Valley Credit Union Limited

Consolidated Financial Statements
December 31, 2016

March 28, 2017

Independent Auditor's Report

To the Members of
Valley Credit Union Limited

We have audited the accompanying consolidated financial statements of **Valley Credit Union Limited** and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of income and comprehensive income, changes in members' equity and cash flows for the year then ended and the related notes, which comprise 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers 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 financial position of Valley Credit Union Limited and its subsidiaries as at December 31, 2016 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Valley Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2016

	2016 $	2015 $
Assets		
Cash and cash equivalents (note 4)	11,613,336	18,091,002
Short-term investments	–	3,000,000
Other assets (note 5)	641,186	500,484
Income tax receivable	24,424	9,848
Members’ loans (note 6)	135,367,016	124,432,057
Long-term investments (note 7)	3,427,907	3,288,437
Deferred income taxes (note 11)	63,271	48,170
Property and equipment (note 8)	3,014,805	3,133,508
	154,151,945	152,503,506
Liabilities		
Payables and accruals	948,753	1,199,043
Members’ deposits (note 10)	141,533,945	139,947,711
	142,482,698	141,146,754
Members’ Equity (note 12)		
Equity shares (note 13)	41,150	41,804
Retained earnings and restricted surplus	11,628,097	11,314,948
	11,669,247	11,356,752
	154,151,945	152,503,506

Commitments and contingencies (note 16)

Approved by the Board of Directors

____________________ Director ____________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Valley Credit Union Limited

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2016

	2016 $	2015 $
Financial income		
Members' loans	5,485,686	5,366,105
Cash and cash equivalents	96,980	169,623
Dividend income	76,035	69,405
	5,658,701	5,605,133
Financial expense		
Members' deposits	941,928	976,088
Other	8,301	847
Patronage rebate	150,053	214,953
	1,100,282	1,191,888
Net financial income	4,558,419	4,413,245
Fee and commission income (note 14)	2,032,991	2,174,685
Provision for impaired loans (note 6)	(136,931)	(130,364)
Net interest and other income	6,454,479	6,457,566
Operating expenses		
Personnel	3,079,315	2,971,580
General business (note 19)	2,139,191	2,119,465
Occupancy costs (note 19)	643,946	574,686
Members' security (note 19)	202,346	231,529
	6,064,798	5,897,260
Income before income taxes	389,681	560,306
Income tax expense (recovery) (note 11)		
Current	91,633	111,478
Deferred	(15,101)	26,204
	76,532	137,682
Net income and comprehensive income for the year	313,149	422,624
Net income and comprehensive income attributable to members	313,149	422,624

The accompanying notes are an integral part of these consolidated financial statements.

Valley Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2016

	Equity shares $	Restricted surplus $	Retained earnings $	Total members' equity $
Balance at December 31, 2014	43,089	390,271	10,502,053	10,935,413
Net income and comprehensive income	–	–	422,624	422,624
Redemption of members' shares net of issuance	(1,285)	–	–	(1,285)
Balance at December 31, 2015	41,804	390,271	10,924,677	11,356,752
Net income and comprehensive income	–	–	313,149	313,149
Redemption of members' shares net of issuance	(654)	–	–	(654)
Balance – December 31, 2016	41,150	390,271	11,237,826	11,669,247

The accompanying notes are an integral part of these consolidated financial statements.

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

	2016 $	2015 $
Operating expenses		
Net income and comprehensive income for the year	313,149	422,624
Charges (credits to income not involving cash)		
Depreciation of property and equipment	252,923	234,095
Provision for impaired loans	125,066	130,364
Loans written off during the year, net of recoveries	(152,738)	(107,457)
Deferred income taxes	(15,101)	26,204
	523,299	705,830
Net change in non-cash working capital balances related to operations		
Increase in other assets	(140,702)	(165,596)
Increase in accrued interest receivable	(5,408)	(1,098)
Increase in income tax recoverable	(14,576)	(9,848)
Increase (decrease) in accounts payable and accrued liabilities	(250,290)	70,329
Increase (decrease) in income tax payable	–	(45,189)
Increase (decrease) in accrued interest payable	(12,379)	55,229
	99,944	609,657
Financing activities		
Net increase in members' deposits	1,598,613	11,843,789
Net increase (decrease) in line of credit	–	(1,231,496)
Net decrease in equity shares	(654)	(1,285)
	1,597,959	10,611,008
Investing activities		
Net increase in members' loans	(10,901,879)	(9,407,991)
Net decrease in investments	2,860,530	621,210
Additions to property and equipment	(134,220)	(132,032)
	(8,175,569)	(8,918,813)
Net change in cash and cash equivalents during the year	(6,477,666)	2,301,852
Cash and cash equivalents – Beginning of year	18,091,002	15,789,150
Cash and cash equivalents – End of year	11,613,336	18,091,002

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Valley Credit Union Limited (the “credit union”) is incorporated under the Nova Scotia Credit Union's Act, and the operation of the credit union is subject to the Financial Institution Act. The credit union provides a full range of bank services to its customer-owners in 8 branches located throughout western Nova Scotia. The credit union’s head office is located in Waterville, Nova Scotia, Canada.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 28, 2017.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The credit union presents its statement of financial position on a non-classified basis in order of liquidity. The following balances are generally classified as current: cash and cash equivalents, short-term investments, loans outstanding due within one year, members’ deposits due on demand or within one year, accounts payable and accrued liabilities.

The credit union classifies its expenses by the nature of expenses method.

Basis of consolidation

These consolidated financial statements include the amounts of the credit union's wholly-owned subsidiary, 3100522 Nova Scotia Ltd. Significant intercompany transactions and balances have been eliminated from the consolidated accounts.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale (“AFS”) financial assets accounted at fair value through income, which have been measured at fair value.

2 Summary of significant accounting policies (continued)

Revenue recognition

i) Interest income

Interest on members' loans is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan to the net carrying amount of the loan. When estimating the future cash flows, the credit union considers all contractual terms of the loan excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income is recognized on an accrual basis.

ii) Fee, commission and rebate income

Fee, commission and rebate income is recognized on an accrual basis as it is earned.

iii) Profit sharing income

Income from profit sharing arrangements is recognized when received.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, held in current accounts and interest bearing liquidity deposits held at Atlantic Central. Bank borrowings are considered to be financing activities.

Members' loans

Members' loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Members' loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Members' loans 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.

Members' deposits

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

2 Summary of significant accounting policies (continued)

Allowance for loan losses

All loans are subject to a continuous management review process to assess whether there is any objective evidence that any loan or group of loans is impaired.

Impairment of loans and advances is recognized when objective evidence is available that a loss event has occurred.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Impairment losses are recognized income.

- **Specific provision**

  Loans that meet significant delinquency and loan size criteria are individually assessed for impairment to estimate the likely loss on the loan.

- **Collective provision**

  Loans that do not meet significant delinquency criteria are not individually assessed but are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed based on objective evidence from historical experience.

The quantitative effect is disclosed in note 6.

Income taxes

i) Current income tax

Income tax payable (receivable) is calculated on the basis of current Canadian tax law and is recognized as an expense (income) for the period except to the extent that it relates to items that are recognized in other comprehensive income or directly in equity.

Where the credit union has tax losses that can be relieved against a tax liability for a previous year, it recognizes those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are offset against deferred tax liabilities carried in the statement of financial position.

The credit union does not offset income tax liabilities and current income tax assets.

2 Summary of significant accounting policies (continued)

Income taxes (continued)

ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset or liability is realized or settled. The principal temporary differences arise from depreciation of property and equipment and specific provisions for impaired loans. Deferred tax assets are recognized when it is probable that future taxable profit will be available against which these temporary differences can be utilized.

Financial instruments - recognition and measurement

In accordance with IAS 39 – *Financial Instruments – Recognition and Measurement* ("IAS 39"), financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the credit union classifies its financial instruments as follows:

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The credit union's loans and receivables comprise cash resources, interest bearing deposits and members' loans. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

b) AFS investments

AFS investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The credit union's AFS assets are its long-term equity investments.

AFS investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and comprehensive income and are included in "other gains and losses (net)".

Dividends or distributions on AFS instruments are recognized in the statement of income in investment income when the credit union's right to receive payment is established.

2 Summary of significant accounting policies (continued)

Financial instruments - recognition and measurement (continued)

c) Financial liabilities at amortized costs

Financial liabilities at amortized cost include trade payables and accrued liabilities and members' deposits. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. All other financial liabilities are recognized initially at fair value, net of any transaction costs incurred and subsequently, at amortized cost using the effective interest method.

d) Financial assets and liabilities at fair value through income

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term and consists of short-term investments. They are recognized initially and, subsequently, at fair value. Transaction costs are expensed in the statement of income and comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of income within "other expenses" in the period in which they arise.

Impairment of investments

i) Investments carried at amortized cost

The credit union assesses at each statement of financial position date whether there is objective evidence that an investment is impaired. An investment is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the investment that can be reliably estimated.

ii) Investments classified as AFS

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

Foreclosed assets

Foreclosed assets, if any, are recorded at the lower of the amortized cost of the loan or mortgage foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure, and estimated net proceeds from the sale of the assets.

2 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized using the declining balance and straight-line methods at the following rates:

Buildings	5% declining-balance
Furniture and equipment	20% declining-balance
Vault, security equipment and paving	10% declining-balance
Leasehold improvements	straight-line over the term of the lease
Computer equipment	3 years straight-line
Automated banking machine and cash dispensing unit	5 years straight-line

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 the value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in net income and comprehensive income.

Patronage rebates

The credit union policy is to accrue patronage rebates when approved by the Board of Directors. These rebates are recorded in the statement of income and comprehensive income in the year to which they relate.

Mortgages held under administration

The credit union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. No gain or loss on the initial sale has been recorded by the credit union as a result of these transactions. Fees earned by the credit union to service these mortgages are recognized as the related services are provided and reported in income as other income.

Foreign exchange

The functional currency of the credit union is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies (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. Exchange gains and losses arising on the translation of monetary items are included in income and comprehensive income for the year.

2 Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

IFRS 9 – "Financial Instruments"

In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows to the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss ("FVTPL"), fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) If credit risk increase significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) When a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Finally, IFRS 9, introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

IFRS 9 is effective January 1, 2018. Earlier application is permitted. The impact of IFRS 9 on the credit union has not yet been determined.

IFRS 15 – "Revenue from Contracts with Customers"

The IASB issued IFRS 15, *"Revenue from Contracts with Customers"* ("IFRS 15") effective for annual periods beginning on or after January 1, 2019. IFRS 15, establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue", IAS 11, *"Construction Contracts"*, and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. The credit union is currently evaluating the impact of the new standard on its consolidated financial statements.

IFRS 16 – *"Leases"* ("IFRS 16"), which is effective January 1, 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required to recognize:

- Assets and liabilities for all leases with a term more than 12 months, unless the underlying asset is of low value; and

- Depreciation of lease assets separately from interest on lease liabilities in the statement of income and comprehensive income.

3 Critical accounting estimates and judgments

The credit union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The credit union has no critical accounting judgments. The following are the estimates and judgments applied by management that most significantly affect the credit union's consolidated financial statements.

i. Impairment losses on members' loans

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

ii. Fair value of AFS securities

The fair values of AFS securities where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In each instance management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximated historical cost.

4 Cash and cash equivalents

	2016 $	2015 $
Cash on hand and in current accounts	2,314,321	4,314,134
Atlantic Central interest bearing deposits	9,299,015	13,776,868
	11,613,336	18,091,002

5 Other assets

	2016 $	2015 $
League Data share dividend receivable	2,505	2,729
Atlantic Central rebate receivable	60,924	92,418
Investment interest receivable	–	17,641
Foreclosed collateral (note 6)	300,538	20,171
Prepaid expenses and other	185,347	252,704
Concentra Mortgage Pool receivable	91,872	114,821
	641,186	500,484

6 Members' loans

	2016 $	2015 $
Personal		
Term loan	22,244,375	24,392,798
Line of credit	15,881,213	14,737,968
Mortgage	69,760,838	63,899,469
Business		
Term loan	18,579,158	12,763,774
Line of credit	2,721,706	2,847,609
Mortgage	6,211,692	5,855,485
Accrued interest on loans	234,079	228,671
	135,633,061	124,725,774
Allowance for impaired loans	(266,045)	(293,717)
	135,367,016	124,432,057

	2016		2015	
	Impaired loans $	Allowance for impairment $	Impaired loans $	Allowance for impairment $
Allowance for impaired loans				
Personal				
Line of credit and term loan	157,315	126,610	204,435	145,784
Mortgage	314,506	–	565,591	13,506
Business				
Loans and mortgages	748,694	20,152	734,188	24,962
	1,220,515	146,762	1,504,214	184,252
Collective allowance	–	119,283	–	109,465
	1,220,515	266,045	1,504,214	293,717

6 Members' loans (continued)

Continuity for allowance for impaired loans

	2016 $	2015 $
Allowance for impaired loans – Beginning of year	293,717	270,810
Add		
Provision for impaired loans	125,066	130,364
Impaired loans recovered	7,834	7,585
Less		
Loans written-off:		
Principal	(160,572)	(115,042)
Allowance for impaired loans – End of year	266,045	293,717

Loans can have either variable or fixed rate of interest and they mature within 1 month to 5 years. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

The credit union's prime rate at December 31, 2016 was 3% (2015 - 2.85%).

The credit union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. No gain or loss on the initial sale has been recorded by the credit union as a result of these transactions. Fees earned by the credit union to service these mortgages are recognized as the related services are provided and reported in income as other income. The credit union administers mortgages in the amount of $490,216 (2015 - $1,131,800) under this program.

The credit union has no loans that have been renegotiated during the current or prior year which would have been considered impaired but for restructuring of the loan.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either: (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred; or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	2016 $	2015 $
31 to 60 days	89,619	97,394
61 to 90 days	–	133,832
91 to 180 days	7,432	51,048
Over 180 days	59,145	68,075
	156,196	350,349

6 Members' loans (continued)

Foreclosed collateral

During the year, there were $314,156 in foreclosed loans (2015 - $187,769). Foreclosed properties are sold as soon as is practicable and when in management's opinion it is the most advantageous time to mitigate the risk of additional loss. At December 31, 2016, the credit union had $300,538 (2015 - $20,171) in foreclosed properties held for resale.

7 Long-term investments

	2016 $	2015 $
Shares		
Atlantic Central	2,872,617	1,712,390
League Savings and Mortgage Company	–	630,757
Concentra Financial	500,000	500,000
League Data Limited	54,580	54,580
Other	710	710
	3,427,907	2,898,437
Debentures		
League Savings and Mortgage Company	–	390,000
	3,427,907	3,288,437

Long-term investments in shares in the Credit Union System (the "System") and others have been classified as AFS and are measured at estimated fair value which approximates their redemption value.

The credit union's term deposits and investments in debentures have been classified as held-to-maturity and measured at amortized cost.

8 Property and equipment

	Land $	Buildings $	Furniture and equipment $	Vault, security equipment and paving $	Leasehold improvements $	Computer equipment $	Total $
Year ended December 31, 2015							
Opening net book value	898,678	1,514,553	298,661	387,469	69,877	66,333	3,235,571
Additions	–	–	52,803	66,230	–	12,999	132,032
Depreciation	–	(75,874)	(61,834)	(48,777)	(14,844)	(32,766)	(234,095)
Closing net book value	898,678	1,438,679	289,630	404,922	55,033	46,566	3,133,508
At December 31, 2015							
Cost	898,678	2,326,675	1,442,201	1,033,507	349,817	1,050,440	7,101,318
Accumulated depreciation	–	(887,996)	(1,152,571)	(628,585)	(294,784)	(1,003,874)	(3,967,810)
Net book value	898,678	1,438,679	289,630	404,922	55,033	46,566	3,133,508
Year ended December 31, 2016							
Opening net book value	898,678	1,438,679	289,630	404,922	55,033	46,566	3,133,508
Additions	–	–	82,922	–	–	51,298	134,220
Depreciation	–	(71,809)	(61,260)	(73,126)	(13,930)	(32,798)	(252,923)
Closing net book value	898,678	1,366,870	311,292	331,796	41,103	65,066	3,014,805
At December 31, 2016							
Cost	898,678	2,326,675	1,525,123	1,033,507	349,817	1,101,738	7,235,538
Accumulated depreciation	–	(959,805)	(1,213,831)	(701,711)	(308,714)	(1,036,672)	(4,220,733)
Net book value	898,678	1,366,870	311,292	331,796	41,103	65,066	3,014,805

9 Line of credit

The credit union has an operating line of credit with Atlantic Central of $3,800,000 (2015 - $3,500,000); of this amount, $3,800,000 was available at December 31, 2016 (2015 - $3,500,000). The interest rate on the line of credit is prime, which was 2.2% at December 31, 2016 (2015 - 2.2%). The credit union has pledged all of its assets as security for their line of credit.

10 Members' deposits

	2016 $	2015 $
Savings	43,287,354	44,274,859
Chequing	49,478,014	48,977,440
Term deposits	23,591,159	22,677,824
Registered savings and retirement plans	12,598,061	12,915,211
Tax free savings accounts	12,314,669	10,825,310
Accrued deposit interest	264,688	277,067
	141,533,945	139,947,711

11 Income taxes

i) Tax rate reconciliation

	2016 $	2015 $
Income before income taxes	389,681	560,306
Taxes at statutory rates	120,801	173,695
Impact of income taxable at preferred rate	(50,068)	(36,569)
Permanent differences and other	5,799	556
	76,532	137,682

ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31% (2015 - 31.0%) which is calculated as follows:

The movement in the deferred income tax account is as follows:

	2016 $	2015 $
Balance, January 1	48,170	74,374
Deferred income tax (expense) recovery	15,101	(26,204)
Balance, December 31	63,271	48,170

11 Income taxes (continued)

ii) Deferred taxes (continued)

Deferred income tax asset (liability) is attributable to the following items:

	2016 $	2015 $
Deferred income tax asset (liability)		
Allowance for impaired loans	57,933	39,646
Property and equipment	99,951	110,507
Atlantic Central shares	(128,030)	(128,030)
Investment	25,420	25,420
Other	7,997	627
	63,271	48,170

12 Capital requirements and management

Capital management

The credit union's capital consists of retained earnings, restricted surplus and equity shares.

The credit union's strategic plan dictates management's approach to growth; loan mix, credit quality, fixed assets, profitability objectives and dividend/patronage rebate policy and assume a significant influence on customer-owner service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the credit union's strategic objectives.

In accordance with the Credit Union Act, the credit union shall maintain a level of equity that is not less than 5% of its assets. As at December 31, 2016, customer-owners' equity was 7.57% (2015 - 7.45%).

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations.

Restricted surplus

In 2011, the credit union received a non-cash stock dividend from Atlantic Central of $520,000 in the form of 5,200 Class NS shares having a redemption value of $100 per share. This amount was included in income for 2011 with a corresponding current and deferred tax liability of $129,729, resulting in net income of $390,271 from this transaction.

Pursuant to a directive issued by CUDIC, the $390,271 net income and retained earnings resulting from this stock dividend transaction cannot be distributed until such time as total equity of the credit union is equal to or greater than 8% of total assets and retained earnings are equal to or greater than 4% of total assets.

13 Equity shares

The credit union is authorized to issue an unlimited number of common shares. Common shares can only be withdrawn with the approval of the Board of Directors. The shares have a par value of $5 per share and each member is required to hold one share. During 2016, the net decrease in common shares was 81 (2015 - 147) for cash consideration of $405 (2015 - $735). Also, during the year adjustments were made to the minimum $5 balance in the amount of $249 (2015 - $550). The total number of shares issued at the end of the year is 8,527 (2015 - 8,608).

14 Fee and commission income

	2016 $	2015 $
Interac fees	25,355	26,032
Service charges	1,514,239	1,473,679
Commissions	228,730	364,085
Rebates	85,662	91,752
Rental income	80,518	80,075
Mortgage penalties	40,860	47,368
Other	57,627	91,694
	2,032,991	2,174,685

15 Financial instruments and fair values

i) Fair values

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The credit union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the credit union's financial instruments. The carrying value is a reasonable approximation of fair value for the credit union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

15 Financial instruments and fair values (continued)

i) Fair values (continued)

The fair values of financial instruments are as follows:

Loans

In determining the fair value of loans, the credit union incorporates the following assumptions:

- For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the credit union's loan portfolio.

Deposits

In determining the fair value of deposits, the credit union incorporates the following assumptions:

- For fixed rate and fixed maturity deposits, the credit union discounts the remaining contractual cash flows, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis, fair value is assumed to equal carrying value.

The table below sets out the fair values of financial instruments, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that are not considered financial instruments.

	2016		2015	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Assets				
Cash and cash equivalents	11,613,336	11,613,336	18,091,002	18,091,002
Short-term investments	–	–	3,000,000	3,000,000
Members' loans	135,398,982	134,460,111	124,497,103	124,708,561
Long-term investments	3,427,907	3,427,907	3,288,437	3,288,437
Liabilities				
Members' deposits	141,269,257	141,711,683	139,670,644	140,193,177
Accounts payable and accrued liabilities	952,630	952,630	1,199,043	1,199,043

15 Financial instruments and fair values (continued)

i) Fair values (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	2016			2015		
	Level 1 $	Level 2 $	Level 3 $	Level 1 $	Level 2 $	Level 3 $
AFS investments	–	3,427,907	–	–	2,898,437	–

ii) Risk management

The credit union, through its financial assets and liabilities, has exposure to the following risks from use of its financial instruments: credit risk, liquidity risk and market risk (interest rate risk). Senior management is responsible for setting acceptable levels or risk and reviewing risk management activities as necessary.

a) Credit risk

Credit risk is the risk of financial loss to the credit union if a member or counterparty of a financial instrument fails to meet its contractual obligations resulting in financial loss to the credit union. This risk arises primarily from the credit union's personal and commercial loans, mortgages and loan commitments arising from such lending activities.

15 Financial instruments and fair values (continued)

ii) Risk Management (continued)

a) Credit risk (continued)

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

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

Credit risk exposure:

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

	2016 $	2015 $
Atlantic Central interest bearing deposits	9,299,015	13,776,868
Short-term investments	–	3,000,000
Members' loans		
Personal	107,886,426	103,030,235
Business	27,512,556	21,466,868
AFS investments	3,427,907	2,898,437
Held to maturity investments	–	390,000
	148,125,904	144,562,408

See note 6 for further disclosure on credit risk.

Short-term deposits and cash at banks have a low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the credit union's underwriting methodologies and risk modeling is customer based rather than product based. The credit union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing credit risk.

15 Financial instruments and fair values (continued)

iii) Liquidity risk

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

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

Exposure to liquidity risk:

The credit union is required to maintain 10% of members' deposits in liquid investments of which 90% must be held with Atlantic Central. The credit union was not in compliance with this requirement at December 31, 2016. This situation resulted from high volume of loan growth in December and a delay in receiving committed funding until January of 2017. Atlantic Central and CUDIC were both made aware of the circumstances and the temporary nature and VCU has returned to a compliance with this requirement in 2017.

	2016 $	2015 $
Required liquidity	14,114,821	13,978,485
Liquid assets	13,123,584	22,389,739
Excess (shortage) liquidity	(991,237)	8,411,254
Liquid assets comprise		
Cash on hand and current accounts	1,972,709	3,900,481
Short-term investments and liquidity deposits	11,150,875	18,489,258
	13,123,584	22,389,739

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

				2016
	On demand $	Under 1 year $	1 - 3 years $	Over 3 years $
Members' deposits	104,643,097	20,683,470	12,712,920	3,229,770
Trade and other payables	948,753	–	–	–
Operating leases	–	54,708	–	–
	105,591,850	20,738,178	12,712,920	3,229,770

				2015
	On demand $	Under 1 year $	1 - 3 years $	Over 3 years $
Members' deposits	105,422,024	16,918,610	14,413,590	2,916,420
Trade and other payables	1,199,043	–	–	–
Operating leases	–	25,824	–	–
	106,621,067	16,944,434	14,413,590	2,916,420

15 Financial instruments and fair values (continued)

iii) Liquidity risk (continued)

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

iv) Market and interest rate risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the credit union as part of its normal trading activities. As the credit union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk.

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

Interest rate risk policies and processes:

The credit union meets its objectives for interest rate risk management by structuring the statement of financial position to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

Interest rate risk measurement techniques:

The credit union uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, the credit union will alter the product mix through the marketing of particular products and pricing initiatives. Decisions on determining the appropriate mix of assets and liabilities are based on economic conditions, member behaviour, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the credit union's net interest revenue a 1% movement in rates. At December 31, 2016, the credit union's risk related to a 1% movement in rates was 17 basis points or $260,000.

The determination of interest rate sensitivity encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets and liabilities used to manage interest rate risk.

The gap position presented below is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behaviour and the application of the credit union's asset and liability management policies.

15 Financial instruments and fair values (continued)

iv) Market and interest rate risk (continued)

The assumptions for the year ended December 31, 2016 were as follows:

Assets

- Fixed term assets, such as mortgages and personal loans, are reported based on scheduled repayments.
- Variable rate and non-interest-bearing assets that are related to the prime rate or other short-term market rates are reported in the within the three-month category.

Liabilities

- Fixed rate liabilities, such as term deposits, are reported at scheduled maturity.
- Interest-bearing deposits on which the member interest rate changes with prime or other short-term market rates are reported in the within the demand category.

Rates

- Rates are based on the weighted average interest rates for the assets and liabilities on December 31.

December 31, 2016

	Demand principal $	Rate %	Under 1 year principal $	Rate %	1 – 3 years principal $	Rate %	Over 3 years principal $	Rate %
Assets								
Cash and investments	2,314,320	–	9,299,016	0.82	–	–	3,427,907	2.40
Members' loans	43,535,082	5.26	14,296,870	3.69	28,580,550	4.15	48,986,480	3.49
	45,849,402	5.00	23,595,886	2.56	28,580,550	4.15	52,414,387	3.42
Liabilities								
Members' deposits	104,643,097	0.46	20,683,470	1.35	12,712,920	2.01	3,229,770	1.86
Asset/liability gap	(58,793,695)		2,912,416		15,867,630		49,184,617	

December 31, 2015

	Demand principal $	Rate %	Under 1 year principal $	Rate %	1 – 3 years principal $	Rate %	Over 3 years principal $	Rate %
Assets								
Cash and investments	4,314,134	–	16,776,868	0.68	–	–	3,288,437	3.13
Members' loans	41,160,003	5.09	23,532,130	3.77	27,159,770	4.09	32,645,200	4.17
	45,474,137	4.60	40,308,998	2.49	27,159,770	4.09	35,933,637	4.08
Liabilities								
Members' deposits	105,422,024	0.46	16,918,610	1.13	14,413,590	2.14	2,916,420	2.22
Asset/liability gap	(59,947,887)		23,390,388		12,746,180		33,017,217	

16 Commitments and contingencies

a) Lease and other obligations

The approximate minimum annual lease payment for the credit union's office for the next year is $54,708.

b) Credit commitments

The following amount represents the maximum amount of additional credit that the credit union could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire or terminate without being utilized.

	$
Undrawn lines of credit	10,986,189

c) Contingencies

In the ordinary course of business, the credit union has legal proceeding brought against it and provisions have been included in liabilities where appropriate. At December 31, 2016 $nil (2015 - $nil) provisions have been recorded.

17 Related party transactions

The credit union entered into the following transactions with key management personnel, which are defined by IAS 24, *"Related Party Disclosures"*, as those persons having authority and responsibility for planning, direction and controlling the activities of the credit union.

a) Key management

	2016 $	2015 $
Salaries	756,628	829,012
Post-employment benefits	81,297	79,358
	837,925	908,370

b) Directors remuneration

	2016 $	2015 $
Honorarium	13,122	12,851
Payment for expenses incurred while on credit union business or training	11,817	12,205
	24,939	25,056

17 Related party transactions (continued)

c) Loans to directors, key management personnel and their families

Loans to directors and key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

	2016 $	2015 $
Loans outstanding at December 31	597,678	693,688
Loans issued during the year	323,357	131,104
Changes in key management during the year	(31,682)	(20,355)
Loan repayments during the year	127,276	(206,759)
Loans outstanding at December 31	1,016,629	597,678
Interest income earned	15,433	14,022

No provisions have been recognized in respect of loans given to key management (2015 - $nil). The loans issued to directors, key management personnel and close family members during the year of $323,357 (2015 - $131,104) are repayable over 0-30 years and have interest rates of 2.04% - 3.00%, (2015 - 2.04% - 2.85%).

18 Company pension plan

The credit union provides its employees with an RPP matching pension plan. As at December 31, 2016, there were no required future contributions in respect of past service and all contributions required under the plan had been funded.

During the fiscal year, the credit union contributed $125,553 (2015 - $128,288) towards the pension plan.

19 Operating expenses

	2016 $	2015 $
General business		
Advertising and promotion	72,087	80,925
Banking fees	563,012	529,707
Board expenses	44,219	49,962
Computer costs	350,919	341,175
Courier and postage	17,955	87,642
Credit Union Central	238,320	205,685
Depreciation – equipment and computer	87,322	90,256
Donations	1,573	2,205
Equipment maintenance and rent	84,983	77,074
Meetings	23,083	19,982
Membership	143,155	119,298
Office	130,757	115,296
Other	235,436	215,393
Professional fees	111,411	150,629
Staff travel	34,959	34,236
	2,139,191	2,119,465
Occupancy costs		
Depreciation	165,601	148,775
Rent	59,150	56,383
Repairs and maintenance	202,189	148,215
Taxes	82,666	82,549
Utilities	134,340	138,764
	643,946	574,686
Members' security		
CUDIC	121,611	129,839
Insurance and other	80,735	101,690
	202,346	231,529