Talka Credit Union Limited
Financial Statements
For the year ended December 31, 2016

Talka Credit Union Limited
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For the year ended December 31, 2016

Management's Responsibility

To the Members of Talka Credit Union Limited:

The accompanying financial statements of Talka Credit Union Limited are the responsibility of management and have been approved by the Board of Directors.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting policies and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

January 12, 2017

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CEO

Independent Auditors' Report

To the Members of Talka Credit Union Limited:

We have audited the accompanying financial statements of Talka Credit Union Limited, which comprise the statement of financial position as at December 31, 2016, the statements of income, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of Talka Credit Union Limited as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
January 12, 2017

MNP

Talka Credit Union Limited
Statement of Financial Position
As at December 31, 2016

In $	***2016***	*2015*
Assets		
Cash	**3,355,796**	6,174,600
Investments *(Note 6)*	**17,964,395**	17,450,483
Member loans *(Note 7)*	**105,503,031**	84,200,890
Other assets *(Note 8)*	**119,306**	64,801
Property and equipment *(Note 9)*	**117,422**	137,947
	127,059,950	108,028,721
Liabilities		
Member deposits *(Note 11)*	**117,044,572**	98,976,014
Accounts payable and accrued liabilities	**670,999**	402,106
Income taxes payable	**135,985**	-
Member shares *(Note 13)*	**481,830**	497,162
	118,333,386	99,875,282
Commitments *(Note 16)*		
Members' Equity		
Retained earnings	**8,601,295**	8,032,550
Accumulated other comprehensive income	**125,269**	120,889
	8,726,564	8,153,439
	127,059,950	108,028,721

Approved on behalf of the Board

Director **Director**

The accompanying notes form part of the financial statements

Talka Credit Union Limited

Statement of Income

For the year ended December 31, 2016

In $	***2016***	*2015*
Revenue		
Interest income on loans	**3,777,023**	3,261,548
Investment income	**407,100**	188,807
	4,184,123	3,450,355
Interest expense		
Interest expense	**2,232,326**	1,873,112
Distribution to members *(Note 13)*	**408,722**	431,968
	2,641,048	2,305,080
Net financial income	**1,543,075**	1,145,275
Provision for impaired loans *(Note 7)*	**-**	-
Net financial income after provision for impaired loans	**1,543,075**	1,145,275
Other income	**343,186**	190,938
Net financial and other income	**1,886,261**	1,336,213
Operating expenses		
Salaries and benefits	**553,227**	505,010
Depreciation and amortization	**26,990**	16,953
Other administrative expenses *(Schedule)*	**595,097**	558,781
	1,175,314	1,080,744
Income before income taxes	**710,947**	255,469
Income taxes *(Note 12)*		
Current	**193,059**	66,698
Deferred	**(50,857)**	(25,400)
	142,202	41,298
Net income	**568,745**	214,171

The accompanying notes form part of the financial statements

Talka Credit Union Limited

Statement of Comprehensive Income

For the year ended December 31, 2016

In $	***2016***	*2015*
Net income for the year	**568,745**	214,171
Other comprehensive income		
Change in unrealized gain on available for sale investments	**5,183**	11,340
Income tax relating to other comprehensive income	**(803)**	(1,758)
Total other comprehensive income	**4,380**	9,582
Total comprehensive income for the year	**573,125**	223,753

The accompanying notes form part of the financial statements

Talka Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2016

In $	Accumulated other comprehensive income	Retained earnings	Total
Balance, December 31, 2014	111,307	7,818,379	7,929,686
Net income for the year	-	214,171	214,171
Unrealized gain on available for sale investments, net of tax	9,582	-	9,582
Balance, December 31, 2015	**120,889**	**8,032,550**	**8,153,439**
Net income for the year	**-**	**568,745**	**568,745**
Unrealized gain on available for sale investments, net of tax	**4,380**	**-**	**4,380**
Balance, December 31, 2016	**125,269**	**8,601,295**	**8,726,564**

The accompanying notes form part of the financial statements

Talka Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2016

In $	***2016***	*2015*
Cash provided by (used for) the following activities		
Operating activities		
Net income for the year	**568,745**	214,171
Adjustments for:		
Interest revenue	**(4,184,123)**	(3,450,355)
Interest expense	**2,641,048**	2,305,080
Depreciation and amortization	**26,990**	16,953
Provision for income taxes	**142,202**	41,298
Interest received on member loans	**3,742,773**	3,262,789
Interest received on investments	**343,286**	119,094
Interest paid on member deposits	**(2,477,379)**	(2,118,302)
Income taxes paid	**(41,369)**	(45,853)
Net change in other assets	**3,556**	1,398
Net change in other liabilities	**268,893**	318,182
	1,034,622	664,455
Investing activities		
Purchase of computer software	**(29,374)**	-
Net change in member loans	**(21,267,891)**	(11,862,976)
Net change in investments	**(445,718)**	(3,610,662)
	(21,742,983)	(15,473,638)
Financing activities		
Net change in member deposits	**17,904,889**	15,485,781
Net change in member shares	**(15,332)**	(16,497)
	17,889,557	15,469,284
Net change in cash during the year	**(2,818,804)**	660,101
Cash - beginning of year	**6,174,600**	5,514,499
Cash - end of year	**3,355,796**	6,174,600

The accompanying notes form part of the financial statements

1. Reporting entity information

Talka Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 830 Main Street East, Hamilton, Ontario.

2. Basis of presentation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board. The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2016.

These financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on January 12, 2017.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 3.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

3. Significant accounting policies

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Cash

Cash includes cash on hand and demand deposits with Central 1 defined above.

Investments

Deposits

Liquidity reserve and term deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Other investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

3. Significant accounting policies (continued)

Member loans

Loans are recognized at their amortized cost. Amortized cost is calculated as the loan's principal amount, less any allowance for estimated losses, plus accrued interest, using the effective interest method.

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, then it includes that financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial 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 for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. Financial assets are considered impaired when contractual payments are in arrears in excess of 90 days, unless the loan is fully secured. Fully secured loans are classified as impaired after a delinquency period of greater than 180 days. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in current period income.

Financial assets, together with the associated provision for impairment are reported as an impairment loss when there is no expectation of future recovery. Interest income is accrued until the financial asset becomes a credit loss.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows, including prepayment losses, and costs to securitize and service financial assets.

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, property values or other factors that are indicative of incurred losses in the group and their magnitude.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Depreciation is provided using the methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Building	declining balance	5% - 8%
Furniture and fixtures	declining balance	20%
Computer equipment	declining balance	30%

The useful lives of items of property and equipment are reviewed on an annual basis and altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

3. Significant accounting policies (continued)

Computer software

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software is charged to the income statement on a declining basis of 30%. The expected useful life of computer software is reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in current period income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in current period income.

Member deposits

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include accounts payable and accrued liabilities which are stated at amortized cost, and approximates fair value due to the short term nature of these liabilities.

Member shares

Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities.

Revenue recognition

Revenue is recognized to the extent that it has been earned and it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income is recognized as interest accrues using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash flows over the expected life of the financial instrument back to the net carrying amount of the financial asset. Other revenue and expenses that relate to the return on a loan or investment are incorporated into the effective interest rate and, thus, amortized to revenue over the life of the loan.

3. Significant accounting policies (continued)

Income taxes

Current and deferred taxes are recognized in net income, other comprehensive income or equity, depending on where the related income or expense is recorded.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities where the Credit Union operates and generates income. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities generally arise where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalent at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the balance sheet date. Exchange translation gains and losses are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

Financial instruments

All financial instruments are initially recognized on the balance sheet at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. For instruments classified as other than fair value through profit and loss, transaction costs related to the acquisition of the instrument are added to the fair value upon initial recognition.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union has cash and listed securities classified as fair value through profit or loss.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in other comprehensive income, is recognized in net income. The Credit Union has some investments that are not traded in an active market classified as available for sale.

The financial assets classified as loans and receivables are initially measured at fair value plus transaction costs, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include deposits with Central 1 and member loans.

The financial assets classified as held to maturity are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union does not have any financial instruments classified as held to maturity.

Financial instruments classified as other financial liabilities include member deposits and accounts payable and accrued liabilities. Other financial liabilities are initially measured at fair value and then subsequently carried at amortized cost.

3. Significant accounting policies (continued)

Financial instruments (continued)

De-recognition of financial assets

De-recognition of a financial asset occurs when:

i) The Credit Union does not have rights to receive cash flows from the asset;
ii) The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
   a. The Credit Union has transferred substantially all the risks and rewards of the asset; or
   b. The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset. In that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in income.

4. Significant accounting judgements, estimates and assumptions

Use of estimates and judgements

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future year.

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The general provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

5. Changes in accounting policies and standards and interpretations not yet effective

Changes in accounting policies

The following new or amended standards and interpretations were applied for the first time during the year.

Annual Improvements to IFRSs 2012 – 2014 Cycle (Amendment)

In September 2014, the International Accounting Standards Board (IASB) issued a series of amendments to IFRSs in response to issues addressed during the 2012-2014 cycle. The amendments are summarized below:

IFRS 7 Financial Instruments: Disclosures: Amendments to clarify how an entity should apply financial instruments "transfer of financial assets" guidance to a servicing contract. In general, servicing contracts meet the definition of "continuing involvement" for the purposes of applying the disclosure requirements.

IAS 19 Employee Benefits: Amendments to clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. In the absence of availability of high quality corporate bond rates, government bonds denominated in the same currency shall be used.

The amendments above are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

IAS 1 Presentation of Financial Statements (Amendment)

In December 2014, the International Accounting Standards Board (IASB) issued amendments to IAS 1, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2015. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their financial statements. The amendments are intended to clarify the following: (1) that entities shall not aggregate or disaggregate information in a manner that obscures useful information; (2) that materiality requirements apply to the statements of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statements of changes in equity, and to the notes; (3) that when a standard requires a specific disclosure, the resulting information shall be assessed to determine whether it is material and consequently whether presentation or disclosure of that information is warranted; (4) that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements; (5) that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will be subsequently reclassified to profit or loss; (6) that entities have flexibility as to the order in which they present the notes, but also emphasize that understandability and comparability should be considered by an entity when deciding that order. These amendments are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendments to IAS 16 and IAS 38, issued by the International Accounting Standards Board (IASB) in May 2014 and incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in July 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

Standards and interpretations issued but not yet effective

IFRS 2 Share-based Payment (Amendment)

In June 2016, the International Accounting Standards Board (IASB) issued amendments to IFRS 2 to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:
The effects of vesting and non-vesting conditions on measurement of cash-settled share-based payments;
Share-based payment transactions with a net settlement feature for withholding tax obligations; and
A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

5. Changes in accounting policies and standards and interpretations not yet effective (continued)

The amendments are effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of these amendments on its financial statements.

IFRS 9 Financial Instruments (New)

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014), incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015, as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments were made with respect to impairment and hedge accounting. This new standard will also impact disclosures provided under IFRS 7 Financial instrument: disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of this pronouncement on its financial statements.

IFRS 15 Revenue from Contracts with Customers (New)

In May 2014, the International Accounting Standard Board (IASB) issued a new International Financial Reporting Standard (IFRS) on the recognition of revenue from contracts with customers which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Section provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of this pronouncement on its financial statements.

IFRS 15 Revenue from Contracts with Customers (Amendment)

In April 2016, the International Accounting Standard Board (IASB) issued amendments to IFRS 15, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in August 2016, to clarify some requirements and provide additional transitional relief for entities implementing IFRS 15. The amendments also include two additional reliefs to reduce cost and complexity for an entity when it first applies IFRS 15. The amendments are effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of these amendments on its financial statements.

IFRS 16 Leases (New)

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union has not determined the impact of these amendments on its financial statements.

5. Changes in accounting policies and standards and interpretations not yet effective (continued)

IAS 7 Statement of Cash Flows (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. The Credit Union has not determined the impact of these amendments on its financial statements.

IAS 12 Income Taxes (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments also clarify several aspects around the recognition of deferred tax assets for unrealized losses. These amendments are effective for annual periods beginning on or after January 1, 2017. The Credit Union has not determined the impact of these amendments on its financial statements.

6. Investments

In $	***2016***	*2015*
Loans and receivables		
Central 1		
Liquidity reserve deposit	**7,617,480**	6,411,318
Accrued interest	**14,544**	10,928
	7,632,024	6,422,246
Fair value through profit or loss		
Fixed income securities	**9,209,977**	10,019,358
Accrued interest	**206,888**	146,690
	9,416,865	10,166,048
Available for sale		
Central 1 Class A shares	**424,681**	349,955
Central 1 Class E shares	**304,600**	304,600
Concentra Trust - shares	**20,671**	20,671
CUCO Cooperative Association Class B shares	**165,554**	186,963
	915,506	862,189
	17,964,395	**17,450,483**

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the Credit Union's total assets updated at each month end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

CUCO Cooperative Association Shares

CUCO Cooperative Association (“CUCO Co-op”) holds a portfolio of Asset Backed Notes that resulted from the restructuring of non-bank asset backed commercial paper (“ABCP”) that was completed in January 2009. The Credit Union holds a 0.32% interest in CUCO Co-op in proportion to its relative interest in Credit Union Central of Ontario, where the ABCP holdings originated, immediately prior to its merger with Credit Union Central of British Columbia.

The CUCO Co-op is a co-operative corporation governed by a Board of Directors that are elected by the Ontario member credit unions.

The fair value of the investments is directly related to the value of the underlying Asset Backed Notes held. As there is not an active market for the notes, the fair value is estimated. The Credit Union relies on the valuation provided for the entire portfolio to CUCO Co-op from the independent portfolio management firm. The Credit Union has reviewed and agrees with the significant assumptions and estimates in the valuation. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

7. Member loans

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	***2016***
Residential mortgages	**63,869,408**	**-**	**-**		**63,869,408**
Personal	**1,582,365**	**-**	**-**	**(158,237)**	**1,424,128**
Commercial mortgages	**28,949,627**	**134,887**	**(50,000)**	**(418,746)**	**28,615,768**
Syndicated mortgages	**11,398,317**	**-**	**-**	**-**	**11,398,317**
Accrued interest	**195,410**	**-**	**-**	**-**	**195,410**
	105,995,127	**134,887**	**(50,000)**	**(576,983)**	**105,503,031**

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	*2015*
Residential mortgages	46,982,923	-	-	-	46,982,923
Personal	2,123,118	-	-	(243,618)	1,879,500
Commercial mortgages	27,941,267	466,832	(250,000)	-	28,158,099
Syndicated mortgages	5,658,679	1,683,005	(322,476)	-	7,019,208
Accrued interest	161,160	-	-	-	161,160
	82,867,147	2,149,837	(572,476)	(243,618)	84,200,890

The loan classifications set out above are as defined in the regulations to the Act.

Residential and commercial mortgage loans are repayable in blended principal and interest instalments, over a maximum term of five years based on a maximum amortization period of thirty years for residential loans and twenty-five years for commercial loans. These loans are open at any monthly payment date and, at the option of the borrower, may be paid off only after paying a penalty.

Personal and business loans are repayable in blended principal and interest instalments, over a maximum amortization period of five years. Personal loans are open and may be repaid at any time without notice. Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments. Personal loans are open and may be repaid at any time.

Loan Allowance details

In $	***2016***	*2015*
Balance, beginning of year	**816,094**	821,751
Provision for impaired loans	**-**	-
	816,094	821,751
Less: accounts written off	**(189,111)**	(5,657)
Balance, end of year	**626,983**	816,094

7. Member loans (continued)

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at year-end that are past due but not classified as impaired.

In $	1-30 days	31-60 days	61-90 days	91 days and greater	***2016***
Residential mortgages	**880,732**	**-**	**-**	**-**	**880,732**
Personal	**16,009**	**-**	**-**	**-**	**16,009**
Commercial mortgages	**1,126,146**	**-**		**-**	**1,126,146**
	2,022,887	**-**	**-**	**-**	**2,022,887**

In $	1-30 days	31-60 days	61-90 days	91 days and greater	*2015*
Residential mortgages	863,611	-	-	-	863,611
Personal	26,933	-	-	-	26,933
Commercial mortgages	810,468	-	-	-	810,468
	1,701,012	-	-	-	1,701,012

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

8. Other assets

In $	***2016***	*2015*
Prepaid expenses	**2,000**	5,556
Deferred taxes (Note 12)	**87,536**	36,679
Taxes receivable	**-**	15,705
Computer software (Note 10)	**29,770**	6,861
	119,306	64,801

9. Property and equipment

In $	Land	Buildings	Furniture and fixtures	Computer equipment	**2016 Total**
Cost					
Opening balance	**14,583**	**245,178**	**138,643**	**132,268**	**530,672**
Additions	**-**	**-**	**-**	**-**	**-**
	14,583	**245,178**	**138,643**	**132,268**	**530,672**
Accumulated depreciation					
Opening balance	**-**	**(194,255)**	**(125,429)**	**(73,041)**	**(392,725)**
Depreciation	**-**	**(2,546)**	**(2,643)**	**(15,336)**	**(20,525)**
	-	**(196,801)**	**(128,072)**	**(88,377)**	**(413,250)**
Net book value	**14,583**	**48,377**	**10,571**	**43,891**	**117,422**

In $	Land	Buildings	Furniture and fixtures	Computer equipment	2015 Total
Cost					
Opening balance	14,583	245,178	138,643	86,517	484,921
Additions	-	-	-	45,751	45,751
	14,583	245,178	138,643	132,268	530,672
Accumulated depreciation					
Opening balance	-	(191,575)	(122,125)	(65,012)	(378,712)
Depreciation	-	(2,680)	(3,304)	(8,029)	(14,013)
	-	(194,255)	(125,429)	(73,041)	(392,725)
Net book value	14,583	50,923	13,214	59,227	137,947

10. Computer software

In $	*2016*	*2015*
Cost		
Opening balance	**48,025**	48,025
Additions	**29,374**	-
	77,399	48,025
Accumulated amortization		
Opening balance	**(41,164)**	(38,224)
Amortization	**(6,465)**	(2,940)
	(47,629)	(41,164)
Net book value	**29,770**	6,861

11. Member deposits

In $	*2016*	*2015*
Chequing	**11,617,280**	8,866,723
Savings	**8,272,694**	7,871,440
Term deposits	**67,411,549**	58,244,534
Registered savings plans	**19,778,578**	15,001,608
Registered income funds	**8,806,213**	7,997,120
	115,886,314	97,981,425
Accrued interest	**1,158,258**	994,589
	117,044,572	98,976,014

Registered plans

Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

12. Income tax

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2016	*2015*
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Small business deduction and rate reduction for credit unions	**-11.0%**	-11.0%
Other	**4.5%**	0.7%
	20.0%	16.2%

The tax effects of temporary differences which give rise to the deferred tax asset is from differences between amounts deducted for accounting and income tax purposes. The net deferred income tax asset is comprised of the following:

In $	***2016***	*2015*
Allowance for impaired loans	**97,887**	48,138
Property and equipment	**(10,351)**	(11,459)
	87,536	36,679

13. Member shares

In $	***2016***	*2015*
Membership shares	**38,900**	36,120
Patronage shares	**442,930**	461,042
	481,830	497,162

There are an unlimited number of member and patronage shares authorized.

Share capital is comprised of permanent shares and patronage shares. Permanent shares represent the amount of shares that members are required to maintain as a condition of membership. Each member must hold a minimum of four shares at an issue price of $5 per share.

Patronage shares are non-voting shares and represent patronage dividends paid to members. Shares are redeemable on withdrawal from membership and are subject to the Credit Union meeting certain capital adequacy requirements.

13. Member shares (continued)

Dividends on membership shares may be declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory capital requirements of the Act as described in Note 14 to the financial statements.

Distributions to members

In $	***2016***	*2015*
Loan rebates	**127,185**	141,206
Bonus interest on member deposits	**281,537**	290,762
	408,722	431,968

14. Capital management

The Credit Union is subject to the capital requirements set out in the Act. The Act prescribes capital adequacy measures and minimum capital requirements. The Credit Union must comply with a leverage ratio of eligible capital to total assets. The Act also requires a risk weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk adjusted capital and risk weighted assets, including off balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk weighted assets is calculated and compared to the standard outlined by the Act.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings and membership shares. Tier 2 capital of the credit union includes the collective allowance for credit losses to a maximum of 1.25% of risk weighted assets. For eligible capital purposes, Tier 2 capital cannot exceed Tier 1 capital.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the regulatory standards to the Credit Union's policy:

	Regulatory standards	**Policy standards**
Total eligible capital to total assets	4%	6.5%
Total eligible capital to risk weighted assets	8%	9.5%

As at December 31, 2016, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

14. Capital management (continued)

In $	***2016***	*2015*
Tier 1 capital		
Member shares	**481,830**	497,162
Retained earnings	**8,601,295**	8,032,550
	9,083,125	8,529,712
Tier 2 capital		
Collective loan loss provisions	**576,983**	243,618
Accumulated other comprehensive income related to equity securities	**125,269**	120,889
	702,252	364,507
Total eligible capital	**9,785,377**	8,894,219
Capital tests		
Total eligible capital to total assets	**7.7%**	**8.2%**
Total eligible capital to risk weighted assets	**15.6%**	**17.1%**

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

i. Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
ii. Co-ordinate strategic risk management and capital management;
iii. Develop financial performance targets/budgets/goals;
iv. Administer a patronage program that is consistent with capital requirements;
v. Administer an employee incentive program that is consistent with capital requirements;
vi. Develop a planned growth strategy that is coordinated with capital growth; and
vii. Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

15. Related party transactions

Related parties include the key management personnel ("KMP") and directors of the credit union as well as each of their spouses, their children and any entities they control.

KMP consists of the Chief Executive Officer, Office Manager, Loans Manager, and contract commercial lender.

Loans made to related parties are approved under the same lending criteria applicable to members. KMP and directors may receive concessional rates of interest on their loans and facilities. These benefits may be subject to tax with the total value of the benefit included in the compensation figures below. Otherwise, transactions with related parties occur under substantially the same terms and conditions as with other members.

There are no loans that are impaired in relation to loan balances with related parties.

The following tables reflect balances with related parties at year end and the value of interest income and expenses recorded in relation to them during the year.

15. Related party transactions (continued)

Member loans to related parties:

In $	*2016*	*2015*
Loans to related parties	**2,795,591**	1,708,138
Approved but unadvanced lines of credit	**586,695**	582,390

Member deposits and share holdings by related parties:

In $	*2016*	*2015*
Chequing and savings deposits	**227,661**	171,692
Term deposits	**150,876**	463,537
Registered deposits	**926,593**	1,118,950
Membership shares	**320**	280
Patronage shares	**4,700**	5,150
	1,310,150	1,759,610

Interest income and expense recorded with related parties:

In $	*2016*	*2015*
Interest and other revenue earned on loans	**72,564**	56,459
Interest paid on deposits	**6,155**	52,977

Aggregate compensation of KMP during the year:

In $	*2016*	*2015*
Salaries and short-term benefits	**292,905**	281,477
Medical and insurance benefits	**34,154**	37,013
	327,059	318,490

Board honoraria amounted to $43,300 (2015 - $43,500) and other board and sub-committee expenses totalled $15,495 (2015- $3,203) for the year.

16. Financial instrument risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

16. Financial instrument risk management (continued)

The Credit Union's risk management policies and procedures include the following:

i. Ensure all activities are consistent with the mission, vision and values of the Credit Union;
ii. Balance risk and return;
iii. Manage credit, market and liquidity risk through preventative and detective controls;
iv. Ensure credit quality is maintained;
v. Ensure credit, market, and liquidity risk is maintained at acceptable levels;
vi. Diversify risk in transactions, member relationships and loan portfolios;
vii. Price according to risk taken; and
viii. Using consistent credit risk exposure tools.

In addition to the Board of Directors, the Audit Committee is involved in financial instrument risk management oversight. The risk policies, procedures and objectives have not changed significantly from the prior year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy at least annually. The Credit Union's maximum credit risk exposure, before taking into account any collateral held, is the carrying amount of loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being the greater Hamilton area.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

i. Loan security requirements;
ii. Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
iii. Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
iv. Borrowing member capacity (repayment ability) requirements;
v. Borrowing member character requirements;
vi. Limits on aggregate credit exposure per individual and/or related parties;
vii. Limits on concentration to credit risk by loan type, industry and economic sector;
viii. Limits on types of credit facilities and services offered;
ix. Internal loan approval processes;
x. loan documentation standards;
xi. Loan re-negotiation, extension and renewal processes;
xii. Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
xiii. Control and monitoring processes including portfolio risk identification and delinquency tolerances;
xiv. Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
xv. Collection processes that include action plans for deteriorating loans;
xvi. Overdraft control and administration processes; and
xvii. Loan syndication processes.

16. Financial instrument risk management (continued)

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

As at year-end, the Credit Union had the following outstanding commitments subject to credit risk:

In $	***2016***	*2015*
Unadvanced lines of credit	**15,606,865**	15,488,153
Commitments to extend credit	**4,340,000**	129,500

The amounts shown on the table do not necessarily represent future cash requirements since commitments may expire or terminate without being funded.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rate, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

The Credit Union's market risk management policy defines and establishes limits for the types and concentrations of market exposures which the Credit Union is authorized to assume. The policy also establishes criteria for the identification, measurement and the regular reporting to the Board of Directors of impairments and fluctuations in market values, and defines prudent levels of decision making authorities.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits, investments and member deposits. The Credit Union does not hedge its fair value risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

Contractual re-pricing and maturity

All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date. The schedule does not identify management's expectation of future events where re-pricing and maturity dates differ from contractual dates.

16. Financial instrument risk management (continued)

The table below summarizes amounts by maturity dates and effective interest rates for the following significant financial instruments:

Interest rate re-price

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2016*	**Effective yield**
Assets						
Cash	**3,122,113**	**-**	**-**	**233,683**	**3,355,796**	**1.24%**
Investments	**915,506**	**9,454,585**	**7,372,871**	**221,433**	**17,964,395**	**1.42%**
Member loans	**39,512,622**	**42,507,000**	**23,288,000**	**195,409**	**105,503,031**	**3.69%**
Total	**43,550,241**	**51,961,585**	**30,660,871**	**650,525**	**126,823,222**	
Liabilities						
Member deposits	**20,327,314**	**37,161,000**	**58,398,000**	**1,158,258**	**117,044,572**	**2.05%**
Other liabilities	**-**	**-**	**-**	**670,999**	**670,999**	**-%**
Member shares	**-**	**-**	**-**	**481,830**	**481,830**	**-%**
Total	**20,327,314**	**37,161,000**	**58,398,000**	**2,311,087**	**118,197,401**	
Net	**23,222,927**	**14,800,585**	**(27,737,129)**	**(1,660,562)**	**8,625,821**	

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2015*	Effective yield
Assets						
Cash	5,921,231	-	-	253,369	6,174,600	1.27%
Investments	862,189	9,724,576	6,706,000	157,717	17,450,483	1.59%
Member Loans	35,241,730	25,375,000	23,423,000	161,160	84,200,890	3.79%
	42,025,150	35,099,576	30,129,000	572,246	107,825,973	
Liabilities						
Member deposits	17,383,425	38,619,000	41,979,000	994,589	98,976,014	2.07%
Other liabilities	-	-	-	402,106	402,106	-%
Member shares	-	-	-	497,162	497,162	-%
Total	17,383,425	38,619,000	41,979,000	1,893,857	99,875,282	
Net	24,641,726	(3,519,424)	(11,850,000)	(1,321,611)	7,950,691	

Based on management's estimates, a 1% increase in the prime interest rate would increase net interest income by approximately $511,475 and a 1% decrease in the prime interest rate would decrease net interest income by approximately $411,097.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to meet a demand for cash or fund its obligations as they come due.

16. Financial instrument risk management (continued)

Liquidity risk (continued)

The Credit Union's liquidity management policy defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; mandatory lines of credit with Central 1; and regular reporting of actual liquidity levels against policy minimums to the Board of Directors.

The Credit Union has available a credit facility with Central 1 of CAD 2,000,000 and USD 50,000. The facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2016, the credit facility was unutilized.

At December 31, 2016, liquid assets amount to 17.4% (2015 – 22.8%) of deposits and borrowings and consist of the following:

In $	***2016***	*2015*
Cash and current accounts with Central 1	**3,302,758**	6,167,468
Deposits with other financial institutions	**53,038**	7,132
Liquidity reserve deposits	**7,617,480**	6,411,318
Bank and corporate notes	**9,209,977**	10,019,358
	20,183,253	22,605,276

17. Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and, therefore, fair values are based on estimates.

The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics. Fair values have not been determined for assets or liabilities that are not a financial instrument.

Methods and assumptions:

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

a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value due to their short term nature;

b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments;

c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates;

d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits; and

e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date

17. Fair value of financial instruments (continued)

Estimated fair values of significant financial instruments are summarized as follows:

In $	**Fair value**	**Book value**	**2016 Fair value over book value**	Fair value	Book value	2015 Fair value over book value
Financial assets						
Cash	**3,355,796**	**3,355,796**	**-**	6,174,600	6,174,600	-
Investments	**17,992,718**	**17,964,395**	**28,323**	17,450,483	17,450,483	-
Member loans	**105,570,114**	**105,503,031**	**67,083**	84,385,646	84,200,890	184,756
	126,918,628	**126,823,222**	**95,406**	108,010,729	107,825,973	184,756
Financial liabilities						
Member deposits	**(117,352,194)**	**(117,044,572)**	**(307,622)**	(99,317,973)	(98,976,014)	(341,959)
Accounts payable	**(670,999)**	**(670,999)**	**-**	(402,106)	(402,106)	-
Member shares	**(481,830)**	**(481,830)**	**-**	(497,162)	(497,162)	-
	(118,505,023)	**(118,197,401)**	**(307,622)**	(100,217,241)	(99,875,282)	(341,959)
Total	**8,413,605**	**8,625,821**	**(212,216)**	7,793,488	7,950,691	(157,203)

Fair value measurements

The Credit Union classifies fair value measurements recognized on the statement of financial position using a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly; and
Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy base on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

The financial instruments measured at fair value on the statement of financial position, other than cash have been classified in the fair value hierarchy as follows:

In $	***2016***	*2015*
Level 1		
Fixed income securities	**9,416,865**	10,166,048
Level 2		
CUCO Cooperative Association Class B shares	**165,554**	186,963

In $	***2016***	*2015*
Other administrative expenses		
Advertising	**57,918**	61,210
Board and committee honoraria	**43,300**	46,703
Insurance	**11,005**	10,850
Member security	**129,363**	100,473
Office and general	**65,487**	61,172
Postage	**12,502**	15,159
Professional fees	**119,694**	116,162
Property taxes	**8,313**	8,496
Registered plan fees	**5,574**	5,900
Repairs and maintenance	**87,161**	80,190
Service charges	**35,952**	35,624
Telephone	**4,156**	4,115
Utilities	**14,672**	12,727
	595,097	558,781