)
Allowance for impaired loans	3,344	2,529
Deferred income tax liability	$ (1,218)	$ (432)

18. Net change in non-cash working capital balances related to operations

Increase (decrease) in cash from changes in:

	2015	2014
Accrued receivables	$ 195,566	$ (131,360)
Prepaids	7,889	(8,102)
Income taxes receivable	13,649	26,181
Payables and accruals	11,098	(155,558)
Deposit interest payable	(8,065)	8,014
Accrued term loan interest	287	-
	$ 220,424	$ (260,825)

19. Fair values of financial instruments

Fair value represents the amount at which a financial investment could be exchanged in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of fair value for the Credit Union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

Loans

In determining the fair value of loans, the Credit Union incorporates the following assumptions:

- For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the Credit Union's loan portfolio.

Deposits

In determining the fair value of deposits, the Credit Union incorporates the following assumptions:

- For fixed rate and fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis, fair value is assumed to equal carrying value.

19. Fair values of financial instruments (continued)

The Credit Union categorizes valuation methods used for financial instruments carried at fair value under a hierarchy of valuation techniques based on whether inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Credit Union's market assumptions. These two inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for active markets for identical financial instruments.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuation in which all significant inputs are observable in active markets.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

A financial instrument is classified to the lowest level of hierarchy for which a significant input has been considered in measuring fair value.

	2015			2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Available-for-sale investments	$ -	$ 707,321	$ -	$ -	$ 718,161	$ -

20. Financial instrument risk management

General objectives, policies and procedures

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies of the Credit Union's finance function. The Board of Directors receives quarterly reports from the general manager through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The following are the significant risks that the Credit Union is exposed to through its financial instruments:

(a) Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian currencies at different points in time and at different exchange levels. The Credit Union mitigates currency risk through cash management policies on exchange of currency.

20. Financial instrument risk management (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of income and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the members' ability to repay principal and interest over the term of the facility which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral and debt servicing capacity.

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. In addition, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported to senior management on a timely and frequent basis to ensure that all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending agreements.

The Credit Union's loan portfolio is focused in two main areas; consumer and commercial loans and mortgages, the latter to small and mid-size companies. Consumer mortgages are made available on a conventional basis up to eighty percent of the appraised value of a residential property with all mortgages in excess of that amount being insured through a third party. Other credit facilities provided include personal overdrafts and Mastercard accounts. The Mastercard accounts have no recourse to the Credit Union.

The Credit Union maintains both specific and collective allowances for credit losses. Specific allowances are established on an account basis using management's knowledge of the account and prevailing conditions. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of the credit risk for member accounts and the general state of the economy. Management regularly monitors the Credit Union's credit risk and reports to the Board on a quarterly basis.

The Credit Union's maximum exposure to credit risk at the reporting date was:

	2015	2014
Cash resources	**$ 5,709,378**	$ 4,899,966
Members' deposits	**26,767,194**	25,621,000
Members' loans	**24,112,544**	23,335,360
	$ 56,589,116	$ 53,856,326

20. Financial instrument risk management (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Interest rate sensitivity:

The Credit Union's major source of income is the financial margin between the income earned on investments and loans versus the interest paid on their deposits. The objective of interest rate sensitivity management is to keep interest sensitive assets and interest sensitive liabilities in balance by amount and term to maturity, thus monitoring fluctuations of income during periods of changing interest rates.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing in the first three months, regardless of maturity. A significant amount of loans can be settled before maturity without penalty; on mortgages and deposits a penalty will be levied. No adjustments have been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

	Weighted Average Interest Rate				Net
Expected Repricing or Maturity Date	Assets %	Liabilities %	Assets (000's) $	Liabilities (000's) $	Mismatch (000's) $
Variable	34.31 %	52.08 %	$ 10,729.23	$ 16,290.61	$ (5,561.38)
1 day - 3 months	6.10 %	8.71 %	1,908.14	2,724.24	(816.10)
4 to 6 months	3.29 %	4.81 %	1,030.17	1,503.06	(472.89)
7 to 9 months	2.20 %	4.94 %	688.64	1,543.96	(855.32)
10 to 12 months	4.85 %	3.14 %	1,515.84	982.54	533.30
1 to 2 years	8.43 %	5.06 %	2,636.58	1,581.73	1,054.85
2 to 3 years	8.18 %	1.61 %	2,558.65	503.58	2,055.07
3 to 4 years	11.00 %	2.64 %	3,440.98	826.55	2,614.43
4 to 5 years	15.77 %	1.34 %	4,931.71	418.93	4,512.78
Over 5 years	0.81 %	- %	254.28	-	254.28
Non-interest sensitive	5.06 %	15.67 %	1,583.72	4,902.74	(3,319.02)
Total	100.00 %	100.00 %	$ 31,277.94	$ 31,277.94	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors. As a matter of policy, the Credit Union attempts to maintain a maximum acceptable level of interest rate risk.

20. Financial instrument risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting its obligations associated with its financial liabilities as they become due. The Credit Union mitigates this risk by monitoring cash activities on a daily basis so as to meet all cash outflow obligations as they fall due.

The Credit Union is required to maintain 10% of members' deposits in liquid investments of which 90% must be held with Atlantic Central. The Credit Union was in compliance with this requirement at December 31, 2015.

	2015	2014
Required liquidity	$ 2,676,719	$ 2,562,100
Liquid assets	(6,068,028)	(5,269,456)
Excess liquidity	$ (3,391,309)	$ (2,707,356)
Liquid assets comprise:		
Cash on hand	$ 1,806,193	$ 1,351,081
Liquidity deposits	3,903,185	3,548,885
Atlantic Central shares	358,650	369,490
	$ 6,068,028	$ 5,269,456

21. Group RRSP plan

The Credit Union sponsors a group RRSP plan. The plan provides the Credit Union with flexibility in that the percentage contributed to the employees' plan can be modified. In 2015, the Credit Union contributed 9% of base salaries to the employees' plan and 10% of base salaries to the General Manager's plan. Staff also contributed 6% of their base salary to the plan. The Credit Union recognized an expense of $47,025 (2014 - $39,408) for contributions made towards the group RRSP plan.

22. Related party transactions

(a) Management compensation

In 2015, salaries and benefits paid to management were $135,371 (2014 - $100,962).

(b) Loans to management and personnel

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their immediate family had loans owing to the Credit Union totaling $979,393 (2014 - $1,087,407). At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their immediate family had deposits with the Credit Union totaling $521,373 (2014 - $486,481). All transactions were in the normal course of business and were within the policies of the Credit Union.

23. Capital management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union Act and related regulations requires Credit Unions to maintain a minimum of 5% of equity to assets ratio. At December 31, 2015, the Credit Union was at 11.50% (2014 - 11.47%) and has exceeded this minimum.

The Credit Union considers its capital to include membership shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period. The Credit Union manages its capital by investing to ensure sufficient liquidity, to meet statutory requirements as set out in the Credit Union Act and Regulations and provide safety of principal and generate a satisfactory return.

24. Comparative figures

In some cases, the comparative figures have been reclassified to conform with the current year's presentation.