

2015

Annual
Report



**CREDIT
UNION**

CONSOLIDATED

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Mission Statement

At Consolidated Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals.

We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.

Values

Honest

Passionate

Holistic

Spiritual

Evolutionary

Simplistic

Inclusive



Board of Directors



Lori Gandy, President



Scott Costain, Vice-President



David Olscamp, Secretary



Larry MacKinnon



Harvey Wedge



Ron Silliker



John MacIsaac



Ron MacLean



James Ceretti

Staff



Sarah Millar, *General Manager*
Shane MacKinnon, *Operations Manager*
Linda Hardy, *Special Projects; Privacy Officer*
Steve Boyd, *Manager Commercial Services*
Garnet Gibson, *Loans Administration*
Amanda Murphy, *Commercial Accounts*
Sandra Reeves, *Financial Services*
Keith Johnston, *Manager Financial Services*
Pete Peters, *Financial Services*
Judy Winchester, *Loans Administration*
Kelly Culleton, *Member Services*
Debi Gallant, *Administrative Services*
Tanya Bernard, *Administrative Services*
Barb Murphy, *Financial Services*
Laurie Goguen, *Assistant Office Supervisor*

Margaret Ann Gallant, *Member Services*
Sandra Hickey, *Marketing Officer*
Janet Ross, *Financial Services*
Debbie MacLean, *Front Office Manager*
Nancy Clark, *Receptionist*
Nick Clow, *Member Services*
Dawn Coughlin, *Member Services*
Ann Ellis, *Member Services*
Mary Lou Profitt, *Member Services*
John Smallwood, *Financial Services*
Deanna Walsh, *Member Services*
Sally Paynter, *Member Services*
Sandra Paynter, *Financial Services*
Gloria Paynter, *Member Services*

President's Report



It is my pleasure to report to you on behalf of the Board of Directors of Consolidated Credit Union, for the year ending December 31, 2015. We have not met since our annual meeting in November of 2014 as we have changed our year end to December from September.

The Consolidated Credit Union has once again had a very prosperous year for 2015. We realized a total asset base of approximately \$167 million dollars while continuing to build our equity. Our growth continues to climb as we work hard competing with other financial businesses in our area. Competition is tough but we are committed to providing excellent customer service along with competitive rates and other initiatives to keep you, a valued member, of this organization.

The Board of Directors is ultimately responsible to the owners, that's you. Each board member is required to perform the following: act honestly and in good faith; and exercise the care, diligence and skill of a prudent



person; and avoid conflicts of interest; and observe strict confidentiality. I am proud to adhere to the rules of conduct for a Director and I have full confidence in my fellow directors.

Your Board holds regular monthly meetings; attends Special Meetings; sit on committees such as Finance; Building and Maintenance; Education and Nomination. We also attend semi-annual AGM's for Atlantic Central/ League Savings and League Data and participate in on-going education training with CUSOURCE – Credit Union Director Achievement Program. This requires a tremendous amount of time and dedication. We have a great and efficient group of people around our boardroom, where everyone's opinion is respected and valued. I am very proud of them and appreciate all the work they do.

Attending meetings with Atlantic Central/ League Savings and League Data allows your Directors and

Management staff the opportunity to hear what is happening in other areas of the Maritimes as well as across Canada. Planning sessions are held and input and ideas are presented which is critical to achieve what we all want which is success in our own credit unions. We continue to work together as a system and will continue to do so. On a side note, at every AGM of Atlantic Central, the PEI Credit Unions are always praised for how well we work together and continue to find ways to cut costs while sharing services.

Change is always at the forefront of any operation, and if you don't change you are left behind. The Credit Union System in Atlantic Canada has recently adopted major improvements to our on-line banking system to keep up with technology and to stay competitive in the financial market. We have recently initiated such products as mobile phone app; Deposit Anywhere and Interac Flash along with many other features that

Manager Sarah will elude to. We are committed to providing the most advanced technology available while still providing the customer service that we are known for.

On behalf of the Board of Directors, I would like to thank the Management and staff of the Consolidated Credit Union for their outstanding work over the past year. Sarah, you and your team have worked diligently to ensure that we maintain growth and secure a successful future for our Credit Union.

I would also like to take this opportunity to thank a few individuals, organizations and groups who assisted the Credit Union to continue to be a progressive and financially viable institution to do business. They are: Richard Kenny and Al Bentley with CUDIC; our auditor's Brian Cameron and staff of Arsenault Best Cameron and Ellis; to Atlantic Central for their cooperation and support; and most importantly to you **OUR MEMBERS** for believing in the credit union system! To my fellow Board members, a huge thank you for your support, it has been a pleasure to work with you.

On a further note, I would like to congratulate the recipients of the Scholarship Awards from both Three Oaks Senior High and Kinkora High Schools and also to this year's Member of the Year Award – well deserved recognitions.

Finally, I would like to make special mention to our former board member James Ceretti who passed away in August of 2015. James served as a Board Member until early May and represented Borden Carleton area proudly. He was an integral part of our Board, a long-standing member of the Credit Union and served many terms as a Board Member. James will be missed.

In closing, our future is very bright and exciting, yet ever changing. On behalf of the Board of Directors, we are committed and will continue to work in the best interest of you our Members of the Consolidated Credit Union.

Sincerely,

Lori Gandy
President



Manager's Report



It is my pleasure to report to you on the operations of your credit union. As you are aware, this report is for the fifteen month period from October 1, 2014 to December 31, 2015 and is a result of all credit unions in Prince Edward Island moving their fiscal year to a new January to December format. This transition was done for a number of reasons, with the most significant being that it aligns our fiscal year with those credit unions and partner organizations in other provinces.

Within the Atlantic System, and all across Canada, there continues to be significant changes in our credit unions. We continue to face the challenges associated with historically low interest rates and have worked hard to be more efficient to remain competitive while maintaining our profitability. Changing demographics in our communities and in our membership also offer challenges as credit unions work to meet the needs of our current members and to reach out to new members by promoting ourselves as a full service financial institution. While traditional services remain important, the banking world is evolving and technology is in the driver's seat. While it may be common to assume that youth are the ones demanding new innovative products, we often see that a significant number of our members, in all age groups, are looking for more convenient ways to conduct

their banking. The ever increasing role of technology in our daily banking is highlighted by the products that we have introduced in the past few years alone. In a relatively short time frame we have introduced a whole compliment of products that enable you, our members, to deal with us wherever and whenever you would like. Our Mobile App allows you to conduct transactions using your smart phone, Deposit Anywhere gives you the ability to deposit cheques from anywhere, Interac Flash allows you to tap and go with your MemberCard for faster transactions on small purchases, MemberDirect Small Business enables our business members to save time and money by conducting transactions when it is most convenient for them and Interac Online, our latest addition, will allow you to use your debit cards in a secure environment when making purchases online. The banking world is changing and therefore it remains a priority that we continue to balance traditional service delivery with the expectations of the future.

While tonight's meeting highlights Consolidated Credit Union's accomplishments it is important to note that behind this success is a strong Credit Union System both provincially and nationally. As individual credit unions we compete against our larger counterparts by working as a group. In Prince Edward Island, all of the credit unions meet on a regular basis and share best practices to help

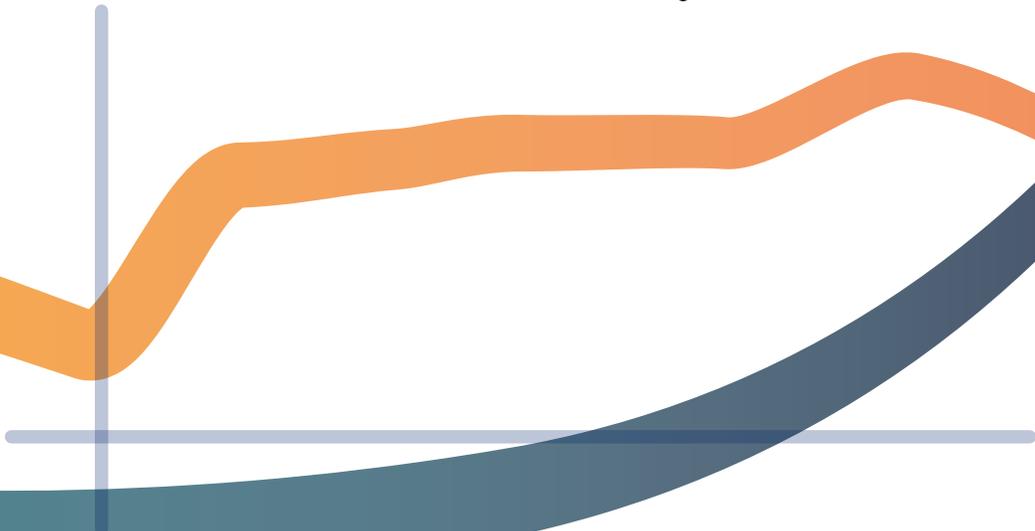
us all succeed. As well, CUDIC, our provincial regulator, continues to play a significant role in ensuring that our Members deposits are protected. Regionally, Atlantic Central, League Savings and Mortgage and League Data take the lead in ensuring that we have access to the latest technology and to larger networks. Their efforts in bringing credit unions together for the common goal of system success should not be understated. Change is inevitable and in our business, as I am sure the staff will agree, it is relentless. Change, however, is necessary and things that are not even thought of today will become the things we can't live without tomorrow!

As always, I would like to thank all of you, our Membership. Without you there is no credit union. It is a pleasure to be able to serve you. As well, I would like to thank our dedicated staff. They are the face and personality of your credit union and work hard each day for you. To our Board of Directors, thank you for your support and guidance. This group of individuals has your best interests at heart and has always taken a very active role in ensuring the future success of your credit union. At this time, I would like to take a moment to acknowledge the passing of a long-time Director and friend, James Ceretti. James was a supportive Board Member for many years and we are all saddened by his passing. His contribution to our credit union is sadly missed.

In closing, we should all be very proud of how our credit union continues to have such a meaningful impact in the communities that we serve. While growth and profitability are important, so too is our involvement and support of our members and our communities.

Respectively submitted,

Sarah Millar
General Manager



In our Community

Giving back to our members and to the community has always been of high importance to credit unions. We pride ourselves in our commitment to social responsibility, and each year we strive to serve our community more than the year before. One of the largest and most significant ways in which we better the community is through donations and sponsorships.

This year, **\$157,000** in donations was made on behalf of the credit union, benefitting not only community groups but also numerous families alike. We are completely confident that this year we created a noteworthy impact on our community through our numerous donations. While we are a financial co-operative and strive to help our members reach their financial goals, we also put great emphasis on the goals of the community.

\$157,000
was invested into our community in
2015

Scholarships

We are pleased to announce 7 Consolidated Credit Union Scholarship Recipients for 2015. Each scholarship recipient received \$1,500 towards furthering their education. In total, Consolidated Credit Union distributed \$10,500. We wish everyone all the best in their studies and future endeavors.



Brohan Brennan

Kristan Snowdon

Kristyn Reeves

Lexy Paynter

Matthew Downey

Molly Murphy

Rebecca Paynter

Relay For Life

Over the last ten years as Provincial Sponsor, PEI Credit Unions has contributed **over \$463,000** to the Canadian Cancer Society, more impressively, over \$283,000 of the total was raised by staff themselves.

While each credit union on PEI are individually committed to local initiatives, on occasion all credit unions will work together to sponsor larger scale events that affect all of PEI. For the last 10 years we have been the Provincial Sponsor for the Canadian Cancer Society's Relay For Life. Along with the sponsorship of the events themselves, our staff have been willfully involved in fundraising for the event as well as donating their time with numerous collected volunteer hours.

Focused on Youth

Appealing to the youth market has been of high priority to the credit union over the past year. While tailoring new Spending Accounts to their needs and greatly expanding our mobile and online availability, 2015 marked new territory for engaging our younger members.

The Cash Dash was created out of wanting a more creative way to attain and attract new youth members. Partnering with local radio station Hot 105.5, we created an amazing-race styled event that took place over the better part of the Island. Four teams of two raced across our different services areas completing tasks and different challenges. The prize? \$5,000.00. We had an overwhelming response to the contest both in interest and online through our social pages.

Investing In People

As a cooperative financial institution, credit unions truly believe in empowering the community even in the smallest of actions. This past year marked the inception of Investing In People, a primarily social media based campaign. Investing In People aims to do exactly as you may assume – invest in the local community and more specifically, those who live there and support their own local economy.

Investing In People has been running since early 2015 and already over forty-five individuals and community groups have benefitted from our small purchase gestures. Whether we are surprising a family by purchasing their child a bike or covering the bill for a group of friends at lunch, Investing In People has shown many across the Island that credit unions understand the value of a dollar and realize even the smallest of gestures can mean the most.



#InvestingInPeople

 /PEICreditUnions

Financial Statements



February 22, 2016

Independent Auditor's Report

To the Members of Consolidated Credit Union Ltd.

We have audited the accompanying financial statements of **Consolidated Credit Union Ltd.**, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, changes in members' equity and cash flows for the 15 month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Consolidated Credit Union Ltd.** as at December 31, 2015, and the results of its operations and its cash flows for the 15 month period then ended in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Professional Accountants

Consolidated Credit Union Ltd.

Statement of Financial Position

As at December 31, 2015

| | 2015 \$ | September 30, 2014 \$ |
|--------------------------------------|--------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | 14,557,224 | 10,761,038 |
| Accounts receivable | 225,230 | 77,025 |
| Loans and mortgages (notes 7 and 15) | 126,071,318 | 115,868,358 |
| Prepaid expenses | 336,383 | 257,099 |
| Asset held for sale (note 7) | 84,145 | 169,322 |
| Property and equipment (note 8) | 2,216,333 | 2,253,481 |
| Investments (note 9) | 23,691,825 | 24,455,467 |
| | <u>167,182,458</u> | <u>153,841,790</u> |
| Liabilities | | |
| Member deposits (notes 10 and 11) | 159,970,291 | 147,528,802 |
| Accrued interest payable | 898,057 | 775,122 |
| Other liabilities | 350,133 | 256,225 |
| Income taxes payable | 50,026 | 12,411 |
| Deferred income taxes (note 12) | 36,570 | 34,300 |
| | <u>161,305,077</u> | <u>148,606,860</u> |
| Members' Equity | | |
| Undistributed income | <u>5,877,381</u> | <u>5,234,930</u> |
| | <u>167,182,458</u> | <u>153,841,790</u> |

Approved by the Board of Directors

 Director

 Director

Consolidated Credit Union Ltd.

Statement of Changes in Members' Equity

For the 15-month period ended December 31, 2015

| | (15 months) December 31, 2015 \$ | (12 months) September 30, 2014 \$ |
|---|---|--|
| Undistributed income - Beginning of period | 5,234,930 | 4,730,848 |
| Net earnings for the period | 642,451 | 504,082 |
| Undistributed income - End of period | <u>5,877,381</u> | <u>5,234,930</u> |

Consolidated Credit Union Ltd.

Statement of Comprehensive Income

For the 15-month period ended December 31, 2015

| | (15 months) December 31, 2015 \$ | (12 months) September 30, 2014 \$ |
|---|---|--|
| Revenue | | |
| Loan interest | 6,481,404 | 5,169,927 |
| Investment | 383,727 | 309,811 |
| Service fees | 862,632 | 707,025 |
| Commissions | 741,950 | 442,400 |
| Property rentals | 56,216 | 39,484 |
| Other income | 67,273 | 59,361 |
| | <u>8,593,202</u> | <u>6,728,008</u> |
| Expenses | | |
| Staff (notes 13 and 15) | 2,450,189 | 1,938,834 |
| Premises | 296,367 | 229,584 |
| Insurance | 302,997 | 231,397 |
| Office | 313,808 | 188,538 |
| Service fees | 1,072,986 | 810,772 |
| General | 710,725 | 596,313 |
| Cost of capital | 2,358,111 | 1,902,632 |
| Amortization | 133,701 | 97,747 |
| | <u>7,638,884</u> | <u>5,995,817</u> |
| Operating earnings | <u>954,318</u> | <u>732,191</u> |
| Other expense | | |
| Share dividends | (58,269) | (46,259) |
| Provision for loan losses (note 7) | (108,332) | (60,000) |
| | <u>(166,601)</u> | <u>(106,259)</u> |
| | <u>787,717</u> | <u>625,932</u> |
| Provision for income taxes (note 12) | | |
| Current | 142,996 | 87,550 |
| Deferred | 2,270 | 34,300 |
| | <u>145,266</u> | <u>121,850</u> |
| Net earnings for the period | <u>642,451</u> | <u>504,082</u> |

Consolidated Credit Union Ltd.

Statement of Cash Flows

For the 15-month period ended December 31, 2015

| | (15 months) December 31, 2015 \$ | (12 months) September 30, 2014 \$ |
|---|---|--|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net earnings for the period | 642,451 | 504,082 |
| Items not affecting cash | | |
| Amortization | 133,701 | 97,747 |
| Deferred income taxes | 2,270 | 34,300 |
| Provision for loan losses | 108,332 | 60,000 |
| | <u>886,754</u> | <u>696,129</u> |
| Net change in non-cash working capital items | | |
| Increase in accounts receivable | (148,205) | (11,014) |
| Increase in loans and mortgages | (10,311,292) | (4,060,284) |
| Increase in prepaid expenses and other | (79,284) | (64,330) |
| Decrease (increase) in assets held for resale | 85,177 | (2,695) |
| Increase in accrued interest payable | 122,935 | 24,672 |
| Increase in other liabilities | 93,908 | 49,987 |
| Increase (decrease) in income taxes payable | 37,615 | (69,265) |
| | <u>(9,312,392)</u> | <u>(3,436,800)</u> |
| Financing activity | | |
| Increase in member deposits | <u>12,441,489</u> | <u>7,448,252</u> |
| Investing activities | | |
| Purchase of property and equipment | (96,553) | (104,498) |
| Decrease (increase) in investments | 763,642 | (6,163,538) |
| | <u>667,089</u> | <u>(6,268,036)</u> |
| Increase (decrease) in cash and cash equivalents | 3,796,186 | (2,256,584) |
| Cash and cash equivalents - Beginning of period | <u>10,761,038</u> | <u>13,017,622</u> |
| Cash and cash equivalents - End of period | <u>14,557,224</u> | <u>10,761,038</u> |
| Supplementary disclosure | | |
| Interest received | 6,764,340 | 5,453,552 |
| Interest paid | 2,235,438 | 1,878,262 |
| Dividends paid | 46,259 | 46,024 |
| Income taxes paid | 113,344 | 157,218 |

Notes to the Financial Statements



Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

1 General information

Consolidated Credit Union Ltd. (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Summerside, Prince Edward Island.

2 Basis of presentation

(a) Statement of compliance

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

These financial statements have been approved for issue by the Board of Directors on February 22, 2016.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

3 Summary of significant accounting policies

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(b) Financial instruments

i) Recognition and measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the Credit Union classifies its financial instruments as follows:

- Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL through the statement of comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and effective is a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and cash equivalents and investments in the liquidity reserve deposit.

- Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as FVTPL or as available for sale.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Available for sale ("AFS")

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transaction costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. These shares are measured at amortized cost. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income.

Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

Assets in this category include investments in credit union and co-operative type shares.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Assets in this category include accounts receivable and loans and mortgages.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

- Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Liabilities in this category include member deposits, accrued interest payable and other liabilities.

- ii) Impairment of financial assets

The Credit Union assesses, at each statement of financial position date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties’ ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a 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.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

The Credit Union adjusts the inputs to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows from groups of assets reflects and are directionally consistent with changes in related observable data from period to period.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of loss has been determined. 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 by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in provision for loan loss expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are not longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

At each statement of financial position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS security below its costs is considered objective evidence in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Asset held for resale

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

(e) Property and equipment

Furniture, equipment and computer and pavement are stated at cost less accumulated amortization. Land and buildings were stated at fair value on October 1, 2010 which subsequently became the cost basis (see note 4). Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Building depreciation is calculated on a straight-line method over 40 years. All other property and equipment is amortized using the declining balance method at the following annual rates:

| | |
|-------------------------|-----|
| Furniture and equipment | 20% |
| Computers | 30% |
| Pavement | 8% |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2015.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(f) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

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iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

v) Property rentals

Property rental income is recognized in the month the rent is earned.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

ii) Deferred income tax

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's loans outstanding and property and equipment. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(h) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

- i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;
- ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

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iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(i) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(j) Standards issued but not yet effective

As at December 31, 2015, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. These changes are not expected to have a material impact on the financial statements.

4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Fair value of land and building

On October 1, 2010, the Credit Union increased the carrying value of land and building by \$212,112. The fair value of the property and equipment was determined by an independent third party appraisal.

(b) Provision for loan losses

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

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(c) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded amortization expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(d) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only observable data.

For investments in co-operatives and credit unions, consideration was given as to whether or not par value was equal to redemption value and whether the co-operative or credit union had the right to redeem those shares at their discretion. To the extent that the redemption value of those shares is equal to their par value, then these shares will also be designated as AFS at fair value with fair value equal to (or in the case of potential impairment, less than) par value. In certain cases, the fair value of co-operative or credit union investments exceeds par value when applying a discounted cash flow method of valuation and using market rates of return for similar investments available in public markets. Despite fair value exceeding par value, these investments are reported at par value on the basis that they are not liquid investments and have a limited number of potential purchasers. Where fair value cannot be reliably measured, those investments are recorded at cost.

(e) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

5 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market, interest rate and operational risk. Authority for all risk-taking activities rests with the Board of Directors (the "Board"), which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

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(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who reports to the Board.

The Credit Union's maximum exposure to credit risk at the balance sheet date in relation to each class of recognized financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

| | December 31, 2015 | September 30, 2014 |
|---------------------------|------------------------------|-------------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 14,557,224 | 10,761,038 |
| Accounts receivable | 225,230 | 77,025 |
| Loans and mortgages | 126,071,318 | 115,868,358 |
| Investments | 23,691,825 | 24,455,467 |
| | <hr/> | <hr/> |
| | 164,545,597 | 151,161,888 |

Cash and cash equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

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The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

| | December 31, 2015 \$ | September 30, 2014 \$ |
|---------------------------|----------------------------|-----------------------------|
| Cash and cash equivalents | 14,557,224 | 10,761,038 |

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at December 31, 2015.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

| | Under 1 year \$ | Over 1 to 5 years \$ | Over 5 years \$ | December 31, 2015 Total \$ |
|--------------------------|-----------------------|----------------------------|-----------------------|-------------------------------------|
| Member deposits | 102,038,737 | 46,962,675 | - | 149,001,412 |
| Share accounts | 10,968,879 | - | - | 10,968,879 |
| Accrued interest payable | 898,057 | - | - | 898,057 |
| Other liabilities | 350,133 | - | - | 350,133 |
| | 114,255,806 | 46,962,675 | - | 161,218,481 |

| | Under 1 year \$ | Over 1 to 5 years \$ | Over 5 years \$ | September 30, 2014 Total \$ |
|--------------------------|-----------------------|----------------------------|-----------------------|--------------------------------------|
| Member deposits | 101,270,506 | 35,843,955 | - | 137,114,461 |
| Share accounts | 10,414,341 | - | - | 10,414,341 |
| Accrued interest payable | 775,122 | - | - | 775,122 |
| Other liabilities | 256,225 | - | - | 256,225 |
| | 112,716,194 | 35,843,955 | - | 148,560,149 |

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The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

| | Net interest income change December 31, 2015 \$ | Net interest income change September 30, 2014 \$ |
|-------------------------------|--|---|
| Before tax impact of | | |
| 1% increase in interest rates | 197,800 | 125,000 |
| 1% decrease in interest rates | (199,400) | (122,000) |

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union has agreed to maintain an equity level at least equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Chartered Professional Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At December 31, 2015, the equity level for regulatory purposes is as follows:

| | December 31, 2015 | September 30, 2014 |
|----------------------------|------------------------------|-------------------------------|
| | \$ | \$ |
| Ownership shares (note 11) | 40,725 | 42,000 |
| Members' equity | 5,877,381 | 5,234,930 |
| Total regulatory equity | <u>5,918,106</u> | <u>5,276,930</u> |
| Total assets | <u>167,182,458</u> | <u>153,841,790</u> |
| Equity level | <u>3.54</u> | <u>3.43%</u> |
| | # | 2015 \$ |
| Opening, October 1, 2014 | 8,400 | 42,000 |
| Net decrease | <u>(255)</u> | <u>(1,275)</u> |
| Closing, December 31, 2015 | <u>8,145</u> | <u>40,725</u> |

The Credit Union has not met its equity level of 5%.

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6 Financial instruments

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | December 31, 2015 | | September, 2014 | |
|--|-----------------------|--------------------|-----------------------|--------------------|
| | Carrying amount \$ | Fair value \$ | Carrying amount \$ | Fair value \$ |
| Assets carried at fair value | | | | |
| Financial assets held for trading - | | | | |
| Cash and cash equivalents | 14,557,224 | 14,557,224 | 10,761,038 | 10,761,038 |
| Liquidity reserve deposit (note 9) | 9,866,939 | 9,866,939 | 9,251,783 | 9,251,783 |
| | <u>24,424,163</u> | <u>24,424,163</u> | <u>20,012,821</u> | <u>20,012,821</u> |
| Assets carried at amortized cost | | | | |
| Accounts receivable | 225,230 | 225,230 | 77,025 | 77,025 |
| Loans and mortgages | 126,071,318 | 126,071,318 | 115,868,358 | 115,868,358 |
| Investments - held to maturity (note 9) | 11,888,756 | 11,888,756 | 13,275,344 | 13,275,344 |
| Investments - available for sale (note 9) | 1,936,130 | 1,936,130 | 1,928,340 | 1,928,340 |
| | <u>140,121,434</u> | <u>140,121,434</u> | <u>131,149,067</u> | <u>131,149,067</u> |
| Liabilities carried at amortized cost | | | | |
| Member deposits | 159,970,291 | 159,970,291 | 147,528,802 | 147,528,802 |
| Accrued interest payable | 898,057 | 898,057 | 775,122 | 775,122 |
| Other liabilities | 350,133 | 350,133 | 256,225 | 256,225 |
| | <u>161,218,481</u> | <u>161,218,481</u> | <u>148,560,149</u> | <u>148,560,149</u> |

The fair value of financial assets held for trading is determined by their quoted market value at the reporting date.

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7 Loans and mortgages

(a) Summary

| | | | December 31, September 30, 2015 2014 | | |
|--------------------------------|--------------------|---|---|--------------------|--------------------|
| | Total \$ | Impaired Loans \$ (included in total) | Specific Provision \$ | Net \$ | Net \$ |
| Personal | 19,040,804 | - | - | 19,040,804 | 22,169,243 |
| Business | 7,008,844 | 267,148 | 122,765 | 6,886,079 | 6,126,056 |
| Mortgage - personal | 56,891,722 | - | - | 56,891,722 | 45,924,420 |
| Mortgage - business | 34,469,827 | - | - | 34,469,827 | 33,056,948 |
| Lines of credit and overdrafts | 8,843,829 | 728,703 | 578,703 | 8,265,126 | 7,990,928 |
| Student loans | 250,262 | - | - | 250,262 | 394,831 |
| Accrued loan interest | 267,498 | - | - | 267,498 | 205,932 |
| | <u>126,772,786</u> | <u>995,851</u> | <u>701,468</u> | <u>126,071,318</u> | <u>115,868,358</u> |

Mortgages and loans

Mortgages are secured by realty mortgages with interest rates of 2.2% - 6.45% (2014 - 2.5% - 11%). Non-mortgage loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.00% - 18% (2014 - 2.5% - 18%) on personal and business loans, 0.00% - 30% (2014 - 0.00% - 30%) on line of credits and overdrafts and 0.00% - 12.5% (2014 - 0.00% - 12.5%) on student loans. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2015 was 2.70% (2014 - 3.00%).

(b) Continuity of allowance for impaired loans

| | |
|---------------------------------------|-----------------|
| | \$ |
| Balance - Beginning of period | 635,512 |
| Increase in allowance | 122,345 |
| Amounts written off during the period | <u>(56,389)</u> |
| Balance - End of period | <u>701,468</u> |

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(c) Provision for loan losses

| | December 31, 2015 | September 30, 2014 |
|--|----------------------|-----------------------|
| | \$ | \$ |
| Increase in allowance | 122,345 | 69,776 |
| Recoveries of loans previously written off | (14,013) | (9,776) |
| | <u>108,332</u> | <u>60,000</u> |

(d) Members' 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 that are past due but not classified as impaired:

| | \$ |
|--------------------|-----------|
| December 31, 2015 | 1,116,824 |
| September 30, 2014 | 1,588,302 |

(e) Foreclosed properties

During the period, the Credit Union foreclosed on a mortgage totaling nil (2014 - nil). Expenses related to the upkeep of the foreclosed property have been added to the cost of the property, and it is management's expectation that the foreclosed property will be sold in the near future. At December 31, 2015, the Credit Union has \$84,145 (2014 - \$169,322) in a foreclosed property that is classified as an asset held for sale in the statement of financial position.

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8 Property and equipment

| | Land \$ | Buildings \$ | Furniture, equipment and computer \$ | Pavement \$ | Total \$ |
|---------------------------------|------------|-----------------|---|----------------|-------------|
| Recorded amount | | | | | |
| Balance - Beginning of period | 572,000 | 1,576,000 | 474,811 | 97,679 | 2,720,490 |
| Additions | - | - | 96,553 | - | 96,553 |
| Disposals | - | - | (28,420) | - | (28,420) |
| Balance - End of period | 572,000 | 1,576,000 | 542,944 | 97,679 | 2,788,623 |
| Accumulated amortization | | | | | |
| Balance - Beginning of period | - | 157,600 | 237,760 | 71,649 | 467,009 |
| Current period amortization | - | 49,250 | 81,890 | 2,561 | 133,701 |
| Disposals | - | - | (28,420) | - | (28,420) |
| Balance - End of period | - | 206,850 | 291,230 | 74,210 | 572,290 |
| Carrying value | | | | | |
| September 30, 2014 | 572,000 | 1,418,400 | 237,051 | 26,030 | 2,253,481 |
| December 31, 2015 | 572,000 | 1,369,150 | 251,714 | 23,469 | 2,216,333 |

9 Investments

| | December 31, 2015 \$ | September 30, 2014 \$ |
|---|----------------------------|-----------------------------|
| Financial assets | | |
| <i>Fair value through profit or loss:</i> | | |
| Liquidity reserve deposit | 9,866,939 | 9,251,783 |
| <i>Held to maturity:</i> | | |
| Term deposits | 11,888,756 | 13,275,344 |
| <i>Available for sale:</i> | | |
| Atlantic Central shares | 1,838,720 | 1,830,930 |
| League Savings & Mortgage shares | 22,680 | 22,680 |
| League Data shares | 71,730 | 71,730 |
| Co-operative membership | 3,000 | 3,000 |
| Total investments | 23,691,825 | 24,455,467 |

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Liquidity reserve deposit

In order to meet the Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (note 5b). The deposit bears interest at a variable rate.

Term deposits

Term deposits are invested with the League Savings & Mortgage Company and Atlantic Central, and are carried at cost which approximates fair value. These term deposits have the following maturity dates and rates of return:

| | Amount \$ | Rate of Return | Maturity |
|-------|---------------------|---------------------------------|--------------------|
| | 1,227,377 | 1.95% | July 16, 2016 |
| | 2,405,074 | 1.80% | August 8, 2016 |
| | 2,217,305 | 1.95% | September 13, 2016 |
| | 2,039,000 | 1.95% | September 28, 2016 |
| | 2,000,000 | 1.75% | May 23, 2017 |
| | <u>2,000,000</u> | 1.70% | May 24, 2017 |
| Total | <u>11,888,756</u> | | |

Available for sale

No market exists for the available for sale shares except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value.

10 Member deposits

| | December 31, 2015 \$ | September 30, 2014 \$ |
|---|--|---|
| Ownership shares and share accounts (note 11) | 10,968,879 | 10,414,341 |
| Savings and Plan 24 | 15,977,782 | 11,303,682 |
| Chequing accounts | 49,905,132 | 41,187,901 |
| Term deposits | 41,649,277 | 41,800,067 |
| RRSP and RRIF | 41,469,221 | 42,822,811 |
| | <u>159,970,291</u> | <u>147,528,802</u> |

Ownership share and share accounts include the \$5 membership share plus individual members' deposits.

Ownership share and share accounts pay members a dividend return at the discretion of the Board. Privileges of the shares are under the authority of the Board. The member dividend rate declared and paid for 2015 was 0.5% (2014 - 0.5%) based on the average minimum monthly share balance throughout the period.

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Savings and Plan 24 are deposits on a call basis that pay holders a variable interest rate ranging from 0.00 - 1.85% (2014 - 0.00% - 2.00%) and 0.00% - 0.35% (2014 - 0.00% - 0.50%), respectively.

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% - 1.75% (2014 - 0.00% - 2.00%).

Term deposits are for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

Fixed *term deposits* bear interest at various rates ranging from 1.00% - 5.00% (2014 - 0.00% to 5.00%) and extend for a term of up to five years.

RRSP and RRIF

Concentra Financial is the Trustee for the registered savings plans offered to owners. Under an agreement with the trust company, members' contributions to the 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 the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates ranging from 0.50% - 5.00% (2014 - 0.00% to 5.00%).

11 Share accounts

An unlimited number of membership shares are available for issuance, with a par value of \$5 each. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

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12 Income taxes

Tax rate reconciliation

| | December 31, 2015 | September 30, 2014 |
|--|------------------------------|-------------------------------|
| | \$ | \$ |
| Income before income taxes | 787,717 | 625,932 |
| Taxes at statutory rates - 31.00% (2014 - 31.00%) | 244,192 | 194,039 |
| Impact of the 15.5% small business deduction and additional deduction for credit unions | (102,121) | (97,019) |
| Permanent differences and other | 925 | (9,470) |
| | <u>142,996</u> | <u>87,550</u> |

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 15.5% (2014 - 15.5%), as follows:

| | December 31, 2015 | September 30, 2014 |
|--|------------------------------|-------------------------------|
| | \$ | \$ |
| Balance - Beginning of period | (34,300) | - |
| Comprehensive income statement expense | (2,270) | (34,300) |
| Balance - End of period | <u>(36,570)</u> | <u>(34,300)</u> |

Deferred income tax liabilities are attributable to the following items:

| | December 31, 2015 | September 30, 2014 |
|---|------------------------------|-------------------------------|
| | \$ | \$ |
| Deferred income tax assets (liabilities) | | |
| Property and equipment | (47,443) | (45,155) |
| Allowance for impaired loans | 10,873 | 9,850 |
| Retirement allowance | - | 1,005 |
| | <u>(36,570)</u> | <u>(34,300)</u> |

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13 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the period, the Credit Union expensed \$107,986 (2014 - \$85,502) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

14 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

15 Composition of key management

Key management includes the Board of Directors, general manger, operations manager, commercial credit manager, front office manager, consumer credit manager and compliance officer. Compensation awarded to key management included:

(a) Key management, excluding directors

| | (15 months) December 31, 2015 | (12 months) September 30, 2014 |
|---|--|---|
| | \$ | \$ |
| Salaries and short-term employee benefits | 748,215 | 588,460 |

(b) Directors' remuneration

| | (15 months) December 31, 2015 | (12 months) September 30, 2014 |
|---|--|---|
| | \$ | \$ |
| Honorariums | 26,000 | 20,325 |
| Payment for expenses while on credit union business | 8,932 | 11,908 |

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Notes to Financial Statements

December 31, 2015

(c) Loans to directors and key management personnel

| | (15 months) December 31, 2015 \$ | (12 months) September 30, 2014 \$ |
|---|---|--|
| Loans outstanding - Beginning of period | 4,069,172 | 3,607,452 |
| Loans issued during the period | 1,819,813 | 475,376 |
| Loan repayments during the period | (1,613,556) | (851,358) |
| Net increase in line of credits | 136,678 | 123,731 |
| Loan increase on change in key management and directors | (1,274,644) | 713,971 |
| | <hr/> | <hr/> |
| Loans outstanding - End of period | 3,137,463 | 4,069,172 |
| Interest income earned | 116,751 | 73,794 |

The loans issued to directors and key management personnel and close family members during the period of \$1,819,813 (2014 - \$457,376) are repayable over 0 - 5 years and have interest rates ranging from 2.2% to 4.2% (2014 - 2.5% to 5.5%).

Consolidated Credit Union Ltd.

Notes to Financial Statements

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16 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

| | Under 1 year \$ | Over 1 to 5 years \$ | Over 5 years \$ | Not interest rate sensitive \$ | December 31, 2015 Total \$ |
|--------------------------------------|--------------------------------|-------------------------------------|--------------------------------|---|---|
| Assets | | | | | |
| Cash and equivalents | 12,075,908 | - | - | 2,481,316 | 14,557,224 |
| Effective interest rate | 0.93% | | | | |
| Accounts receivable | - | - | - | 225,230 | 225,230 |
| Investments | 19,691,825 | 4,000,000 | - | - | 23,691,825 |
| Effective interest rate | 1.13% | 1.73% | | | |
| Loans and mortgages | 54,975,988 | 70,851,200 | 678,100 | - | 126,505,288 |
| Effective interest rate | 3.86% | 3.98% | 4.83% | | |
| Reserve on loan portfolio | (56,815) | (644,653) | - | - | (701,468) |
| Accrued loan interest receivable | - | - | - | 267,498 | 267,498 |
| Prepaid expenses | - | - | - | 336,383 | 336,383 |
| Asset held for sale | - | - | - | 84,145 | 84,145 |
| Property and equipment | - | - | - | 2,216,333 | 2,216,333 |
| Total assets | 86,686,906 | 74,206,547 | 678,100 | 5,610,905 | 167,182,458 |
| Liabilities and surplus | | | | | |
| Member deposits | 86,524,140 | 46,962,675 | - | 26,483,476 | 159,970,291 |
| Effective interest rate | 0.87% | 2.03% | | | |
| Accrued interest payable | - | - | - | 898,057 | 898,057 |
| Other liabilities | - | - | - | 350,133 | 350,133 |
| Income taxes payable | - | - | - | 50,026 | 50,026 |
| Deferred income taxes | - | - | - | 36,570 | 36,570 |
| Undistributed earnings | - | - | - | 5,877,381 | 5,877,381 |
| Total liabilities and surplus | 86,524,140 | 46,962,675 | - | 33,695,643 | 167,182,458 |
| Interest rate sensitivity gap | 162,766 | 27,243,872 | 678,100 | (28,084,738) | - |

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

| | | | | | September 30, 2014 |
|--------------------------------------|-----------------------|----------------------------|-----------------------|--------------------------------------|-----------------------|
| | Under 1 year \$ | Over 1 to 5 years \$ | Over 5 years \$ | Not interest rate sensitive \$ | Total \$ |
| Assets | | | | | |
| Cash and cash equivalents | 8,666,580 | - | - | 2,094,458 | 10,761,038 |
| Effective interest rate | 0.93% | | | | |
| Accounts receivable | - | - | - | 77,025 | 77,025 |
| Investments | 16,714,123 | 7,741,344 | - | - | 24,455,467 |
| Effective interest rate | 1.01% | 1.90% | | | |
| Loans and mortgages | 44,835,838 | 70,161,500 | 1,300,600 | - | 116,297,938 |
| Effective interest rate | 4.22% | 4.45% | 5.28% | | |
| Reserve on loan portfolio | (33,192) | (602,320) | - | - | (635,512) |
| Accrued loan interest receivable | - | - | - | 205,932 | 205,932 |
| Prepaid expenses | - | - | - | 257,099 | 257,099 |
| Asset held for sale | - | - | - | 169,322 | 169,322 |
| Property and equipment | - | - | - | 2,253,481 | 2,253,481 |
| Total assets | 70,183,349 | 77,300,524 | 1,300,600 | 5,057,317 | 153,841,790 |
| Liabilities and surplus | | | | | |
| Member deposits | 88,016,423 | 35,843,955 | - | 23,668,424 | 147,528,802 |
| Effective interest rate | 1.674% | 2.488% | | | |
| Accrued interest payable | - | - | - | 775,122 | 775,122 |
| Other liabilities | - | - | - | 256,225 | 256,225 |
| Income taxes payable | - | - | - | 12,411 | 12,411 |
| Deferred income taxes | - | - | - | 34,300 | 34,300 |
| Undistributed earnings | - | - | - | 5,234,930 | 5,234,930 |
| Total liabilities and surplus | 88,016,423 | 35,843,955 | - | 29,981,412 | 153,841,790 |
| Interest rate sensitivity gap | (17,833,074) | 41,456,569 | 1,300,600 | (24,924,095) | - |

As at December 31, 2015, the Credit Union's net interest spread was 2.82% (2014 - 2.41%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

17 Commitments

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at December 31, 2015 amounting to \$1,590,046.

18 Comparative figures

Certain comparative figures presented for the 2014 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

Consolidated Credit Union Ltd.

Notes to Financial Statements

December 31, 2015

19 Change in year end

The company applied for and received approval from Canada Revenue Agency to change its year end from September 30 to December 31, effective December 31, 2014. A corporate tax return was filed for the October 1, 2014 - December 31, 2014 period. A corporate tax return will be filed for the year ended December 31, 2015.

Consolidated Credit Union Ltd., in conjunction with the other Prince Edward Island member credit unions, changed its year end from September 30 to December 31 so that the members have the same year end as Atlantic Central Credit Union.

On the change in year end, Consolidated Credit Union Ltd. chose to report on a 15 month period from October 1, 2014, the date of the prior period end, to December 31, 2015. These financial statements include a statement of comprehensive income, change in members' equity and cash flows for a 15 month period. The corporation balances for September 30, 2014 include results for a 12 month period and are therefore not for the same reporting period.



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