# Talka Credit Union Limited
## Financial Statements
*For the year ended December 31, 2017*

# Talka Credit Union Limited
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*For the year ended December 31, 2017*

## 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 is 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.

February 19, 2018

**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, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Mississauga, Ontario
February 19, 2018

Chartered Professional Accountants
Licensed Public Accountants

# Talka Credit Union Limited
## Statement of Financial Position
*As at December 31, 2017*

| In $ | ***2017*** | *2016* |
|---|---|---|
| **Assets** | | |
| Cash | **11,999,261** | 3,355,796 |
| Investments *(Note 6)* | **15,371,229** | 17,964,395 |
| Member loans *(Note 7)* | **113,702,917** | 105,503,031 |
| Other assets *(Note 8)* | **237,743** | 119,306 |
| Property and equipment *(Note 9)* | **98,014** | 117,422 |
| | **141,409,164** | 127,059,950 |
| **Liabilities** | | |
| Member deposits *(Note 11)* | **131,516,366** | 117,044,572 |
| Accounts payable and accrued liabilities | **289,635** | 670,999 |
| Income taxes payable | **-** | 135,985 |
| Member shares *(Note 13)* | **455,139** | 481,830 |
| | **132,261,140** | 118,333,386 |
| **Commitments** *(Note 16)* | | |
| **Members' Equity** | | |
| Retained earnings | **9,140,318** | 8,601,295 |
| Accumulated other comprehensive income | **7,706** | 125,269 |
| | **9,148,024** | 8,726,564 |
| | **141,409,164** | 127,059,950 |

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, 2017*

| In $ | ***2017*** | *2016* |
|---|---|---|
| **Revenue** | | |
| Interest income on loans | **4,363,381** | 3,777,023 |
| Investment income | **458,268** | 713,375 |
| | **4,821,649** | 4,490,398 |
| **Interest expense** | | |
| Interest expense | **2,571,633** | 2,232,326 |
| Distribution to members *(Note 13)* | **412,080** | 408,722 |
| | **2,983,713** | 2,641,048 |
| **Net financial income** | **1,837,936** | 1,849,350 |
| **Provision for impaired loans** *(Note 7)* | **64,733** | - |
| **Net financial income after provision for impaired loans** | **1,773,203** | 1,849,350 |
| **Other income** | **62,640** | 36,911 |
| **Net financial and other income** | **1,835,843** | 1,886,261 |
| **Operating expenses** | | |
| Salaries and benefits | **577,477** | 553,227 |
| Depreciation and amortization | **28,339** | 26,990 |
| Other administrative expenses *(Schedule)* | **596,474** | 595,097 |
| | **1,202,290** | 1,175,314 |
| **Income before income taxes** | **633,553** | 710,947 |
| **Income taxes** *(Note 12)* | | |
| Current | **94,530** | 193,059 |
| Deferred | - | (50,857) |
| | **94,530** | 142,202 |
| **Net income** | **539,023** | 568,745 |

*The accompanying notes form part of the financial statements*

# Talka Credit Union Limited

## Statement of Comprehensive Income

*For the year ended December 31, 2017*

| In $ | ***2017*** | *2016* |
|---|---|---|
| **Net income for the year** | **539,023** | 568,745 |
| **Other comprehensive income** | | |
| Unrealized gain on available for sale investments | **539** | 5,183 |
| Gain realized on available for sale investments transferred to net income | **(140,440)** | - |
| Income tax relating to other comprehensive income | **22,338** | (803) |
| **Total other comprehensive income (loss)** | **(117,563)** | 4,380 |
| **Total comprehensive income for the year** | **421,460** | 573,125 |

*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, 2017*

| In $ | Accumulated other comprehensive income | Retained earnings | Total |
|---|---|---|---|
| **Balance, December 31, 2015** | 120,889 | 8,032,550 | 8,153,439 |
| Net income for the year | - | 568,745 | 568,745 |
| Other comprehensive income for the year, net of tax | 4,380 | - | 4,380 |
| **Balance, December 31, 2016** | **125,269** | **8,601,295** | **8,726,564** |
| Net income for the year | **-** | **539,023** | **539,023** |
| Other comprehensive loss for the year, net of tax | **(117,563)** | **-** | **(117,563)** |
| **Balance, December 31, 2017** | **7,706** | **9,140,318** | **9,148,024** |

*The accompanying notes form part of the financial statements*

## Talka Credit Union Limited
### Statement of Cash Flows
*For the year ended December 31, 2017*

| In $ | **2017** | *2016* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Net income for the year | **539,023** | 568,745 |
| Adjustments for: | | |
| Interest revenue | **(4,821,649)** | (4,490,398) |
| Interest expense | **2,983,713** | 2,641,048 |
| Depreciation and amortization | **28,339** | 26,990 |
| Provision for impaired loans | **64,733** | - |
| Provision for income taxes | **94,530** | 142,202 |
| Interest received on member loans | **4,325,051** | 3,742,773 |
| Interest received on investments | **613,784** | 649,561 |
| Interest paid on member deposits | **(2,817,866)** | (2,477,379) |
| Income taxes paid | **(295,717)** | (41,369) |
| Net change in other assets | **(39,828)** | 3,556 |
| Net change in other liabilities | **(381,369)** | 268,893 |
| | **292,744** | 1,034,622 |
| **Investing activities** | | |
| Purchase of computer software | **-** | (29,374) |
| Net change in member loans | **(8,226,289)** | (21,267,891) |
| Net change in investments | **2,297,749** | (445,718) |
| | **(5,928,540)** | (21,742,983) |
| **Financing activities** | | |
| Net change in member deposits | **14,305,952** | 17,904,889 |
| Net change in member shares | **(26,691)** | (15,332) |
| | **14,279,261** | 17,889,557 |
| **Net change in cash during the year** | **8,643,465** | (2,818,804) |
| **Cash - beginning of year** | **3,355,796** | 6,174,600 |
| **Cash - end of year** | **11,999,261** | 3,355,796 |

*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 and interpretations adopted by the International Accounting Standards Board ("IASB"). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2017.

These financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on February 19, 2018.

***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 principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

***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.

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

i) Deposits and withdrawals from members' deposit accounts;
ii) Issuance and redemption of membership shares and patronage shares;
iii) Purchase and sale proceeds of investments;
iv) Central 1 borrowings and repayments.

***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 initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loan's principal amount, less any allowance for estimated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

***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 financial asset, then it includes that financial asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 a credit 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.

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

## 3. Significant accounting policies (continued)

***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 following 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 residual value, useful life, and depreciation method applied to each class of assets are reassessed at each reporting date. 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.

***Computer software***

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software is amortized 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, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest method.

**3. Significant accounting policies (continued)**

***Accounts payable and accrued liabilities***

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

***Member shares***

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

***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 in profit or loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. Other revenue and expenses that relate to the return on a loan or investment are incorporated into the effective interest rate and amortized to revenue over the life of the loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

***Income taxes***

Current and deferred taxes are recognized in net income except to the extent that the tax is recognized either in other comprehensive income, or directly in equity, or the tax arises from a business combination.

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.

**3. Significant accounting policies (continued)**

***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement 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. During the year, there has been no reclassification of financial instruments. 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.

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.

Financial assets classified as available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. 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.

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.

Financial assets classified as held to maturity are initially measured at fair value, then subsequently carried at amortized cost using the effective interest rate method. The Credit Union holds strip bonds which are 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.

*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.

## 3. Significant accounting policies (continued)

***Financial instruments (continued)***

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

The preparation of the Credit Union's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Allowance for impaired loans***

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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. *Standards and interpretations effective in the current period and issued but not yet effective*

The Credit Union adopted amendments to the following standards, effective January 1, 2017. Adoption of these amendments had no material effect on the Credit Union's financial statements.

- IAS 7 *Statement of Cash Flows*
- IAS 12 *Income Taxes*

The Credit Union has not yet applied the following new standards, interpretations, or amendments to standards that have been issued as at December 31, 2017 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

## 5. Standards and interpretations effective in the current period and issued but not yet effective (continued)

*IFRS 9 Financial instruments*

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. There will be no change to the measurement basis of financial instruments except certain deposits held with Central 1, which may be measured at fair value. The Credit Union is currently assessing the impact on the financial statements of the change in methodology for determining the loan loss allowance.

*IFRS 15 Revenue from contracts with customers*

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including 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.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. Due to the nature of its revenues, the Credit Union does not expect to incur a transition adjustment.

*IFRS 16 Leases*

IFRS 16, issued in January 2016, 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. The standard will supersede 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 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

## 6. Investments

| In $ | *2017* | *2016* |
|---|---|---|
| **Loans and receivables** | | |
| Central 1 liquidity reserve deposit | **8,056,560** | 7,617,480 |
| Accrued interest | **24,651** | 14,544 |
| | **8,081,211** | 7,632,024 |
| **Fair value through profit or loss** | | |
| Fixed income securities | **4,189,260** | 9,209,977 |
| Accrued interest | **41,265** | 206,888 |
| | **4,230,525** | 9,416,865 |
| **Held to maturity** | | |
| Strip bonds | **2,258,464** | - |
| Accrued interest | **21,166** | - |
| | **2,279,630** | - |
| **Available for sale** | | |
| Central 1 Class A shares | **464,353** | 424,681 |
| Central 1 Class E shares | **290,100** | 304,600 |
| Concentra Trust - shares | **20,671** | 20,671 |
| CUCO Cooperative Association Class B shares | **4,739** | 165,554 |
| | **779,863** | 915,506 |
| | **15,371,229** | **17,964,395** |

***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") held 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.

## 6. Investments (continued)

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.

Previous unrealized gains were realized through the receipt of distributions totalling $140,440. As a result, the gains were transferred from accumulated other comprehensive income to net income.

## 7. Member loans

| In $ | Principal Performing | Principal Impaired | Allowance Specific | Allowance Collective | ***2017*** |
|---|---|---|---|---|---|
| Residential mortgages | **73,114,361** | **-** | **-** | **-** | **73,114,361** |
| Personal | **2,745,396** | **-** | **-** | **(275,000)** | **2,470,396** |
| Commercial mortgages | **24,842,026** | **131,162** | **(82,000)** | **(335,000)** | **24,556,188** |
| Syndicated mortgages | **13,328,232** | **-** | **-** | **-** | **13,328,232** |
| Accrued interest | **233,740** | **-** | **-** | **-** | **233,740** |
| | **114,263,755** | **131,162** | **(82,000)** | **(610,000)** | **113,702,917** |

| 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 |

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.

**7. Member loans (continued)**

***Loan Allowance details***

| In $ | **2017** | 2016 |
|---|---|---|
| Balance, beginning of year | **626,983** | 816,094 |
| Provision for impaired loans | **64,733** | - |
| | **691,716** | 816,094 |
| Add: recovery of loans previously written off | **284** | - |
| Less: accounts written off | **-** | (189,111) |
| Balance, end of year | **692,000** | 626,983 |

***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 because they are either less than 90 days past due, or fully secured and less than 180 days past due, and collection efforts are reasonably expected to result in repayment.

| In $ | 1-30 days | 31-60 days | 61-90 days | 91 days and greater | **2017** |
|---|---|---|---|---|---|
| Residential mortgages | **-** | **133,673** | **233,100** | **932,995** | **1,299,768** |
| Personal | **29,866** | **-** | **-** | **73,176** | **103,042** |
| Commercial mortgages | **-** | **-** | | **-** | **-** |
| | **29,866** | **133,673** | **233,100** | **1,006,171** | **1,402,810** |

| 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 |

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 $ | *2017* | *2016* |
|---|---|---|
| Prepaid expenses | **41,828** | 2,000 |
| Deferred taxes *(Note 12)* | **87,536** | 87,536 |
| Income taxes recoverable | **87,540** | - |
| Computer software *(Note 10)* | **20,839** | 29,770 |
| | **237,743** | 119,306 |

## 9. Property and equipment

| In $ | Land | Buildings | Furniture and fixtures | Computer equipment | **2017 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 | - | **(196,801)** | **(128,072)** | **(88,377)** | **(413,250)** |
| Depreciation | - | **(2,423)** | **(2,114)** | **(14,871)** | **(19,408)** |
| | - | **(199,224)** | **(130,186)** | **(103,248)** | **(432,658)** |
| Net book value | **14,583** | **45,954** | **8,457** | **29,020** | **98,014** |

| 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 |

## 10. Computer software

| In $ | 2017 | 2016 |
|---|---|---|
| Cost | | |
| Opening balance | **77,399** | 48,025 |
| Additions | **-** | 29,374 |
| | **77,399** | 77,399 |
| Accumulated amortization | | |
| Opening balance | **(47,629)** | (41,164) |
| Amortization | **(8,931)** | (6,465) |
| | **(56,560)** | (47,629) |
| Net book value | **20,839** | 29,770 |

## 11. Member deposits

| In $ | 2017 | 2016 |
|---|---|---|
| Chequing | **12,814,030** | 11,617,280 |
| Savings | **8,544,362** | 8,272,694 |
| Term deposits | **74,205,907** | 67,411,549 |
| Registered savings plans | **24,372,501** | 19,778,578 |
| Registered income funds | **10,255,461** | 8,806,213 |
| | **130,192,261** | 115,886,314 |
| Accrued interest | **1,324,105** | 1,158,258 |
| | **131,516,366** | 117,044,572 |

***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:

| | *2017* | *2016* |
|---|---|---|
| Combined federal and provincial statutory income tax rates | **26.5%** | 26.5% |
| Small business deduction and rate reduction for credit unions | **-11.5%** | -11.0% |
| Other | - | 4.5% |
| | **15.0%** | 20.0% |

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 $ | *2017* | *2016* |
|---|---|---|
| Allowance for impaired loans | **97,928** | 97,887 |
| Property and equipment | **(10,392)** | (10,351) |
| | **87,536** | 87,536 |

## 13. Member shares

| In $ | *2017* | *2016* |
|---|---|---|
| Membership shares | **40,060** | 38,900 |
| Patronage shares | **415,079** | 442,930 |
| | **455,139** | 481,830 |

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 $ | ***2017*** | *2016* |
|---|---|---|
| Loan rebates | **142,867** | 127,185 |
| Bonus interest on member deposits | **269,213** | 281,537 |
| | **412,080** | 408,722 |

## 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, 2017, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

## 14. Capital management (continued)

| In $ | 2017 | 2016 |
|---|---|---|
| **Tier 1 capital** | | |
| Member shares | **455,139** | 481,830 |
| Retained earnings | **9,140,318** | 8,601,295 |
| | **9,595,457** | 9,083,125 |
| **Tier 2 capital** | | |
| Collective loan loss provisions | **610,000** | 576,983 |
| Accumulated other comprehensive income related to equity securities | **7,706** | 125,269 |
| | **617,706** | 702,252 |
| **Total eligible capital** | **10,213,163** | 9,785,377 |
| **Capital tests** | | |
| Total eligible capital to total assets | **7.2%** | **7.7%** |
| Total eligible capital to risk weighted assets | **14.6%** | **15.6%** |

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"), which incorporates senior management and directors of the credit union as well as each of their spouses, their children and any entities they control.

Managements of the Credit Union are Chief Executive Officer, Office Manager, Loan Officer, 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 $ | 2017 | 2016 |
|---|---|---|
| Loans to related parties | **3,120,680** | 2,795,591 |
| Approved but unadvanced lines of credit | **1,271,674** | 586,695 |

Member deposits and share holdings by related parties:

| In $ | 2017 | 2016 |
|---|---|---|
| Chequing and savings deposits | **172,974** | 227,661 |
| Term deposits | **275,062** | 150,876 |
| Registered deposits | **859,834** | 926,593 |
| Membership shares | **280** | 320 |
| Patronage shares | **3,800** | 4,700 |
| | **1,311,950** | 1,310,150 |

Interest income and expense recorded with related parties:

| In $ | 2017 | 2016 |
|---|---|---|
| Interest and other revenue earned on loans | **68,354** | 72,564 |
| Interest paid on deposits | **30,497** | 6,155 |

Aggregate compensation of KMP during the year:

| In $ | 2017 | 2016 |
|---|---|---|
| Salaries and short-term benefits | **324,427** | 292,905 |
| Medical and insurance benefits | **36,726** | 34,154 |
| | **361,153** | 327,059 |

Honoraria paid to directors during the year amounted to $45,600 (2016 - $43,300). Board and sub-committee expenses during the year totalled $13,977 (2016- $15,495) 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. There have been no significant changes from the previous year in the exposure to financial instrument risks nor the Credit Union's policies, procedures and methods used to measure and manage those risks.

***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 $ | ***2017*** | *2016* |
|---|---|---|
| Unadvanced lines of credit | **15,510,466** | 15,606,865 |
| Commitments to extend credit | **9,261,360** | 4,340,000 |

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 | *2017* | Effective yield |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | **11,691,669** | **-** | **-** | **307,592** | **11,999,261** | **1.31%** |
| Investments | **779,864** | **8,307,460** | **6,196,824** | **87,081** | **15,371,229** | **2.34%** |
| Member loans | **43,004,177** | **39,417,000** | **31,048,000** | **233,740** | **113,702,917** | **3.87%** |
| Total | **55,475,710** | **47,724,460** | **37,244,824** | **628,413** | **141,073,407** | |
| **Liabilities** | | | | | | |
| Member deposits | **21,498,260** | **47,501,000** | **61,193,000** | **1,324,106** | **131,516,366** | **2.11%** |
| Other liabilities | **-** | **-** | **-** | **289,635** | **289,635** | **-%** |
| Member shares | **-** | **-** | **-** | **455,139** | **455,139** | **-%** |
| Total | **21,498,260** | **47,501,000** | **61,193,000** | **2,068,880** | **132,261,140** | |
| **Net** | **33,977,450** | **223,460** | **(23,948,176)** | **(1,440,467)** | **8,812,267** | |

| 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% |
| | 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 | |

Based on management's estimates, a 1% increase in the prime interest rate would increase net interest income by approximately $514,000 and a 1% decrease in the prime interest rate would decrease net interest income by approximately $245,000.

## 16. Financial instrument risk management (continued)

***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. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. 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 4,950,000 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, 2017, the credit facility was unutilized.

At December 31, 2017, liquid assets amount to 20.4% (2016 – 17.4%) of deposits and borrowings and consist of the following:

| In $ | *2017* | *2016* |
|---|---|---|
| Cash and current accounts with Central 1 | **11,895,743** | 3,302,758 |
| Deposits with other financial institutions | **103,518** | 53,038 |
| Liquidity reserve deposits | **8,056,560** | 7,617,480 |
| Bank and corporate notes | **6,447,724** | 9,209,977 |
| | **26,503,545** | 20,183,253 |

## 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 | 2017 Fair value over book value | Fair value | Book value | 2016 Fair value over book value |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | **11,999,261** | **11,999,261** | **-** | 3,355,796 | 3,355,796 | - |
| Investments | **15,603,845** | **15,371,229** | **232,616** | 17,992,718 | 17,964,395 | 28,323 |
| Member loans | **114,317,027** | **113,702,917** | **614,110** | 105,570,114 | 105,503,031 | 67,083 |
| | **141,920,133** | **141,073,407** | **846,726** | 126,918,628 | 126,823,222 | 95,406 |
| **Financial liabilities** | | | | | | |
| Member deposits | **(132,991,598)** | **(131,516,366)** | **(1,475,232)** | (117,352,194) | (117,044,572) | (307,622) |
| Accounts payable | **(289,635)** | **(289,635)** | **-** | (670,999) | (670,999) | - |
| Member shares | **(455,139)** | **(455,139)** | **-** | (481,830) | (481,830) | - |
| | **(133,736,372)** | **(132,261,140)** | **(1,475,232)** | (118,505,023) | (118,197,401) | (307,622) |
| **Total** | **8,183,761** | **8,812,267** | **(628,506)** | 8,413,605 | 8,625,821 | (212,216) |

### *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 $ | *2017* | *2016* |
|---|---|---|
| **Level 1** | | |
| Fixed income securities | **4,230,525** | 9,416,864 |
| **Level 2** | | |
| CUCO Cooperative Association Class B shares | **4,739** | 165,554 |

## 18. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

| In $ | ***2017*** | *2016* |
|---|---|---|
| **Other administrative expenses** | | |
| Advertising | **44,906** | 57,918 |
| Board and committee honoraria | **45,600** | 43,300 |
| Insurance | **6,671** | 11,005 |
| Member security | **126,484** | 129,363 |
| Office and general | **110,721** | 65,487 |
| Postage | **16,339** | 12,502 |
| Professional fees | **79,007** | 119,694 |
| Property taxes | **4,562** | 8,313 |
| Registered plan fees | **7,085** | 5,574 |
| Repairs and maintenance | **95,546** | 87,161 |
| Service charges | **40,577** | 35,952 |
| Telephone | **5,772** | 4,156 |
| Utilities | **13,204** | 14,672 |
| | **596,474** | 595,097 |