Consolidated Financial Statements of

COMMUNITY FIRST CREDIT UNION LIMITED

Year ended December 31, 2014

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of Community First Credit Union Limited

We have audited the accompanying consolidated financial statements of Community First Credit Union Limited, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of income, comprehensive income (loss), changes in members' equity and cash flows for the year ended December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Community First Credit Union Limited as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 24, 2015
Sault Ste. Marie, Canada

COMMUNITY FIRST CREDIT UNION LIMITED

Consolidated Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
		(note 2)
Assets		
Cash and short-term investments (note 6)	$ 11,887,370	$ 5,303,994
Investments (note 7)	24,590,664	25,766,090
Deferred pension asset (note 16)	–	438,300
Prepaid expenses and other assets	957,003	1,578,458
Deferred tax asset (note 24)	126,399	–
Accrued interest receivable	644,743	730,296
Loans to members (notes 9 and 10)	312,086,464	311,713,184
Property and equipment (note 13)	2,556,360	2,977,572
Intangible assets (note 14)	1,206,197	1,054,798
	$ 354,055,200	$ 349,562,692
Liabilities and Members' Equity		
Members' deposits (notes 15 and 8(a))	$ 317,653,284	$ 312,305,601
Term loans (note 17)	6,000,000	16,900,000
Securitized liabilities (note 11)	5,069,182	–
Payables and accruals	2,230,978	1,859,044
Deferred tax liability (note 24)	–	90,902
Employee benefit plan obligation (note 16)	21,946	67,074
Deferred pension liability (note 16)	1,092,600	–
Membership shares (note 18)	64,858	68,116
Total liabilities	332,132,848	331,290,737
Members' equity:		
Class A, Series 1 shares (note 18)	2,570,731	2,508,030
Class A, Series 2 shares (note 18)	4,689,315	–
Class B, Series 1 shares (note 18)	1,044,702	1,109,575
Contributed surplus	1,117,567	1,315,305
Retained earnings (note 2)	11,867,573	11,117,051
Accumulated other comprehensive income	632,464	2,221,994
Total members' equity	21,922,352	18,271,955
Commitments (note 21)		
	$ 354,055,200	$ 349,562,692

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_________________________ Director

_________________________ Director

COMMUNITY FIRST CREDIT UNION LIMITED

Consolidated Statement of Income

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Interest revenue:		
Interest - personal loans	$ 2,373,734	$ 2,426,901
- personal mortgage loans	6,926,682	6,501,261
- business loans and mortgages	4,282,654	4,662,601
Investment income	699,435	419,074
	14,282,505	14,009,837
Cost of financing:		
Interest - members' deposits (notes 15 and 8(a))	4,785,224	4,562,845
- term borrowing	164,296	324,131
- securitized liabilities	38,996	–
	4,988,516	4,886,976
Net interest income	9,293,989	9,122,861
Impairment losses on member loans (note 10)	473,509	422,571
Net interest income after provision for impairment	8,820,480	8,700,290
Other revenue	3,324,430	2,978,170
	12,144,910	11,678,460
Operating expenses:		
Depreciation of property and equipment	724,586	792,121
Amortization of intangibles	211,868	186,272
Automated networks	1,169,381	1,233,232
General and administration	1,798,134	1,609,074
Insurance	447,833	430,659
Loan costs	67,005	97,132
Occupancy	904,392	804,545
Salaries, wages and benefits	5,723,530	6,083,951
	11,046,729	11,236,986
Income before income taxes	1,098,181	441,474
Income taxes (note 24):		
Current	89,800	42,834
Future	37,147	21,786
	126,947	64,620
Net income for the year	$ 971,234	$ 376,854

See accompanying notes to consolidated financial statements.

COMMUNITY FIRST CREDIT UNION LIMITED

Consolidated Statement of Comprehensive Income (Loss)

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Net income	$ 971,234	$ 376,854
Other comprehensive income, net of income taxes:		
Items that are or may be reclassified to profit or loss:		
Change in fair value of available-for-sale financial assets, net of taxes of $10,254 (2013 - $13,166)	55,901	71,775
Realized gain on available-for-sale financial assets recycled to income, net of taxes of $47,377	(258,279)	–
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial (losses) gain net of income tax of $254,448 (2013 - $473,773)	(1,387,152)	2,582,827
Comprehensive (loss) income	$ (618,296)	$ 3,031,456

See accompanying notes to consolidated financial statements.

COMMUNITY FIRST CREDIT UNION LIMITED

Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2014, with comparative information for 2013

	2014	2013 (note 2)
Contributed surplus:		
Balance, beginning of year	$ 1,315,305	$ 1,315,305
Share offering costs	(197,738)	–
Balance, end of year	1,117,567	1,315,305
Investment shares:		
Balance, beginning of year	3,617,605	3,671,153
Issuance of Class A, Series 2	4,552,197	–
Share dividends	199,818	–
Redemption of shares	(64,872)	(53,548)
Balance, end of year	8,304,748	3,617,605
Retained earnings:		
Balance, beginning of year	11,117,051	10,837,630
Net income	971,234	376,854
Cash distribution to members	(20,894)	(97,433)
Share dividends	(199,818)	–
Balance, end of year	11,867,573	11,117,051
Accumulated other comprehensive income (loss):		
Representing the fair value reserve		
Balance, beginning of year	2,221,994	(432,608)
Net change in fair value of available-for-sale financial assets, net of tax	55,901	71,775
Realized gain on available-for-sale financial assets, net of tax	(258,279)	–
Defined benefit plan actuarial (losses) gain, net of tax	(1,387,152)	2,582,827
Balance, end of year	632,464	2,221,994
Members' equity, end of year	$ 21,922,352	$ 18,271,955

See accompanying notes to consolidated financial statements.

COMMUNITY FIRST CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 971,234	$ 376,854
Adjustments for:		
Change in non-cash items:		
Net interest income	(9,293,989)	(9,122,861)
Provision for impaired loans	473,509	422,571
Provision for income tax	126,947	64,620
Depreciation of property and equipment	724,586	792,121
Amortization of intangibles	211,867	186,272
Net change in derivative financial instruments	1,078	20,663
	(6,784,768)	(7,259,760)
Changes in other assets:		
Decrease in prepaids and other assets	620,377	24,685
Decrease (increase) in pension liability	98,619	(165,342)
Changes in accounts payable and accrued liabilities	371,938	(87,212)
	1,090,934	(227,869)
Changes in member activities (net):		
Changes in member loans	(846,789)	(19,772,148)
Changes in member deposits	5,530,710	6,582,168
	4,683,921	(13,189,980)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	13,668,623	13,750,109
Interest received on investments	430,902	419,074
Interest paid on member deposits	(4,968,251)	(4,506,195)
Distributions to members	(220,712)	(97,433)
Taxes recovery (paid)	(344,248)	188,728
Interest paid on external borrowings	(203,292)	(324,131)
	8,363,022	9,430,152
	7,353,109	(11,247,457)
Cash flows from financing activities:		
Purchase of liquidity reserves, net	793,460	(1,279,448)
Member capital accounts, net	4,486,144	(55,610)
Proceeds from (repayments of) term loans, net	(5,830,818)	5,900,000
	(551,214)	4,564,942
Cash flows from investing activities:		
Distributions received from CUCO Co-op	532,863	468,075
Purchase of Central 1 shares	(84,742)	(8,643)
Purchases of intangibles	(363,266)	(45,840)
Purchases of property and equipment	(303,374)	(579,133)
	(218,519)	(165,541)
Net increase (decrease) in cash and cash equivalents	6,583,376	(6,848,056)
Cash and cash equivalents, beginning of year	5,303,994	12,152,050
Cash and cash equivalents, end of year	$ 11,887,370	$ 5,303,994

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Community First Credit Union Limited (the "Credit Union"), is incorporated under the Credit Unions and Caisses Populaires Act of Ontario (the "Act") and is a member of the Central 1 Credit Union Limited ("Central 1"). The Credit Union's Bond of Association includes all persons resident or employed in Ontario. The Credit Union currently operates two branches in the City of Sault Ste. Marie and one branch in the City of Timmins. The Credit Union's head office is located at 289 Bay Street Sault Ste. Marie, Ontario.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 24, 2015.

2. Correction of immaterial prior period error:

During the year ended December 31, 2014, the Credit Union became aware that a liability for life insured deposits was not recorded on the consolidated statement of financial position. The liability relates to deposit accounts grandfathered from 1992 whereby an insurance payment will be made to the account holder's estate upon death to a maximum of $3,000. The insurance program was closed to new members or accounts in 1992. The impact of the correction has been recorded retrospectively as a $620,000 increase to payables and accruals, a $523,900 decrease to retained earnings, and a $96,100 increase to deferred tax assets at December 31, 2013.

3. Basis of preparation:

These consolidated financial statements of the Credit Union are the representations of management and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

(a) Statement of compliance:

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

(b) Basis of consolidation:

These consolidated financial statements include all the accounts of the Credit Union and its wholly-owned subsidiary; Community First Holdings Inc. (CFHI) which is inactive.

3. Basis of preparation (continued):

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- non-derivative financial instruments at fair value through profit or loss are measured at fair value
- available for sale financial assets are measured at fair value
- the liability for defined benefit obligation is recognized as the present value of the defined benefit obligations less the total of the plan assets.

(d) Functional and presentation currency:

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

(e) Use of estimates and judgments:

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Loans receivable from members:

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Member loans are initially measured at fair value. Loan costs which include title costs, mortgage cash-back incentives and appraisal fees are deferred and amortized over the average remaining term of the related loans, being four years. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses. Loans considered uncollectible are written off.

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

4. Significant accounting policies (continued):

(a) Loans receivable from members (continued):

(i) Loan interest:

Interest income from loans is recorded on the effective yield basis. Accrued but uncollected interest is provided for when loans are determined to be impaired.

(ii) Provision for credit losses:

The Credit Union maintains a provision for credit losses, which, in management's opinion, is considered adequate to provide for credit-related losses.

The Credit Union considers evidence of impairment for loans receivable at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Credit Union uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Interest income and expense:

Interest income and expense are recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

4. Significant accounting policies (continued):

(c) Non-interest revenue:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, current accounts, short-term deposits with other financial institutions, cheques and other items in transit. Given their short-term nature, the carrying value of cash and cash equivalents equals fair value.

(e) Financial instruments – non-derivative financial instruments:

The Credit Union initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. Significant accounting policies (continued):

(e) Financial instruments – non-derivative financial instruments (continued):

The Credit Union has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Non-derivative financial instruments comprise cash and cash equivalents, investments, loans to members, members' deposits, accounts payable and accrued liabilities and liabilities qualifying as regulatory capital.

Fair value through profit and loss:

Financial assets and liabilities designated as fair value through profit and loss ("FVTPL") are financial instruments either classified as held for trading ("HFT") or are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. HFT financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time.

FVTPL financial assets and liabilities are measured at fair value at each reporting date. Gains and losses realized on disposal together with dividends and interest earned on these instruments are reported in interest and investment income. Unrealized gains and losses from market fluctuations are reported separately in the statement of income. There are regulatory restrictions imposed by the Financial Services Commission of Ontario on the use of this designation including that loan financial assets are precluded from being designated at FVTPL and that the fair value designated financial instruments are managed on a fair value basis.

Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has the legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as the Credit Union's trading activities.

Held to maturity:

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

4. Significant accounting policies (continued):

(e) Financial instruments – non-derivative financial instruments (continued):

Available for sale:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Credit Union's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 4(a) (ii)), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Other liabilities:

The Credit Union has designated all financial liabilities with the exception of derivatives as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense. Transaction costs related to Other Liabilities are capitalized and then amortized over the life of the instrument using the effective interest method.

(f) Financial instruments - derivative financial instruments:

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices such as equity swap agreements. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are closely related to the host contracts. Changes in the fair value of those derivative instruments are recognized in net earnings for the year. The Credit Union does not apply hedge accounting on its derivative portfolio.

4. Significant accounting policies (continued):

(g) Loan securitizations:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund loan growth by selling residential mortgages to unrelated third parties.

As part of these mortgage receivable transfers, the Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. The Credit Union's retained interest in the mortgages sold also consists of their right to future cash flows arising from any excess of the mortgage cash flows over and above the contractual return due to the mortgage pool investors. The Credit Union's retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

In accordance with the Credit Unions accounting policy the transferred financial assets continue either to be recognized in their entirety or to the extent of the continuing involvement, are derecognized in their entirety.

Securitized residential mortgages that are assessed under IAS 39 do not meet derecognition requirements as substantially all of the risks and rewards of the loans are held with Community First. As a result, these loans are reported on the Consolidated Statement of Financial Position. Securitized residential mortgages that are not reported on the Consolidated Statement of Financial Position met the derecognition requirements of previous Canadian GAAP.

(h) Transfer of receivables:

The Credit Union occasionally sells receivables such as personal mortgage loans to other financial institutions to manage its liquidity risk. In these instances the credit risk is transferred to the purchasing institution, while the Credit Union continues to administer the receivables. As such, the mortgage loans are removed from the statement of financial position since control of the assets has been transferred. A nominal administration fee is paid to the Credit Union each month, which is recorded as income when received.

The sale price of receivables is determined at fair market value, which may give rise to either a gain or loss on sale. This gain or loss is recognized at the time of the sale and recorded as Non-interest income on the consolidated statement of income.

4. Significant accounting policies (continued):

(i) Property and equipment:

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

Buildings	2.5% - 10%
Leasehold improvements	5% - 10%
Furniture and equipment	10% - 20%
Computer equipment and software	20% - 33%
Automated teller machines	10% - 20%

Additions to property and equipment which are not in use as at the year-end date are not depreciated until the period in which they are considered to be in use. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(j) Intangible assets:

Intangible assets reflect costs associated with branding related to Community First's name change launch, merger costs associated with the Timmins' amalgamation and the fair value of core deposits acquired and costs associated with the development of the banking system. Management considers these costs to provide current and future benefits for the membership.

When the Credit Union enters into a business combination, any intangible assets acquired through amalgamation are recorded at their fair value as determined at that time. These intangible assets which have a limited life are amortized to income over the period during which the assets are anticipated to provide economic benefit.

Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). The banking system is being amortized on a straight-line basis at a rate of 10%. Other intangible assets are being amortized on a straight-line basis for a period not exceeding five years.

4. Significant accounting policies (continued):

(k) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

When it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has three cash-generating units. Impairment charges are included in income.

(l) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4. Significant accounting policies (continued):

(m) Member deposits:

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

(n) Foreign currency translation:

The financial statements are presented in Canadian dollars, which is the Credit Union's presentation and functional currency. Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(o) Employee retirement benefits:

The Credit Union maintains two defined benefit pension plans and two defined contribution plans, which cover all employees:

i) Defined benefit plans:

The management plan is contributory and the non-management plan is non-contributory.

Under the Credit Union's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is dependent on one or more factors such as age, years of service and compensation. The legal obligation for any benefit remains with the Credit Union.

4. Significant accounting policies (continued):

(o) Employee retirement benefits (continued):

i) Defined benefit plans (continued):

The Credit Union's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Credit Union, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in salaries, wages and benefits in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Credit Union recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

4. Significant accounting policies (continued):

(o) Employee retirement benefits (continued):

ii) Defined contribution plans:

Non-management or management employees who are hired on or after January 1, 2012 are only eligible for the Credit Union's defined contribution pension plan. Under the Credit Union's defined contribution pension plan, the amount of pension benefit that an employee will receive on retirement is dependent on the funds that have accumulated in the employee's account at the time of retirement. The Credit Union does not have any legal obligation regarding the level of benefits that will be received by the relevant employees.

Non-management employee contributions are optional. The non-management employee may choose to contribute between 0% - 6% of the individual base earnings. The Credit Union employer contributions for the non-management employees ranges from 4% - 6% of the employee's base earnings with the level of the employer contribution dependent on the employee contribution. For management employees, the Credit Union matches employee contributions of 5% to 7% of the individual employee's base earnings. Employer contributions are immediately 100% vested.

The amount contributed by the Credit Union to the defined contribution pension plan for 2014 was $50,427 (2013 - $33,610). The contributions were made for current service and these have been recognized in net income.

(p) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(q) Share capital:

i) Membership shares:

As a requirement of membership, members must hold membership shares. Membership shares are classified on the consolidated statement of financial position as a liability as the shares are redeemable at the option of the member, either on demand or on withdrawal from membership. Membership shares would be classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

ii) Class A, Series 1 shares:

Class A, Series 1 shares are redeemable at the option of the member and are classified as member equity on the consolidated statement of financial position. In no case, shall total redemptions approved for holders of Class A, Series 1 shares in any fiscal year exceed an amount equal to 10% of the total Class A, Series 1 shares outstanding at the end of the previous fiscal year.

4. Significant accounting policies (continued):

(q) Share capital (continued):

iii) Class A, Series 2 shares:

Class A, Series 2 shares are redeemable at the option of the member and are classified as member equity on the consolidated statement of financial position. In no case, shall total redemptions approved for holders of Class A, Series 1 shares in any fiscal year exceed an amount equal to 10% of the total Class A, Series 1 shares outstanding at the end of the previous fiscal year.

iv) Class B, Series 1 shares:

Class B, Series 1 Shares are classified on the consolidated statement of financial position as member equity as the shares are redeemable only under certain restrictions. In no case, shall total redemptions approved for holders of Class B, Series 1 shares in any fiscal year exceed an amount equal to 10% of the total Class B, Series 1 shares outstanding at the end of the previous fiscal year.

v) Distributions to members:

Class A and B share dividends are recognized through retained earnings when declared. Membership share dividends are recognized in net income when declared.

(r) New standards and interpretations not yet adopted:

i) Amendments to IAS 32, *Offsetting Financial Assets and Liabilities:*

The amendments to IAS 32 clarify the allowable circumstances for an entity to present a financial asset and liability as a net balance (‘offsetting’). The amendments also describe when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Credit Union intends to adopt the amendments to IAS 32 in its consolidated financial statements for the fiscal year beginning January 1, 2015 with the amendments applied retrospectively. The Credit Union does not expect the amendments to have a material impact on the financial statements.

ii) IFRS 15 *Revenue from Contracts with Customers*

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

4. Significant accounting policies (continued):

(r) New standards and interpretations not yet effective (continued):

ii) IFRS 15 *Revenue from Contracts with Customers (continued)*

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Credit Union intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

iii) IFRS 9 *Financial Instruments* ("IFRS 9"(2014))

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Credit Union intends to adopt IFRS 9 in its financial statements for its fiscal year beginning on January 1, 2018. It is expected that IFRS 9, when initially applied, will have a significant impact on the Credit Union's consolidated financial statements. As well, the implementation and ability to elect options provided by the new standards may be influenced by the regulators (DICO).

4. Significant accounting policies (continued):

(r) New standards and interpretations not yet effective (continued):

iv) Annual Improvements to IFRS (2010 - 2012) and (2011 - 2013) cycles

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; however, the amendments to IFRS 2 and IFRS 3 refer to grant dates and dates of acquisition, respectively, on or after July 1, 2014. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply Amendments were made to clarify the following in their respective standards:

Classification and measurement of contingent consideration; and scope exclusion for the formation of joint arrangements in IFRS 3 Business Combinations.

- Disclosures on the aggregation of operating segments in IFRS 8 *Operating segments*;
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13 *Fair Value Measurement*;
- Definition of “related party” in IAS 24 *Related Party Disclosures*; and

Special transitional requirements have been set for amendments to IFRS 2, IAS 16, IAS 38 and IAS 40.

The Credit Union intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

v) Annual Improvements to IFRS (2012 - 2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process.

The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

Each of the amendments has its own specific transition requirements.

4. Significant accounting policies (continued):

(r) New standards and interpretations not yet effective (continued):

v) Annual Improvements to IFRS (2012 - 2014) cycle (continued)

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits

The Credit Union intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

5. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments:

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 23.

5. Critical accounting estimates and judgments (continued):

Member loan loss provision:

In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in note 10.

Income taxes:

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome that the amount included in the tax liabilities.

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2014, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in note 13. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Impairment:

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

6. Cash and short-term investments:

The Credit Union's cash in current accounts are held with Central 1:

	2014	2013
Cash and cash equivalents:		
Cash on hand	$ 3,264,998	$ 3,330,305
Cash in current account	8,622,372	1,973,689
	$ 11,887,370	$ 5,303,994

7. Investments:

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain a liquidity reserve deposit equal to 6% of its total assets as at each preceding month end. The deposits bear interest at varying rates, dependent upon the term of the investment. The investments can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves mature at varying times between one month and three years. At maturity, these deposits are reinvested at market rates for various terms.

The following tables provide information on the investments by type of security and issuer.

	2014	2013
Central 1 Deposits:		
Liquidity reserve deposits	$ 20,786,475	$ 21,576,935
Equity instruments:		
Central 1 Class A shares	1,267,402	1,182,660
Central 1 Class E shares	1,395,300	1,395,300
Concentra Financial, Class A, Series 1	2,352	2,352
Concentra Financial, Membership (1 share)	10	10
CUCO Co-op Class B Investment Shares	802,985	1,269,693
Credential Securities Inc., subordinated debenture	5,000	5,000
Credential Securities, participating loan	30,000	30,000
The Co-operators Group Limited, preference shares	150,000	150,000
The Co-operators Group Limited, term certificates	151,140	151,140
Other investments	–	3,000
	3,804,189	4,189,155
	$ 24,590,664	$ 25,766,090

7. Investments (continued):

(a) Central 1 Shares:

Class A Shares:

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. The Credit Union's allocation of Class A Central 1 shares is based on the assets of each credit union in proportion to the combined assets of the British Columbia credit union system and the assets of Central 1's member credit unions in Ontario. This allocation is adjusted each June 30th to reflect changes in credit union assets. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors.

There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Class E Shares:

Class E Central 1 shares are issued with a par value and are redeemable at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

(b) CUCO Co-op Class B Investment shares:

On June 18, 2011, credit unions voted on the purchase of the investment portfolio and certain other assets and liabilities of the ABCP LP by CUCO Co-op, and the subsequent dissolution of the ABCP LP (the "LP"). The first step was fulfilled when CUCO officially became the CUCO Co-operative Association ("CUCU Co-op") on August 17, 2011 on the authority of approvals received from the Financial Services Commission of Ontario and from Industry Canada. The second step was completed on August 31, 2011, when the CUCO Co-op and the LP fulfilled the terms of the purchase agreement whereby the LP assets were sold to CUCO Co-op in exchange for Class B Investment Shares. On September 2, 2011, the LP distributed to each credit union such credit union's proportionate share of CUCO Co-op Class B Investment Shares. The value previously held in the form of a credit union's LP units effectively transferred to its new CUCO Co-op Class B Investment Shares and the LP units have no value. As of September 2, 2011, the Credit Union received 507,868,913 Class B Investment Shares, which is 1.45591% of the total Class B Investment Shares outstanding.

7. Investments (continued):

(b) CUCO Co-op Class B Investment shares (continued):

The Credit Union received distributions of $532,863 (2013 - $468,075) which were recorded directly as a reduction to the carrying value of the investment. During the year ended December 31, 2014, the Credit Union recognized $305,656 in investment income that was recycled from accumulated other comprehensive income.

In addition, as these investments are classified as available for sale instruments, a fair value adjustment, net of taxes, of $55,901 (2013 - $71,775) has been recorded in other comprehensive income.

(c) Other investments:

The other investments are classified as available for sale but have no separately quoted market value and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these investments cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

8. Derivative financial instruments:

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Equity swap agreements:

The Credit Union offers members term deposits whose rate is derived from a market index or basket of stocks. These index-linked term deposits offer principal guarantee and a variable rate of return contingent on the performance of equity markets.

The Credit Union enters into equity swap agreements to hedge the risk of interest payments due at the maturity date of index-linked term deposits. The equity swaps involve the Credit Union paying a fixed rate of interest and receiving a variable amount matching the return owed to members on the index-linked term deposits. The fixed interest paid is deferred and amortized over the term of the respective index-linked term deposit. These products are considered economic hedges and are designated as held for trading.

8. Derivative financial instruments (continued):

Interest rate swap agreements:

The Credit Union offers members a choice of terms for loans and deposits. Variation in member preferences results in asset and liability maturity dates that are not perfectly matched. This mismatch creates an opportunity and risk that changes in interest rates will affect earnings either positively or negatively.

The Credit Union enters into interest rate swap agreements to manage its exposure to interest rate risk. Interest rate swaps involve the exchange of a fixed rate interest payment for a floating rate payment on a notional principal amount.

Any gains or losses as a result of fair value measurement are being recorded in the year they occur through the consolidated statement of income.

(a) Embedded derivative liability – index link contract with members:

The Credit Union has outstanding index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits is presented in members' deposits on the consolidated statement of financial position and was adjusted to its fair value of $78,171 (2013 - $239,869).

(b) Embedded derivative asset – index link contract with Central 1:

The Credit Union has entered into equity swap agreements with Central 1 to hedge the risk of interest payments due at the maturity date of the index linked term deposits. The Credit Union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. At December 31, 2014, the embedded derivative asset was adjusted to its fair value of $78,171 (2013 - $239,869), which is included in prepaid expenses and other assets on the consolidated statement of financial position.

8. Derivative financial instruments (continued):

(c) Derivative asset (liability) – swap agreements:

The Credit Union enters into interest rate swap contracts in order to hedge against exposure to interest rate risks. The Credit Union does not enter into these contracts for trading or speculative purposes. The Credit Union has a derivative asset/liability related to its interest rate swap agreements that is included on the consolidated statement of financial position prepaid expenses and other assets.

At December 31, 2014, the swaps were adjusted to reflect their fair value of $526 which has been recorded as a derivative liability (2013 - $553 derivative asset) on the Consolidated Statement of Financial Position. The resulting loss on the fair value adjustment of the swaps held throughout the year of $1,079 (2013 - gain of $20,663) has been recorded in the consolidated statement of income in “other revenue”.

At December 31, 2014, the Credit Union was party to one interest rate swap contract (two in 2013) representing a notional principal of $5,000,000 (2013 - $10,000,000). Under the terms of the contracts, the Credit Union has contracted with the Central 1 to receive interest at a variable rate to be repriced monthly, while paying interest at a fixed rate on the notional principal amount. The variable rate is equivalent to the one month Canadian Deposit Offering Rate (CDOR).

Revenues and expenses resulting from these transactions are recorded as incurred during the term of the agreements.

Counter Party	Notional Amount	Maturity Date	Variable Receive	Fixed Pay
Central 1	$5,000,000	August 10, 2015	1 Month CDOR	1.315%

9. Loans to members:

	2014	2013
Loans with variable interest rates:		
Personal	$ 24,955,780	$ 24,340,865
Personal mortgages	40,152,770	46,901,220
Business	25,988,795	28,297,072
Loans with fixed interest rates:		
Personal	13,383,793	16,261,348
Business	3,582,422	4,341,299
Personal mortgages	144,980,499	128,368,723
Business mortgages	59,888,104	63,904,589
	312,932,163	312,415,116
Allowance for impaired loans (note 10)	(845,699)	(701,932)
Net loans to members	$ 312,086,464	$ 311,713,184

Terms and conditions:

Member loans can have either a variable or fixed rate of interest and have a maturity not exceeding ten years.

Personal and business loans on variable rate contracts include a repayment on demand provision. In addition, all loans except mortgages are open to repayment at any time without penalty.

Variable rate loans are based on a “prime rate” formula. The Credit Union’s prime rate at December 31, 2014 was 4%. For fixed and variable rate loans, the rate is determined by the type of security offered and the members’ credit worthiness.

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Personal mortgages are loans and lines of credit secured by residential property and are repayable with either blended payments of principal and interest or interest only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment and investments.

9. Loans to members (continued):

Concentration of risk:

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments. As outlined in the Credit Union's Credit Risk Management Policy, prudent lending limits of no more than 25% of regulatory capital have been established by management and approved by the Board of Directors as outlined in Section 59(2) of the Ontario Regulations Act 237/09. The Credit Union is compliant with the Act.

10. Allowance for impaired loans:

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

	2014	2013
Total allowance for impaired loan provision comprises:		
Collective provision	$ 263,150	$ 249,150
Individual specific provision	582,549	452,782
Total provision	$ 845,699	$ 701,932

Details of the activity in the allowance for impaired loans are as follows:

	Personal Mortgages	Personal Loans	Commercial Loans	2014 Total
Balance, beginning of year	$ 5,150	$ 462,020	$ 234,762	$ 701,932
Recoveries of loans previously written-off	15,656	49,913	5,000	70,569
Provision charged to net income	(15,656)	306,616	182,549	473,509
Loans written-off	–	(400,311)	–	(400,311)
Balance, end of year	$ 5,150	$ 418,238	$ 422,311	$ 845,699
Gross principal balance of individually impaired loans	$ 2,365,856	$ 442,291	$ 1,159,840	$ 3,967,987

10. Allowance for impaired loans (continued):

	Personal Mortgages	Personal Loans	Commercial Loans	2013 Total
Balance, beginning of year	$ 3,401	$ 508,793	$ 386,624	$ 898,818
Recoveries of loans previously written-off	679	57,614	1,796	60,089
Provision charged to net income	1,070	256,876	164,625	422,571
Loans written-off	–	(361,263)	(318,283)	(679,546)
Balance, end of year	$ 5,150	$ 462,020	$ 234,762	$ 701,932
Gross principal balance of individually impaired loans	$ 1,030,019	$ 516,520	$ 1,081,021	$ 2,627,560

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience. For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

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

	Personal Mortgages	Personal Loans	Commercial Loans	2014 Total
Days in arrears:				
Current	$ 176,973,832	$ 34,193,477	$ 88,296,363	$ 299,463,672
Under 30 days	6,826,857	3,657,878	1,145	10,485,880
30 to 90 days	586,449	219,051	2,950	808,450
Over 90 days	746,182	270,655	1,157,324	2,174,161
	$ 185,133,320	$ 38,341,061	$ 89,457,782	$ 312,932,163

	Personal Mortgages	Personal Loans	Commercial Loans	2013 Total
Days in arrears:				
Current	$ 169,205,096	$ 37,288,806	$ 94,441,289	$ 300,935,191
Under 30 days	5,365,516	2,749,051	1,020,649	9,135,216
30 to 90 days	496,373	253,992	–	750,365
Over 90 days	202,959	310,364	1,081,021	1,594,344
	$ 175,269,944	$ 40,602,213	$ 96,542,959	$ 312,415,116

11. Securitized liabilities:

Community First enters into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties. Community First securitizes mortgage backed securities through programs sponsored by the Canada Mortgage and Housing Corporation and other third party programs.

Full derecognition occurs when Community First transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, prepayment and other price risks.

The financial assets that do not qualify for derecognition are mortgages converted into mortgage backed securities and then subsequently sold. Residential and commercial mortgages that have been derecognized are those that meet the qualifications required to be derecognized under IFRS.

At year end Mortgage Backed Securities secured by residential mortgage loans of $5,069,182 (2013 - $Nil) bearing a weighted average fixed interest rate of 1.85% (2013 - Nil), expected weighted average maturity date of 2019 were outstanding under this arrangement.

12. Transfers of loans receivable:

The Credit Union periodically may sell mortgage loans to other financial institutions as described in note 4(h). As at December 31, 2014, the aggregate outstanding value of loans transferred amounted to $7,423,412 (2013 - $8,675,402). The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the consolidated statement of income as non-interest income. Two of the mortgage loans were delinquent at December 31, 2014.

Transfers of loans receivable activity in the year:

	2014	2013
Cash flows remitted on collections	$ 1,251,990	$ 33,783
Servicing fees received	20,589	1,426

13. Property and equipment:

			2014
	Cost	Accumulated depreciation	Carrying amount
Land	$ 239,000	$ –	$ 239,000
Buildings	1,101,259	908,678	192,581
Leasehold improvements	2,895,532	1,646,639	1,248,893
Furniture and equipment	679,715	594,809	84,906
Automated teller machines	578,303	519,358	58,945
Computer equipment	3,183,657	2,451,622	732,035
	$ 8,677,466	$ 6,121,106	$ 2,556,360

			2013
	Cost	Accumulated depreciation	Carrying amount
Land	$ 239,000	$ –	$ 239,000
Buildings	1,101,259	862,518	238,741
Leasehold improvements	2,860,212	1,447,100	1,413,112
Furniture and equipment	667,399	544,833	122,566
Automated teller machines	575,725	433,486	142,239
Computer equipment	2,930,497	2,108,583	821,914
	$ 8,374,092	$ 5,396,520	$ 2,977,572

Depreciation and amortization in respect of the above assets for the period amounts to $724,586 (2013 - $792,121). Reconciliations of the carrying amount for each class of fixed asset are summarized below:

	2014	2013
Land:		
Carrying amount at the beginning of the year	$ 239,000	$ 239,000
Carrying amount at the end of the year	$ 239,000	$ 239,000

13. Property and equipment (continued):

		2014		2013
Buildings:				
Carrying amount at the beginning of the year	$	238,741	$	284,902
Depreciation		(46,160)		(46,161)
Carrying amount at the end of the year	$	192,581	$	238,741
Leasehold improvements:				
Carrying amount at the beginning of the year	$	1,413,112	$	1,269,009
Additions		35,321		435,927
Depreciation		(199,540)		(291,824)
Carrying amount at the end of the year	$	1,248,893	$	1,413,112
Furniture and equipment:				
Carrying amount at the beginning of the year	$	122,566	$	170,797
Additions		12,316		2,127
Depreciation		(49,976)		(50,358)
Carrying amount at the end of the year	$	84,906	$	122,566
Automated banking machines:				
Carrying amount at the beginning of the year	$	142,239	$	225,019
Additions		2,577		2,575
Depreciation		(85,871)		(85,355)
Carrying amount at the end of the year	$	58,945	$	142,239
Computer equipment:				
Carrying amount at the beginning of the year	$	821,914	$	1,001,833
Additions		253,161		138,504
Depreciation		(343,040)		(318,423)
Carrying amount at the end of the year	$	732,035	$	821,914

14. Intangible assets:

December 31, 2014	Cost	Accumulated amortization	Carrying amount
Fair value of core deposits	$ 159,753	$ 159,753	$ –
Name change and merger costs	174,746	165,778	8,968
Website	71,922	7,192	64,730
Banking system	2,264,786	1,132,287	1,132,499
	$ 2,671,207	$ 1,465,010	$ 1,206,197

December 31, 2013	Cost	Accumulated amortization	Carrying amount
Fair value of core deposits	$ 159,753	$ 159,753	$ –
Name change and merger costs	168,774	163,861	4,913
Banking system	1,979,414	929,529	1,049,885
	$ 2,307,941	$ 1,253,143	$ 1,054,798

Reconciliations of the carrying amount for each class of fixed asset are summarized below:

	2014	2013
Name change and merger costs:		
Carrying amount at the beginning of the year	$ 4,913	$ 4,636
Additions	5,973	1,453
Amortization	(1,918)	(1,176)
Carrying amount at the end of the year	$ 8,968	$ 4,913
Website:		
Carrying amount at the beginning of the year	$ –	$ –
Additions	71,922	–
Amortization	(7,192)	–
Carrying amount at the end of the year	$ 64,730	$ –

14. Intangible assets (continued):

	2014	2013
Banking system:		
Carrying amount at the beginning of the year	$ 1,049,885	$ 1,190,593
Additions	285,372	44,388
Amortization	(202,758)	(185,096)
Carrying amount at the end of the year	$ 1,132,499	$ 1,049,885

The cost amount for the banking system for 2014 includes $81,550 (2013 - $105,000) of assets not in use at year end. The amortization on these assets will commence when the asset is placed in use.

15. Members' deposits:

	2014	2013
Deposits with variable interest rates:		
Chequing	$ 57,148,524	$ 53,477,953
Savings	65,063,334	69,428,894
Plan 24	14,284,145	9,266,828
Registered retirement savings plans	4,871,864	5,268,948
Registered retirement income funds	1,635,499	1,807,947
Tax-free savings accounts	11,060,183	10,272,393
	154,063,549	149,522,963
Deposits with fixed interest rates:		
Term deposits	85,802,257	87,675,596
Tax-free savings accounts	17,807,612	13,826,492
Registered retirement savings plans	36,467,062	37,790,029
Registered retirement income funds	21,314,712	21,109,402
Accrued interest	2,198,092	2,381,119
	163,589,735	162,782,638
	$ 317,653,284	$ 312,305,601

15. Members' deposits (continued):

Terms and conditions:

Members' accounts with variable interest rates may be withdrawn on demand. Term deposits are for terms up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity.

Registered retirement savings plans (RRSP), registered retirement income funds (RRIFs) and tax free savings accounts (TFSA) have terms and rates that are similar to the term deposit accounts.

Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

	2014	2013
Interest on members' deposits consists of:		
Demand deposits	$ 701,898	$ 845,057
Term deposits	2,106,096	1,895,919
Registered retirement savings plans	992,556	959,673
Registered retirement income funds	535,541	479,392
Tax-free savings accounts	449,133	382,804
	4,785,224	4,562,845
Term borrowing	164,296	324,131
Securitized Loan	38,996	–
	$ 4,988,516	$ 4,886,976

16. Pension obligations:

The Credit Union maintains two defined benefit pension plans and commencing January 1, 2012, two defined contribution pension plans, which cover all employees. The Management Plan is contributory and the non-management plan (the "Staff Plan") is non-contributory. The following information relates to the defined benefit pension plans:

	2014	2013
Plan assets:		
Fair value, beginning of year	$ 12,077,900	$ 11,021,200
Expected investment return	590,900	440,800
Benefit payments	(586,300)	(652,100)
Employer contributions	500,200	588,100
Employee contributions	48,700	62,100
Actuarial gains	905,700	617,800
Fair value, end of year	13,537,100	12,077,900
Accrued benefit obligation:		
Balance, beginning of year	11,639,600	13,552,000
Current and past service cost	402,300	562,400
Interest cost	578,100	554,000
Benefit payments	(586,300)	(652,100)
Employee contributions	48,700	62,100
Actuarial losses (gains)	2,547,300	(2,438,800)
Balance, end of year	14,629,700	11,639,600
Funded status-plan deficit being deferred pension plan (liability) asset	$ (1,092,600)	$ 438,300
Pension expense:		
Current and past service cost	$ 402,300	$ 562,400
Net interest (earned) cost	(12,800)	113,200
	$ 389,500	$ 675,600
Amount recognized in other comprehensive (loss) income, net of income taxes	$ (1,387,152)	$ 2,582,827

16. Pension obligations (continued):

All gains and losses arising due to remeasurement of the fair value of assets and defined benefit obligation have been recognized into comprehensive income.

The funded status of the Management Plan and the Staff Plan as at December 31, 2014, are disclosed below:

	Staff Plan	Management Plan
Fair value of plan assets	$ 8,369,400	$ 5,167,700
Defined benefit obligation	(8,546,300)	(6,083,400)
	$ (176,900)	$ (915,700)

The Credit Union approved an amendment to the Staff and Management pension plans whereby all new members admitted to the plans after January 1, 2012 will be enrolled in a defined contribution plan.

The pension plans' weighted average fair value asset allocation in each of the Credit Union's pension plans as at December 31st as follows:

Staff Plan	2014	2013
Cash and cash equivalents	$ 510,533	$ 251,886
Bonds	2,761,902	2,629,981
Equities:		
Canadian	2,192,783	2,607,757
Foreign	2,904,182	1,918,776
	$ 8,369,400	$ 7,408,400

Management Plan	2014	2013
Cash and cash equivalents	$ 315,230	$ 158,763
Bonds	1,705,341	1,657,672
Equities:		
Canadian	1,353,937	1,643,664
Foreign	1,793,192	1,209,401
	$ 5,167,700	$ 4,669,500

16. Pension obligations (continued):

The investment policy for benefit plan assets is to optimize the risk and return relationship using a portfolio of various asset classes. Plan assets are managed by three Fund Managers - Mawer Investment Management, Guardian Capital and Franklin Templeton Investments.

The Credit Union bears the risk of experience loss against the assumptions stated in the table below. The discount rate assumption used in determining pension obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments. The expected rate of return on plan assets assumption is equal to the discount rate assumptions. The assumptions used to determine the defined benefit obligation and the benefit plan expenses are as follows:

	2014	2013
Discount rate	4.00%	4.90%
Expected long-term rate of return on plan assets	4.00%	4.00%
Rate of compensation increase (salary plan only)	2.50%	2.50%
Rate of inflation	2.00%	2.00%
Mortality table	CPM2014-Priv	UP94G

Employee benefit plan obligation:

The employee benefit plan obligation relates to an early retirement defined benefit plan established in 2004 under the former Timmins Regional Credit Union Ltd. The benefit is paid out to specific employees in the years in which entitlement occurs. At December 31, 2014, the Credit Union records reflect an obligation in the amount of $21,946 (2013 - $67,074). This is being reduced as entitlements under the plan come due.

17. Term loans

The Credit Union has access to a total credit facility of $24,300,000 with Central 1 Credit Union. The credit facility is secured by a general security agreement. Term loans outstanding at year-end of $6,000,000 (2013 - $16,900,000) have an average interest rate of 1.87% (2013 - 1.79%) and are classified as financial liabilities. The Credit Union has an operating line of credit with Central 1 Credit Union of $4,600,000. At December 31, 2014 no amounts were utilized (2013 - $Nil)

18. Membership shares

i) Share capital:

Membership shares, which are classified as a liability, represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance. Membership shares are redeemable upon the request of the member, withdrawal from membership and approval of the directors.

Membership shares have an assigned value of $5 per share and members are required to have a minimum of 1 share.

ii) Class A, Series 1 shares:

The Credit Union is authorized to issue a limited number of Class A, Series 1 non-cumulative, non-voting, non-participating special shares having an issue price of $1. The Credit Union has $2,570,731 (2013 - $2,508,030) of Class A, Series 1 Shares issued and outstanding.

The Class A Series 1 Shares have been classified as member equity. In no case shall the total redemptions approved for holders of Class A, Series 1 Shares, in any fiscal year, exceed an amount equal to 10% of the total Class A, Series 1 Shares outstanding at the end of the previous fiscal year.

iii) Class A, Series 2 shares:

In March 2014, the Credit Union issued $4,552,197 of Class A, Series 2 shares. On March 12, 2014, the Credit Union issued a 0.5% share dividend on the Class A, Series 2 shares totalling $22,749.

The Credit Union is authorized to issue a limited number of Class A, Series 2 non-cumulative, non-voting, non-participating special shares having an issue price of $1. The Credit Union has $4,689,315 (2013 - $Nil) Class A, Series 2 Shares issued and outstanding.

The Class A, Series 2 Shares have been classified as member equity. In no case shall the total redemptions approved for holders of Class A, Series 2 Shares, in any fiscal year, exceed an amount equal to 10% of the total Class A, Series 2 Shares outstanding at the end of the previous fiscal year.

iv) Class B, Series 1 shares:

The Credit Union is authorized to issue a limited number of Class B, Series 1 non-cumulative, non-voting, non-participating special shares having an issue price of $1. The Credit Union has $1,044,702 (2013 - $1,109,575) of Class B, Series 1 Shares issued and outstanding.

The Class B, Series 1 Shares have been classified as member equity. In no case shall the total redemptions approved for holders of Class B, Series 1 Shares, in any fiscal year, exceed an amount equal to 10% of the total Class B, Series 1 Shares outstanding at the end of the previous fiscal year.

19. Regulatory capital

The Credit Union's capital management plan is designed to establish a strong equity base for future growth, the payment of dividends, as well as provide a cushion in the event of market volatility. The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at the following minimum levels:

	% total assets	% risk weighted assets
	4.00	8.00

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

The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

The Credit Union is in compliance with the Act and regulations regarding regulatory capital. Regulatory capital consists of the following:

	2014	2013
Tier 1 capital:		
Membership shares	$ 64,858	$ 68,116
Class A and B shares	7,578,744	3,336,802
Retained earnings, contributed surplus less revaluation surplus	12,799,446	11,871,145
Total Tier 1	20,443,048	15,276,063
Tier 2 capital:		
10% of redeemable Class A shares	726,005	250,803
Collective provision for impaired loans	263,150	249,150
Accumulated unrealized gain on available for sale investments	672,348	874,726
Actuarial loss on defined benefit plan	(39,884)	–
Total Tier 2	1,621,619	1,374,679
Total regulatory capital	$ 22,064,667	$ 16,650,742
Assets	$ 354,055,200	$ 349,562,692
Regulatory capital as % of total assets	6.23%	4.76%
Regulatory capital as % of risk weighted asset	12.21%	8.84%
Risk weighted assets	$ 180,693,275	$ 188,313,224

20. Interest rate sensitivity:

(in $000's)	Variable Floating	Fixed Within 3 Months	Fixed 4 Months to 1 Year	Fixed 1 to 5 Years	Not Specified	Total
Assets						
Cash and Investments	$ 8,622	7,496	3,480	10,149	6,731	$ 36,478
Yield (%)	*0.00%*	*1.16%*	*1.27%*	*1.34%*		*0.73%*
Loans to members	91,097	12,640	25,167	184,027	(846)	312,087
Yield (%)	*4.83%*	*4.74%*	*4.23%*	*4.26%*		*4.46%*
Other Assets	-	-	-	-	5,491	5,491
Total Assets	$ 99,719	20,136	28,647	194,176	11,376	$ 354,055
Liabilities and Members' Equity						
Member Deposits	$ 113,886	18,673	35,510	147,208	2,376	$ 317,653
Yield (%)	*0.76%*	*2.60%*	*2.41%*	*1.67%*		*1.47%*
Term Loan	6,000	-	-	-	-	6,000
Yield (%)	*1.88%*					*1.88%*
Securitized liabilities	-	39	117	4,913	-	5,069
Yield (%)		*1.85%*	*1.85%*	*1.85%*		*1.85%*
Other Liabilities	-	-	-	-	3,346	3,346
Membership Shares	-	-	-	-	65	65
Class A Series 1&2	-	-	2,571	4,689	-	7,260
Yield (%)			*2.50%*	*2.50%*		*2.50%*
Class B Series 1	-	-	1,045	-	-	1,045
Yield (%)			*2.00%*			*2.00%*
Members Equity	-	-	-	-	13,617	13,617
Total liabilities and equity	$ 119,886	18,712	39,243	156,810	19,404	$ 354,055
Derivatives	$ 5,000	-	(5,000)	-	-	-
Interest Sensitivity Position 2014	$ (20,167)	1,424	(10,595)	37,364	(8,028)	-
Interest Sensitivity Position 2013	$ (11,580)	4,568	(44,441)	60,307	(8,854)	-

21. Commitments:

(a) Member loans:

At December 31, 2014, the following loans and letters of credit had been approved but not advanced:

Mortgages/loans	$ 9,216,700
Lines of credit	65,242,600
Letters of credit	1,656,204

(b) Lease and contracts:

The Credit Union leases office space and leases property to operate its automated teller machines under long-term lease agreements. In addition, various operating contracts have been negotiated with suppliers. Future minimum commitments in each of the next five years under long-term leases and contracts are:

2015	$ 813,000
2016	728,000
2017	658,000
2018	646,000
2019	672,000

(c) Banking system services:

The Credit Union has entered a service bureau contract with Open Solutions Canada Inc. to provide banking services over a seven year period commencing in 2008. Future minimum commitments in each of the next five years under this arrangement are approximately as follows:

2015	$ 365,678
2016	365,678
2017	365,678
2018	365,678
2019	182,839

(d) The Credit Union is involved in certain legal matters and litigation from time to time, the outcomes of which are not presently determinable. The effects, if any, from such contingencies will be accounted for in the periods in which the matters are resolved.

22. Related party transactions:

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

Total directors' remuneration was $35,739 (2013 - $38,225).

Total executive management remuneration was $479,483 (2013 - $636,795).

At December 31, 2014, loans due from related parties are as follows:

	2014	2013
Directors and executive management	$ 894,680	$ 1,169,140
Allowance for impaired loans	–	–
	$ 894,680	$ 1,169,140

At December 31, 2014, deposits held from related parties are as follows

	2014	2013
Deposits from Directors and executive management:		
Aggregate value of term and savings deposits	$ 653,925	$ 754,356
Total interest paid on term and savings deposits	4,115	8,250

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

23. Fair value of financial instruments:

The estimated fair value of the Credit Union's financial instruments as at December 31, 2014 is set out below. No fair values have been determined for property and equipment, or any other asset that is not a financial instrument:

(000's of $'s)		2014			2013
		Fair Value	Book Value	Fair Value Over (Under) Book Value	Fair Value Over (Under) Book Value
Financial assets (in 000's)					
Cash resources	$	36,486	36,478	8	(19)
Loans to members		313,501	312,087	1,414	1,535
Other assets		5,491	5,491	–	–
Financial liabilities (in 000's)					
Members' deposits	$	317,246	317,653	(407)	(2,352)
Borrowings		10,594	11,069	(475)	–
Other liabilities		3,411	3,411	–	–
Derivatives					
Swaps	$	–	–	–	7

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

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quotes prices within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

23. Fair value of financial instruments (continued):

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

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

ii) The estimated fair value of floating rate loans, demand deposits and floating rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits reprise to market on a periodic basis. These assets and liabilities are classified as Level 1 financial instruments as they are valued using current market rates and there is no difference between fair value and reported value.

iii) The estimated fair value of fixed rate investments, fixed rate loans and fixed rate deposits is determined by discounting the expected future cash flows of these investments, loans deposits and borrowings at current market rates for products with similar terms and credit risks. Fixed rate loans and deposits are classified as Level 3 financial instruments are they are valued using unobservable inputs. Fixed rate investments are classified as Level 2 financial instruments as they are valued using observable inputs other than quoted market prices.

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

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

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

24. Income taxes:

The components of income tax expense (benefit) were as follows:

	2014	2013
Current income tax expense	$ 89,800	$ 42,834
Deferred income tax expense	37,147	21,786
Total income tax expense	$ 126,947	$ 64,620

Income tax differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 26.5% (2013 - 26.5%). Major components of income tax expense (benefit) include the following:

	2014	2013
Income before income tax	$ 1,098,181	$ 441,474
Statutory tax rate	26.5%	26.5%
Computed tax expense	$ 291,018	$ 116,991
Increase (decrease) resulting from:		
Member distributions	(58,489)	(15,102)
Lower rate on small business deduction	(55,000)	(50,486)
Other	(13,459)	13,217
OCI investments recycled	(37,123)	–
Total income tax expense	$ 126,947	$ 64,620

24. Income taxes (continued):

The movements of deferred tax assets and liabilities are presented below:

2014	Opening Balance	Recognized in OCI	Recognized in Profit or Loss	Closing Balance
Deferred tax assets:				
Employee retirement benefits	$ –	$ 186,511	$ (17,158)	$ 169,353
Other	–	–	–	–
Allowance for impaired loans	45,636	–	4,182	49,818
Corporate minimum tax credit	34,904	–	(22,844)	12,060
Liability for life insured deposits	96,100	–	–	96,100
Total deferred tax assets	$ 176,640	$ 186,511	$ (35,820)	$ 327,331
Deferred tax liabilities:				
Employee retirement benefits	$ 67,937	$ (67,937)	$ –	$ –
Property and equipment	163,221	–	5,319	168,540
Other	36,384	–	(3,992)	32,392
Total deferred tax liabilities	$ 267,542	$ (67,937)	$ 1,327	$ 200,932
Total movement taken to income tax expense	$ (90,902)	$ 254,448	$ (37,147)	$ 126,399

2013	Opening Balance	Recognized in OCI	Recognized in Profit or Loss	Closing Balance
Deferred tax assets:				
Employee retirement benefits	$ 392,274	$ (392,274)	$ –	$ –
Other	6,700	–	(6,700)	–
Allowance for impaired loans	63,905	–	(18,269)	45,636
Corporate minimum tax credit	48,025	–	(13,121)	34,904
Liability for life insured deposits (note 2)	96,100	–	–	96,100
Total deferred tax assets	$ 607,004	$ (392,274)	$ (38,090)	$ 176,640
Deferred tax liabilities:				
Employee retirement benefits	$ –	$ 81,499	$ (13,562)	$ 67,937
Property and equipment	202,347	–	(39,126)	163,221
Other	–	–	36,384	36,384
Total deferred tax liabilities	$ 202,347	$ 81,499	$ (16,304)	$ 267,542
Total movement taken to income tax expense	$ 404,657	$ (473,773)	$ (21,786)	$ (90,902)

24. Income taxes (continued):

The ultimate realization of future tax assets is dependent upon generation of taxable income during future periods in which the unused tax losses are available.

25. Financial risk management:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. An Asset Liability Committee (ALCO) has been established consisting of senior management and an external consultant. This committee meets on a quarterly basis to review the results of income simulation models and duration analysis and reports regularly to the Board on its activities.

a) Liquidity risk:

Liquidity risk arises in the course of managing assets and liabilities. It is the risk that the Credit Union is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund the balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of polices and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The key elements of the entity's liquidity risk management framework include:

(i) Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;

(ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;

(iii) Prudence tests of quality and diversity where investments bear credit risk;

(iv) Parameters to limit term extension risk;

(v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding; and

(vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

25. Financial risk management (continued):

a) Liquidity risk (continued):

The Credit Union targets to maintain operating liquidity within the range of 7% to 13%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2014, the Credit Union's liquidity ratio was 10.01% (2013 - 8.22%) and assets held for liquidity purposes totalled $32,673,845, consisting of $20,786,475 liquidity reserve deposits and $11,887,370 cash.

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in note 20.

December 31, 2014

(in $000's)	Floating rate	Current to 1 year	1 to 5 years	Not Specified	Total
Assets					
Financial assets:					
Cash and cash equivalents	$ 8,622	–	–	3,265	11,887
Investments	–	10,976	10,149	3,466	24,591
Loans to members	*91,097*	37,807	184,027	*(845)*	312,086
	99,719	48,783	194,176	5,886	348,564
Non-financial assets:					
Other assets	–	–	–	5,491	5,491
Total assets	$ 99,719	48,783	194,176	11,377	354,055
Liabilities and members' equity					
Members' deposits	$ 113,887	54,182	147,209	2,375	317,653
Other liabilities	6,000	156	4,913	3,411	14,480
Members' equity	–	–	–	21,922	21,922
Total liabilities and members' equity	$ 119,887	54,338	152,122	27,708	354,055

25. Financial risk management (continued):

a) Liquidity risk (continued):

It is estimated that immediate and sustained parallel increase in interest rates of 1% across all maturities and currencies would increase net interest income by approximately $427,000 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately $241,000 over the next twelve months using the following assumptions:

(i) accrued interest receivable and payable and all hedging/derivative positions are included as at December 31, 2014 in the calculation;
(ii) instruments reprice evenly within their respective time bands, and
(iii) existing credit commitments will not be drawn upon.

b) Credit risk:

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to our credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- Ensuring that credit quality is not compromised for growth;
- Diversifying credit risks in transactions, relationships and portfolios;
- Using our credit risk weighting and scoring systems, policies and tools;
- Pricing appropriately for the credit risk taken;
- Mitigating credit risk through preventive and detective controls;
- Transferring credit risk to third parties where appropriate through approved credit; and risk mitigation techniques including insurance coverage.

c) Interest rate risk:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, primarily deposit and lending activities. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is re-priced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

25. Financial risk management (continued):

c) Interest rate risk (continued):

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board.

d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Credit Union uses income simulation modeling to measure exposure to changes in interest rates over short term periods. Earnings at risk, is calculated by forecasting the net interest margin for the next 12 months using the most likely assumptions. These assumptions include management's estimates of future growth rates, and future interest rates and term preferences of members. Future growth rates are initially based on the board approved budget. Future interest rates are based on the most current interest rate path. These earnings at risk are then shocked by a change in rates sustained for a 12 month period. The resulting change in the forecast as a result of the rate shock then determines the earnings at risk. Maximum limits are established under these scenarios and are approved by the Board of Directors.

Long-term interest rate risk is measured using duration analysis. The duration of an asset, is an expression of its term to maturity taking into account the yield of the asset.

e) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The Credit Union's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices.

Prudent limits are in place on unhedged liquid assets denominated in a foreign currency. Limits are established in relation to the size of the overall liquidity portfolio and are to apply at the time of purchase.

At December 31, 2014, the Credit Union was in compliance with Board policy on financial risk management.

26. Executive compensation:

Effective October 1, 2010, the Act requires disclosure of the five highest paid officers and employees where remuneration paid during the year exceeded $150,000. For 2014, there are no disclosures required.

On an annual basis, the Board reviews the CEO compensation and considers market expectations for similar roles in comparable organizations. Variable compensation is based on corporate performance against strategic metrics established at the beginning of each year.

27. Comparative amounts:

Certain 2013 comparative amounts have been reclassified to conform with the consolidated financial statement presentation adopted for 2014.