The Fire Department Employees Credit Union Limited
Financial Statements
For the year ended December 31, 2014

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Management’s Responsibility

To the Members of The Fire Department Employees Credit Union Limited:

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

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

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

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

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

February 19, 2015

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Kevin Connolly, CEO

Independent Auditors' Report

To the Members of The Fire Department Employees Credit Union Limited:

We have audited the accompanying financial statements of The Fire Department Employees Credit Union Limited, which comprise the statement of financial position as at December 31, 2014, the statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of The Fire Department Employees Credit Union Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Markham, Ontario
February 19, 2015

Chartered Professional Accountants
Licensed Public Accountants

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The Fire Department Employees Credit Union Limited
Statement of Financial Position
As at December 31, 2014

In $	***2014***	*2013*
Assets		
Cash	**1,736,671**	2,166,040
Investments *(Note 4)*	**10,246,855**	15,644,148
Member loans *(Note 5)*	**56,090,298**	48,597,585
Other assets *(Note 6)*	**77,084**	146,456
Property and equipment *(Note 7)*	**662,334**	679,839
Computer software *(Note 8)*	**169,476**	183,440
	68,982,718	67,417,508
Liabilities		
Member deposits *(Note 9)*	**63,233,722**	61,699,164
Other liabilities *(Note 10)*	**165,517**	153,088
Member shares *(Note 11)*	**364,457**	373,633
	63,763,696	62,225,885
Commitments *(Note 17)*		
Members' Equity		
Investment shares *(Note 12)*	**1,649,599**	1,649,599
Retained earnings	**3,420,625**	3,363,108
Accumulated other comprehensive income	**148,798**	178,916
	5,219,022	5,191,623
	68,982,718	67,417,508

Approved on behalf of the Board

Director **Director**

The accompanying notes form part of the financial statements

The Fire Department Employees Credit Union Limited
Statement of Income
For the year ended December 31, 2014

In $	***2014***	*2013*
Interest income		
Loans	**2,057,265**	1,928,394
Investments	**250,405**	378,578
	2,307,670	2,306,972
Interest expense		
Member deposits	**714,838**	723,928
Net interest income	**1,592,832**	1,583,044
Provision for impaired loans *(Note 5)*	**555**	10,854
Net interest income after provision for impaired loans	**1,592,277**	1,572,190
Other income	**195,549**	161,217
Net interest and other income	**1,787,826**	1,733,407
Operating expenses		
Salaries and benefits	**928,492**	897,368
Administration expenses	**613,756**	644,847
Depreciation and amortization	**64,789**	62,131
Deposit insurance	**52,424**	52,243
	1,659,461	1,656,589
Income before other items and taxes	**128,365**	76,818
Income taxes *(Note 13)*		
Current	**18,625**	6,678
Deferred	**3,436**	7,315
	22,061	13,993
Net income	**106,304**	62,825

The accompanying notes form part of the financial statements

The Fire Department Employees Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2014

In $	***2014***	*2013*
Net income for the year	**106,304**	62,825
Other comprehensive income (loss)		
Unrealized loss on interest rate swap	**(42,758)**	(56,798)
Unrealized gain on available for sale investments	**7,115**	44,614
Tax recovery related to unrealized net losses	**5,525**	1,889
Total other comprehensive loss	**(30,118)**	(10,295)
Total comprehensive income for the year	**76,186**	52,530

The accompanying notes form part of the financial statements

The Fire Department Employees Credit Union Limited
Statement of Changes in Members' Equity
For the year ended December 31, 2014

In $	Accumulated other comprehensive income	Investment shares	Retained earnings	Total
Balance, January 1, 2013	189,211	1,649,599	3,342,101	5,180,911
Net income	-	-	62,825	62,825
Dividends paid on investment shares	-	-	(49,489)	(49,489)
Income tax on dividends paid	-	-	7,671	7,671
Other comprehensive loss	(10,295)	-	-	(10,295)
Balance, December 31, 2013	**178,916**	**1,649,599**	**3,363,108**	**5,191,623**
Net income	**-**	**-**	**106,304**	**106,304**
Dividends paid on investment shares	**-**	**-**	**(57,736)**	**(57,736)**
Income tax on dividends paid	**-**	**-**	**8,949**	**8,949**
Other comprehensive loss	**(30,118)**	**-**	**-**	**(30,118)**
Balance, December 31, 2014	**148,798**	**1,649,599**	**3,420,625**	**5,219,022**

The accompanying notes form part of the financial statements

The Fire Department Employees Credit Union Limited
Statement of Cash Flows

For the year ended December 31, 2014

In $	***2014***	*2013*
Cash provided by (used for) the following activities		
Operating activities		
Net income for the year	**106,304**	62,825
Adjustments for:		
Interest revenue	**(2,307,670)**	(2,306,972)
Interest expense	**714,838**	723,928
Depreciation and amortization	**64,789**	62,131
Provision for impaired loans	**555**	10,854
Income taxes expense	**22,061**	13,993
Net change in other assets	**55,058**	41,741
Net change in other liabilities	**4,925**	7,580
Interest received on member loans	**2,040,267**	1,930,683
Interest received on investments	**324,977**	379,109
Interest paid on member deposits	**(673,578)**	(708,668)
Income taxes recovered	**14,231**	36,326
	366,757	253,530
Investing activities		
Purchase of property and equipment	**(11,342)**	(12,583)
Disposal of property and equipment	**850**	-
Purchase of software	**(22,828)**	(74,742)
Net change in member loans	**(7,476,270)**	(3,316,813)
Net change in investments	**5,287,078**	2,527,514
	(2,222,512)	(876,624)
Financing activities		
Net change in member deposits	**1,435,562**	606,714
Net change in member shares	**(9,176)**	(9,371)
	1,426,386	597,343
Net change in cash during the year	**(429,369)**	(25,751)
Cash - beginning of year	**2,166,040**	2,191,791
Cash - end of year	**1,736,671**	2,166,040

The accompanying notes form part of the financial statements

1. Reporting entity information

Entity information

The Fire Department Employees Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 1997 Avenue Road, Toronto, Ontario.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board. The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2014.

These financial statements for the year ended December 31, 2014 were approved and authorized for issue by the Board of Directors on February 19, 2015.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 2.

Functional and presentation currency

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

2. Significant accounting policies

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

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

Cash

Cash includes cash on hand and demand deposits.

Investments

Deposits

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

Other investments

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

2. Significant accounting policies (continued)

Member Loans

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

Impairment of financial assets

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

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

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

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

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

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

Property and equipment

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

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

	Method	Rate
Building	declining balance	3%
Building improvements	declining balance	8%
Furniture and equipment	declining balance	20%
Computer equipment	declining balance	30%

2. Significant accounting policies (continued)

Property and equipment (continued)

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

Computer software

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software varies depending on the expected useful life, and is charged to the statement of income on a declining balance basis at 30% per year or on a straight line basis over 7.5 years. The expected useful life of computer software is reviewed on an annual basis and altered if estimates have changed significantly.

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

Impairment of non-financial assets

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

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

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

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

Member deposits

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

Member shares

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

Other liabilities

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

2. Significant accounting policies (continued)

Revenue recognition

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

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

Other income is recognized when services have been rendered and collection is reasonably assured.

Income taxes

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

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

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

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

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

Foreign currency translation

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

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

Financial instruments

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

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

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In ordinary course of business, the Credit Union may enter into derivative transactions to manage exposure to these types of market risk. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounts for as a derivative when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivatives are the same as those of a free standing derivative; and c) the combined instrument or contract is not measured at fair value with changes therein recognized in net income. The Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Derivative 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 not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income, with exception of derivative instruments designated as effective cash flow hedges which are recorded in the other comprehensive income.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

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

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

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

2. Significant accounting policies (continued*)*

Hedge accounting

There are specific criteria that must be satisfied in order for hedge accounting to be applied. Derivatives may be designated as hedges, provided that the Credit Union formally documents the hedging relationship at its inception by outlining the risk management strategy being implemented along with the details of both the hedged and hedging item. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used, the intended term of the hedging relationship and the method recognizing the gains, losses, revenues and expenses associated with the items in the hedging relationship. The Credit Union must formally assess, at inception and over the term of the hedging relationship, whether the hedging relationship is effective in achieving offsetting changes in cash flow or fair value attributable to the risk being hedged. If it is determined that a derivative is not highly effective as a hedge, the Credit Union will discontinue the application of hedge accounting.

Hedge accounting requires that gains, losses, revenues and expenses of a hedging item be recognized in the same period that the related gains, losses, revenues and expenses of the hedged item are recognized.

The Credit Union uses derivative financial instruments as part of its risk management activities. When hedge accounting is appropriate, the hedging relationship is designated a fair value hedge or a cash flow hedge.

Fair value hedge

In a fair value hedge, the Credit Union mainly uses interest rate swaps to hedge changes in the fair value of a hedged item. The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risk. The change in the fair value of the hedging item will be recognized in "Other income" in the statement of income. Hedge accounting is discontinued prospectively when the hedging relationship no longer qualifies as an effective hedge or if the hedging item is terminated or sold. The hedged item is no longer adjusted to reflect changes in fair value. Amounts previously recorded as cumulative fair value adjustments to the carrying amount of the hedged item are amortized using the effective interest rate method and presented in the statement of income over the remaining useful life of the hedged item. Hedge accounting is also discontinued if the hedged item is sold or terminated before maturity. In such a situation, the cumulative fair value adjustments to the carrying amount of the hedged item are immediately carried to other income in the statement of income.

The Credit Union held no fair value hedges during the year.

Cash flow hedge

In a cash flow hedge, the Credit Union mainly uses interest rate swaps to hedge exposure of the future cash flows related to a fixed or floating rate financial asset or liability. The effective portion of the changes in fair value of the hedging derivative, net of taxes, is recognized in accumulated other comprehensive income ("AOCI"), whereas the ineffective portion is recognized in other income in the statement of income. The amounts recognized in AOCI with respect to cash flow hedges are reclassified in the statement of income in the period, or periods, during which the hedged item affects net income.

When the derivative instrument no longer satisfies the conditions of effective hedging, hedge accounting ceases to be prospectively applied. The amounts previously recorded in AOCI are reclassified to the statement of income in the period, or periods, during which the hedged item affects net income. Gains or losses on derivatives are reclassified immediately to net income when the hedged item is sold or early terminated.

The Credit Union hedges its interest rate risk using a pay floating, receive fixed interest rate swaps. The effective portion of the gains or losses arising from re-measuring the fair value of the interest rate swaps are recognized in other comprehensive income and transferred to net income in the same periods during which the hedged transactions impact income. The ineffective portion of the gain or loss on the hedging item is recognized immediately in net income.

2. Significant accounting policies (continued*)*

Post-employment benefits

The Credit Union contributes to a multi-employer pension plan for its employees, Ontario Municipal Employees Retirement System ("OMERS").

OMERS is a defined benefit pension plan that pays a monthly pension based on a formula that takes into account a member's years of service and their earnings. OMERS at times can be in an actuarial deficit or surplus. Any deficit is shared by both the employee and employer members of the plan. Contribution rates could be increased, future benefits decreased or a combination of the two to fund the liability. Surplus is also shared by both the employees and employers.

The Credit Union has insufficient information related to the plan to apply defined benefit pension plan accounting. Contributions made to the plan are expensed as incurred.

Change in accounting policies

The following new or amended standards, and their resulting consequential amendments, were applied for the first time in the current year:

IFRS 7 Financial instruments: disclosures and IAS 32 Financial instruments: presentation

Financial assets and financial liabilities may be offset, with the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and when there is either an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The amendments only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The amendment did not impact the Credit Union's financial statements.

IAS 36 Impairment of assets

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The amendments only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The amendment did not impact the Credit Union's financial statements.

IAS 39 Financial Instruments: Recognition and measurement

The amendments to IAS 39, issued in June 2013, clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations, does not terminate hedge accounting. The amendments are effective for annual periods beginning on or after January 1, 2014. The amendment did not impact the Credit Union's financial results.

2. Significant accounting policies (continued)

New IFRS standards and interpretations not applied

The Credit Union has not yet applied the following new standards, interpretations or amendments to standards that have been issued as at December 31, 2014 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IAS 24 Related Party Disclosures (Amendment)

The amendments to IAS 24, issued by the IASB in December 2013, incorporated by the AcSB in March 2014, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The amendment is not expected to impact the Credit Union's financial results.

IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments were made with respect to impairment and hedge accounting. This new standard will also impact disclosures provided under IFRS 7 Financial instrument: disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of this amendment on its financial statements.

IFRS 13 Fair value measurement

The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 Financial instruments or IAS 39 Financial instruments: Recognition and measurement, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014. The Credit Union does not expect these amendments to have a material impact on its financial statements.

3. Significant accounting judgements, estimates and assumptions

Use of estimates and judgements

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

Allowance for impaired loans

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

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

3. Significant accounting judgements, estimates and assumptions (continued)

Allowance for impaired loans (continued)

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

Financial instruments not traded on active markets

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

4. Investments

In $	***2014***	*2013*
Loans and receivables		
Central 1		
Liquidity reserve deposit	**4,114,680**	4,042,473
Term deposits	**-**	5,500,000
Other term deposits	**2,500,000**	1,800,000
Accrued interest	**37,800**	133,753
	6,652,480	11,476,226
Available for sale		
Central 1 Class A shares	**244,436**	232,742
Central 1 Class E shares	**355,300**	355,300
CUCO Cooperative Association Class B shares	**204,780**	323,821
Government bonds and notes	**2,642,203**	3,129,784
Accrued interest	**147,656**	126,275
	3,594,375	4,167,922
	10,246,855	15,644,148

Central 1 Credit Union liquidity reserve deposit

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

4. Investments (continued)

CUCO Cooperative Association Shares

CUCO Cooperative Association ("CUCO Co-op") holds a portfolio of asset backed notes that resulted from the restructuring of Non-Bank Asset Backed Commercial Paper ("ABCP") that was completed in January 2009. The Credit Union holds a 0.3713% interest in CUCO Co-op in proportion to its relative interest in Credit Union Central of Ontario, where the ABCP holdings originated, immediately prior to its merger with Credit Union Central of British Columbia.

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

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

5. Member loans

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	***2014***
Residential mortgages	**46,147,475**	**203,386**	**(34,006)**	**-**	**46,316,855**
Personal	**4,448,463**	**11,928**	**(11,928)**	**(29,601)**	**4,418,862**
Commercial	**2,139,689**	**-**	**-**	**-**	**2,139,689**
Syndicated commercial	**3,120,171**	**-**	**-**	**-**	**3,120,171**
Accrued interest	**94,721**	**-**	**-**	**-**	**94,721**
	55,950,519	**215,314**	**(45,934)**	**(29,601)**	**56,090,298**

	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	*2013*
Residential mortgages	42,436,904	56,483	(76,483)	-	42,416,904
Personal	4,304,380	118,701	(52,689)	(16,463)	4,353,929
Commercial	1,016,048	-	-	-	1,016,048
Syndicated commercial	732,981	-	-	-	732,981
Accrued interest	77,723	-	-	-	77,723
	48,568,036	175,184	(129,172)	(16,463)	48,597,585

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

Mortgage loans are repayable in blended principal and interest instalments, over a maximum term of five years based on a maximum amortization period of twenty-five years. Closed mortgage loans are drawn for a period of six months to five years. Mortgages are open to prepayments to a maximum of 20% of the original principal balance annually. Mortgage backed lines of credit are repayable on a revolving credit basis and require minimum monthly payments of interest.

Personal and business loans are repayable in blended principal and interest instalments, over a maximum amortization period of ten years. Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments. Personal loans are open and may be repaid at any time.

Commercial loans are repayable in blended principal and interest instalments over a maximum amortization period of twenty-five years.

5. Member loans (continued)

Loan Allowance details

In $	***2014***	*2013*
Balance, beginning of year	**145,635**	152,436
Provision for impaired loans	**555**	10,854
	146,190	163,290
Less: accounts written off	**(84,663)**	(27,628)
Add: loans recovered	**14,008**	9,973
Balance, end of year	**75,535**	145,635

Loans past due but not impaired

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

In $	1-30 days	31-60 days	61-90 days	91 days and greater	***2014***
Mortgages	**-**	**-**	**-**	**-**	**-**
Personal	**28,484**	**9,996**	**-**	**-**	**38,480**
	28,484	**9,996**	**-**	**-**	**38,480**

In $	1-30 days	31-60 days	61-90 days	91 days and greater	*2013*
Mortgages	-	-	-	11,222	11,222
Personal	11,375	-	-	-	11,375
	11,375	-	-	11,222	22,597

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

6. Other assets

In $	***2014***	*2013*
Prepaid expenses and other assets	**77,084**	68,538
Interest rate swap	**-**	63,604
Income taxes receivable	**-**	14,314
	77,084	146,456

7. Property and equipment

In $	Land	Building and improvements	Furniture and equipment	Computer equipment	**2014 Total**
Cost					
Opening balance	**330,000**	**653,522**	**238,064**	**315,279**	**1,536,865**
Additions	**-**	**1,742**	**-**	**9,600**	**11,342**
Disposals	**-**	**-**	**(850)**	**-**	**(850)**
	330,000	**655,264**	**237,214**	**324,879**	**1,547,357**
Accumulated depreciation					
Opening balance	**-**	**335,964**	**219,922**	**301,140**	**857,026**
Depreciation	**-**	**16,457**	**3,259**	**8,281**	**27,997**
	-	**352,421**	**223,181**	**309,421**	**885,023**
Net book value at December 31, 2014	**330,000**	**302,843**	**14,033**	**15,458**	**662,334**

In $	Land	Building and improvements	Furniture and equipment	Computer equipment	2013 Total
Cost					
Opening balance	330,000	646,703	237,215	310,364	1,524,282
Additions	-	6,819	849	4,915	12,583
	330,000	653,522	238,064	315,279	1,536,865
Accumulated depreciation					
Opening balance	-	320,167	213,925	293,910	828,002
Depreciation	-	15,797	5,997	7,230	29,024
	-	335,964	219,922	301,140	857,026
Net book value at December 31, 2013	330,000	317,558	18,142	14,139	679,839

8. Computer software

In $	***2014***	*2013*
Cost		
Opening balance	**614,275**	539,533
Additions	**22,828**	74,742
	637,103	614,275
Accumulated amortization		
Opening balance	**430,835**	397,728
Amortization	**36,792**	33,107
	467,627	430,835
Net book value	**169,476**	183,440

9. Member deposits

In $	***2014***	*2013*
Chequing	**5,452,495**	4,446,129
Savings	**11,390,830**	10,345,537
Term deposits	**24,931,994**	24,973,794
Registered savings plans	**16,792,722**	17,085,722
Registered income funds	**4,214,388**	4,437,949
	62,782,429	61,289,131
Accrued interest	**451,293**	410,033
	63,233,722	61,699,164

Registered plans

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

Index-linked deposits

The Credit Union has issued and outstanding $267,553 (2013 - $236,053) of index-linked products included in Registered retirement savings plans, Term deposits and Registered tax free savings accounts. These deposits have maturities of 3 and 5 years and pay interest to the depositors, at the end of the respective terms, based on the performance of the S&P / TSX 60 Index.

The index-linked agreements between the Credit Union and the depositors are separated from the carrying value of the deposits. These derivative financial instruments are carried at fair value and are included in other liabilities.

The member deposits are recorded at discounts that accrete through interest expense to their par value over the terms of the deposits. As at year end, the amount of the discount is $9,649 (2013 - $9,424).

9. Member deposits (continued)

Index-linked deposits (continued)

The Credit Union has acquired offsetting derivative agreements with Central 1 of an equivalent term and notional amount, whereby in return for a fixed amount at origination, Central 1 will pay the Credit Union an amount equal to the return of the S&P / TSX 60 Index over the term of the agreement applied to the notional amount. These agreements are used to hedge the Credit Union's exposure to changes in the underlying indexes created by the index-linked member deposits. The agreements are carried at fair value and are carried in other assets.

10. Other liabilities

In $	***2014***	*2013*
Accounts payable and accrued liabilities	**149,599**	144,674
Income taxes payable *(Note 13)*	**4,068**	-
Deferred income taxes *(Note 13)*	**11,850**	8,414
	165,517	153,088

11. Member shares

Authorized membership share capital

An unlimited number of membership shares have been authorized with an issue price of $5 each, subject to its by-laws which prescribe a minimum of between one and five membership shares to be owned by each member depending on their classification.

Membership shares rank junior to Class A Investment Shares and to Class B Shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class B Shares rank junior to Class A Investment Shares. Both classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

Issued share capital

As at December 31, 2014, there were 3,967 membership shares outstanding (2013 – 4,049). Shares are redeemable on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements.

Dividends on membership shares may be declared by the board of directors, subject to availability of sufficient earnings to meet regulatory capital requirements.

12. Investment shares

Authorized share capital

The authorized investment share capital of the Credit Union consists of the following:

i. An unlimited number of Class A non-cumulative, non-voting, non-participating special shares, ("Investment Shares"), issuable in series, with an issue price of $1 each.
ii. An unlimited number of Class B non-cumulative, non-voting, non-participating special shares, (Class B Shares) issuable in series.

12. Investment shares (continued)

Issued and outstanding

Class A Investment Shares, Series 1

On May 23, 2003 (the "Date of Issuance"), the Credit Union issued 1,649,599 Investment Shares to its members at an issue price of $1 per share, for total proceeds of $1,649,599.

Investment Shares are non-cumulative, non-voting, non-participating special shares with a dividend rate as may be determined from time to time by the board of directors.

The holders of Investment Shares are entitled to receive dividends if, as and when declared by the board of directors. Dividends may be paid in cash or in the form of additional Investment Shares. Dividends are non-cumulative and payable annually to members of record holding the shares on December 31, 2014. If and when declared, dividends will be paid after each fiscal year end and before each annual general meeting of members.

Redemption of Investment Shares in any fiscal year may not exceed 10% of the total Investment Shares outstanding at the end of the previous fiscal year. The redemption amount will be the aggregate of the paid up amount thereon, plus any unpaid declared non-cumulative dividends. Redemption requests are subject to board approval, other than due to death of the shareholder, and will only be considered in the 30 day period following the Credit Union's fiscal year end. The Credit Union has the option to purchase for cancellation all or any part of the outstanding Investment Shares at any time after five years from the Date of Issuance.

A cash dividend of $57,736 (2013 - $49,489), payable on Investment Shares, was recorded at year end.

Class B Shares

The Board of Directors has not yet created any series of Class B Shares and, therefore, as at December 31, 2014 there are no Class B Shares outstanding.

13. Income tax

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

Income Tax

	2014	*2013*
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Rate reduction for credit unions	**(11.0%)**	(11.0%)
Non-taxable, non-deductible and other items	**1.7%**	2.7%
	17.2%	18.2%

13. Income tax (continued)

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

Deferred taxes

In $	***2014***	*2013*
Deferred tax asset		
Allowance for impaired loans	**5,150**	3,415
Other amounts	**4,500**	3,611
Deferred tax liability		
Property and equipment	**(21,500)**	(15,440)
	(11,850)	(8,414)

14. Capital management

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

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

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

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

	Regulatory standards	**Policy standards**
Total eligible capital to total assets	4%	6%
Total eligible capital to risk weighted assets	8%	9%

As at December 31, 2014, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

14. Capital management (continued)

Total eligible capital is comprised of Tier 1 and Tier 2 capital as follows:

In $	*2014*	2013
Tier 1 capital		
Member shares	**364,457**	373,633
Retained earnings	**3,420,625**	3,363,108
Non-redeemable portion of investment capital	**1,484,639**	1,484,639
	5,269,721	5,221,380
Tier 2 capital		
Non-specific loan loss provisions	**29,601**	16,463
Accumulated other comprehensive income related to equity instruments	**157,330**	127,678
Redeemable portion of investment capital	**164,960**	164,960
	351,891	309,101
Total eligible capital	**5,621,612**	5,530,481
Capital tests		
Total eligible capital to total assets	**8.1%**	8.2%
Total eligible to risk-weighted assets	**19.6%**	23.0%

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

The primary capital policies and procedures include the following:

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

15. Related party transactions

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

KMP consists of the Chief Executive Officer, Manager of Finance & Administration, Manager of Business Process & Enterprise Risk and Manager of Member Service.

Loans made to related parties are approved under the same lending criteria applicable to all members and under substantially the same terms and conditions as with other members.

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

15. Related party transactions (continued)

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

Member loans to related parties:

In $	**2014**	2013
Loans to related parties	**1,484,836**	1,863,872
Approved but unadvanced loans and lines of credit	**589,936**	257,067
	2,074,772	2,120,939

Member deposits by related parties:

In $	**2014**	2013
Chequing and savings deposits	**355,832**	278,976
Registered plans	**387,368**	472,384
Investment shares	**43,319**	45,873
Member shares	**3,100**	2,900
	789,619	800,133

Interest income and expense recorded with related parties:

In $	**2014**	2013
Interest and other revenue earned on loans	**50,382**	53,379
Interest paid on deposits	**6,479**	1,371
Dividends paid on investment shares	**-**	5,254

Aggregate compensation of KMP during the year consisted of:

In $	**2014**	2013
Salary and short-term benefits	**386,550**	353,961
Post employement benefits	**40,882**	39,640

The only employee of the Credit Union requiring disclosure under section 140(5) of the Act is the Chief Executive Officer, Kevin Connolly. Total salary and value of employment benefits received during 2014 amounted to $142,977, and $25,221 respectively.

Board honoraria amounted to $25,400 (2013 - $25,400). Board and committee expenses during the year totalled $38,030 (2013 - $33,028).

16. Employee benefit plans

All of the employees of the Credit Union are members of the OMERS pension plan which is a multi-employer, defined benefit, contributory pension plan. The total contributions made by the Credit Union for the period was $72,212 (2013 - $69,592). These amounts are included in salaries and benefits expense in the statement of income.

17. Financial instrument risk management

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

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

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

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

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

Credit risk

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

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

Credit risk management

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

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

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

17. Financial instrument risk management (continued)

Credit commitments

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

The Credit Union makes the following instruments available to its members:

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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

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

In $	***2014***	*2013*
Unadvanced lines of credit	**14,287,065**	17,072,568
Commitments to extend credit	**7,455,164**	2,675,630

Market risk

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

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

Fair value risk

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

Interest rate risk

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

17. Financial instrument risk management (continued)

Contractual re-pricing and maturity

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

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

Interest rate re-price

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	***2014***	Effective yield
Assets						
Cash	**1,736,671**	**-**	**-**	**-**	**1,736,671**	**1.23%**
Investments	**-**	**7,870,697**	**1,571,643**	**804,515**	**10,246,855**	**1.20%**
Member loans	**28,676,318**	**1,877,933**	**25,441,326**	**94,721**	**56,090,298**	**3.58%**
Interest rate swap	**-**	**-**	**-**	**-**	**-**	**-%**
Total	**30,412,989**	**9,748,630**	**27,012,969**	**899,236**	**68,073,824**	
Liabilities						
Member deposits	**16,394,163**	**31,853,948**	**9,533,117**	**5,452,494**	**63,233,722**	**1.09%**
Interest rate swap	**-**	**-**	**-**	**-**	**-**	**-%**
Member shares	**-**	**-**	**-**	**364,457**	**364,457**	**-%**
Total	**16,394,163**	**31,853,948**	**9,533,117**	**5,816,951**	**63,598,179**	

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2013*	Effective yield
Assets						
Cash	2,166,040	-	-	-	2,166,040	1.01%
Investments	-	8,703,416	6,028,869	911,863	15,644,148	1.40%
Member loans	27,282,731	1,121,360	20,115,771	77,723	48,597,585	4.05%
Interest rate swap	-	5,000,000	-	-	5,000,000	2.49%
Total	29,448,771	14,824,776	26,144,640	989,586	71,407,773	
Liabilities						
Member deposits	15,510,843	26,176,435	15,565,757	4,446,129	61,699,164	1.06%
Interest rate swap	5,000,000	-	-	-	5,000,000	1.22%
Member shares	-	-	-	373,633	373,633	-%
Total	20,510,843	26,176,435	15,565,757	4,819,762	67,072,797	

17. Financial instrument risk management (continued)

Interest rate re-price (continued)

Based on the current financial instruments, it is estimated that a 0.5% increase in the prime interest rate would increase financial margin by $106,000 and a 0.5% decrease in the prime interest rate would decrease financial margin by $40,000.

Liquidity risk

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

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

The Credit Union has available a credit facility with Central 1, totalling $1,330,000 consisting of lines of credit of CAD 1,200,000 and USD 30,000 and capital markets of 100,000. The facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2014, the credit facility was not utilized.

At December 31, 2014, liquid assets amount to 17.5% (2013 – 27.1%) of deposits and borrowings and consist of the following:

In $	***2014***	*2013*
Cash and current deposits	**1,650,066**	1,678,167
Liquidity reserve deposits with Central 1	**4,114,680**	4,042,473
Other term deposits with Central 1	**-**	5,500,000
Deposits with other financial institutions	**2,586,605**	2,287,873
Government bonds and corporate notes	**2,642,203**	3,129,784
	10,993,554	16,638,297

18. Fair value of financial instruments

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

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

18. Fair value of financial instruments (continued)

Methods and assumptions:

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

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

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

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

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

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

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

In $	**Fair value**	**Book value**	**2014 Fair value over book value**	Fair value	Book value	2013 Fair value over book value
Financial assets						
Cash	**1,736,671**	**1,736,671**	**-**	2,166,040	2,166,040	-
Investments	**10,293,212**	**10,246,855**	**46,357**	15,707,164	15,644,148	63,016
Member loans	**55,511,958**	**56,090,298**	**(578,340)**	47,739,886	48,597,585	(857,699)
Interest rate swap	**-**	**-**	**-**	63,604	63,604	-
	67,541,841	**68,073,824**	**(531,983)**	65,676,694	66,471,377	(794,683)
Financial liabilities						
Member deposits	**(63,410,890)**	**(63,233,722)**	**(177,168)**	(61,797,123)	(61,699,164)	(97,959)
Other liabilities and taxes payable	**(149,599)**	**(149,599)**	**-**	(144,674)	(144,674)	-
	(63,560,489)	**(63,383,321)**	**(177,168)**	(61,941,797)	(61,843,838)	(97,959)
Difference	**3,981,352**	**4,690,503**	**(709,151)**	3,734,897	4,627,539	(892,642)

18. Fair value of financial instruments (continued)

Fair value measurements

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

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

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

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

In $	***2014***	*2013*
Level I		
Investments	**2,642,203**	3,129,784
Level 2		
Investments	**204,780**	323,821
Derivatives	**-**	63,604