2014 ANNUAL REPORT

CREDIT UNION
SOURIS

MISSION

At Souris Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals. We are a community-minded co-operative that helps build through involvement, leadership, and monetary generosity in the community. We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.

VALUES

Honest | Passionate | Holistic | Spiritual | Evolutionary | Simplistic | Inclusive

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2014 AT A GLANCE

* We had excellent financial results again in 2014, allowing us to pay our Members $ 262,000 in patronage dividends in addition to our normal dividend payment of $ 75,000 on Member share account balances

* Launched a number of new products this year, including all new Spending and Savings Accounts and our new mobile banking app for iPhone

* For the 10th consecutive year, we were honoured to be ranked #1 in Customer Service Excellence across the country*

* We continued to provide valued support in the form of charitable donations, bursaries, and scholarships to the community totalling over $ 27,000

* Our assets surpassed $ 45 Million for the first time

*THE IPSOS 2014 BEST BANKING AWARDS ARE BASED ON QUARTERLY CUSTOMER SERVICE INDEX (CSI) SURVEY RESULTS. SAMPLE SIZE FOR THE TOTAL 2014 CSI PROGRAM YEAR ENDED AUGUST 2014 WAS 45,428 COMPLETED SURVEYS YIELDING 68,738 FINANCIAL INSTITUTION RATINGS


STAFF

BOARD OF DIRECTORS

PICTURED LEFT TO RIGHT: NOVA MACISAAC, PRESIDENT | PETER FORD | DALE CAHILL | GLEN CAMERON | JUDY MACAULAY
DENNIS MCNALLY | WALTER BRUCE | CHARLES GILLIS | GAIL JENNINGS



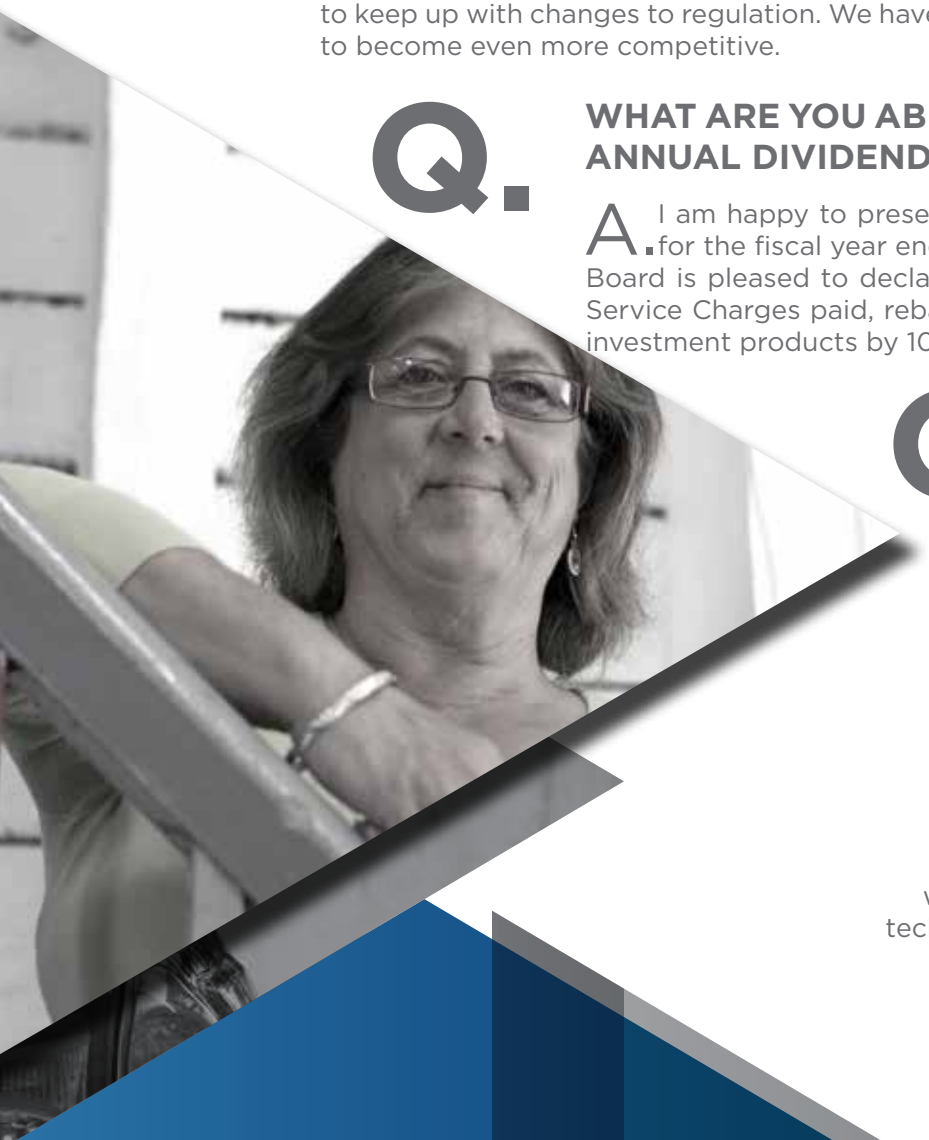





PRESIDENT'S INTERVIEW

Q. FOR THOSE THAT ARE UNAWARE OF THE BOARD OF DIRECTORS' ROLE, COULD YOU EXPLAIN THE ROLE OF THE BOARD AND DESCRIBE HOW THE BOARD HAS BEEN FULFILLING THAT ROLE THIS PAST YEAR?

A. It is my pleasure to represent the board and to be able to share some of the work we've been doing and the progress we've been making. The Board's role is to be responsible for representing the interests of Members and incorporating those' interests into the strategic governance of the Credit Union. In addition to our annual exercise, we have been committed to monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible and to ensure that we are benefiting our fellow Members in the best way possible. In order to remain progressive, we have worked with Atlantic Central to keep up with changes to regulation. We have also examined changes in the marketplace and adapted to those changes in order to become even more competitive.



Q. WHAT ARE YOU ABLE TO TELL US ABOUT THE BOARD'S DECISION CONCERNING ANNUAL DIVIDENDS?

A. I am happy to present, on behalf of the Board of Directors, that we have declared a 2.50 % dividend for the fiscal year ended on September 30, 2014. In addition, thanks to another year of profitability, the Board is pleased to declare a Patronage Dividend for our Members in good standing. Refunding 20 % of Service Charges paid, rebating 12 % of the interest paid on credit products, and increasing the rate paid on investment products by 10 % of the interest they earned during the last fiscal year.

Q. WHAT ARE THE BIGGEST CHALLENGES THAT YOUR CREDIT UNION AND BOARD HAVE FACED THIS YEAR?

A. Every year brings some extent of challenges, and this past year was no exception. In recent years, technology has begun to dictate what Members expect and thus how our industry operates. People expect more 24/7 convenience, and our Credit Union must keep up with these expectations in all of our services. One specific technology-related challenge has been the struggle to engage with mobile consumers. The mobile segment has been growing rapidly with new applications being developed that impact our core businesses, redefining how consumers source financial advice and how they purchase products. Another big challenge this year was facing increased competition from banks. The banks have continued to focus on the Canadian retail market with aggressive promotions and product strategies, staying at the forefront of technology and shaping consumer demands.

Q. WHAT ARE THE MAIN AREAS OF SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?

A. Souris Credit Union has had another successful year for 2014. Our equity position is the strongest in PEI and one of the strongest in the Maritimes. We have experienced an increased demand in our commercial loan portfolio and deposits showed very strong growth.

To address the technology challenge discussed in the previous section Souris Credit Union introduced the new iPhone app, along with new savings and spending accounts. We are currently rolling out a new feature, remote capture, which will allow our Members to deposit their cheques from remote locations at their convenience.

Q. THINKING AHEAD TO NEXT YEAR, WHAT ARE SOME OF THE GOALS FOR YOUR CREDIT UNION THAT COME TO MIND?

A. Well, one of the biggest changes this past year was the addition of products including new Spending and Savings Accounts. These accounts were provided to all new Members and were available to existing Members who wanted to change accounts.

Another, more general, goal for the upcoming year is to continue building our relationship with youth further. Recognize that youth are our future, we have dedicated a considerable amount of resources to the development of products, services, and programs that are relevant to today's youth. We want the Credit Union to be their first choice, and one of our youth-related goals is for there to be significant growth of our Spending Accounts for Youth. We have already seen success in this area and hope that this will continue in the upcoming years.

Q. IN CONCLUSION, IS THERE ANYTHING YOU WOULD LIKE TO SAY IN REGARD TO THIS PAST FISCAL YEAR THAT YOU HAVEN'T ALREADY HAD THE CHANCE TO SAY?

A. I would like to extend my gratitude to a number of people. Any success of the Credit Union would not be possible without the cooperation and hard work of a number of parties. I would like to thank our Members who continue to give us their continuous support and allow us to grow. My fellow directors are dedicated and committed to the success of Souris Credit Union. I would also like to thank the General Manager and staff for the high quality of service they provide to Members. Finally, I would like to extend my gratitude to Atlantic Central for their cooperation and support.

NOVA MACISAAC
PRESIDENT

MANAGER'S INTERVIEW

Q. WHAT DO YOU BELIEVE ARE THE REASONS FOR THE SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?

A. Our success can be contributed to our Members. Without their support and dedication, we would not have any success. Our success has also been heavily reliant on our staff and all of the time and hard work that they have contributed this past year. The work of staff has been very influential in the implementation of the new Spending and Savings Accounts, and the positive attitude of staff has also been influential in making our Credit Union an exceptional place to work. The willingness of the Board Members to volunteer their time and experience is also essential to the success of our Credit Union. They have contributed greatly to our financial success this year and have also contributed to the fact that we have created new products and are becoming even more consumer-friendly. I would like to extent my thanks to all of these groups that have contributed to a successful year.

Q. WHAT HAS BEEN DONE TO OVERCOME CHALLENGES?

A. One way we have worked to overcome challenges is by working with Atlantic Central and other Credit Unions in the Atlantic region. Atlantic Central has consulted with other Canadian and international Credit Unions in order to keep the Board of Directors abreast of necessary changes. Collaborating with Atlantic Central has allowed us to remain competitive in a broader marketplace that is constantly changing and developing. This collaboration has also helped to combat the challenges of keeping up with new technology and consumer demands. Another way that we have worked to compete with banks and become more user-friendly is by investing in technology that focuses on making decisions easy for Members and providing them with the advice and information they need, when they need it.

Q. LOOKING AT SOME OF YOUR CREDIT UNION'S BIGGEST GOALS FOR THE UPCOMING YEARS, WHAT ARE SOME OF THE PRACTICAL WAYS YOU ARE WORKING TO MEET THOSE GOALS?

A. One of our goals for the near future is to have our Credit Union be more youth-friendly and to have more young people turning to us to take care of their financial needs. We have taken on a number of youth-oriented projects to further our engagement with youth in the community, and we hope that this, combined with the efforts of the new Provincial Marketing Department, will create the kind of interest for youth that we would like to see.

Q. WHAT INFORMATION CAN YOU PROVIDE ABOUT THIS YEAR'S FINANCIAL GROWTH?

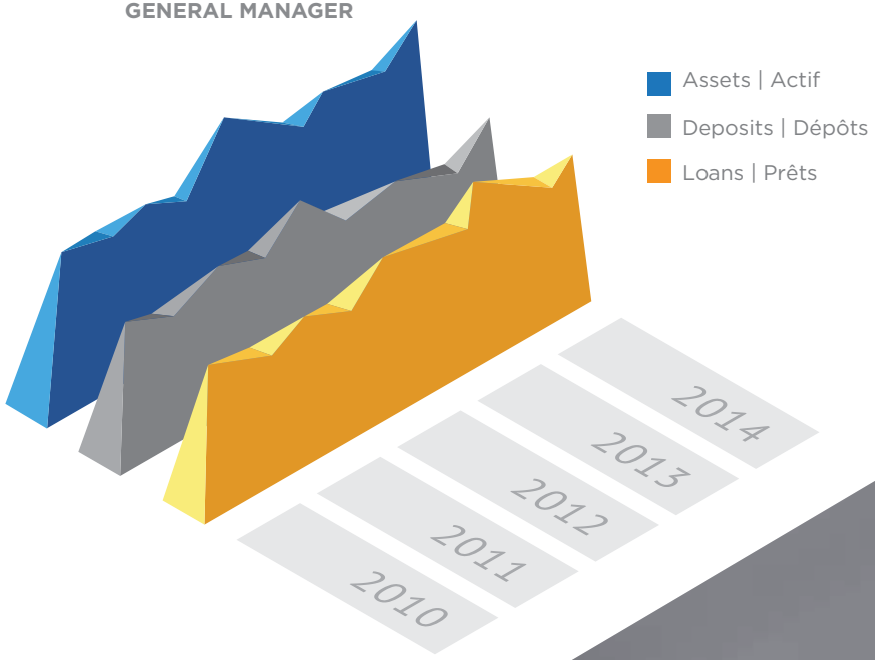
A. First, I must say that I am very pleased with our financial growth in this past year despite a difficult economy. I would also like to review the financial statements and to highlight and discuss items of significance in order to present our financial growth in a different light and to make our financial results more than just a bunch of numbers. It is my pleasure to announce that, as of September 30, 2014, our assets are up to 44.6 Million, which is a growth of $ 3.78 million or 9.2 %. Loans, net of provisions for impaired loans, have increased by $ 650,000 and make up 75 % of assets. In addition, Member deposits have increased by $3.1 million or 10%, which means that deposits are at 77% of assets. The result of increased deposits with a lesser growth in loans means that we now have more liquidity. Undistributed income has also increased by $124,000 , which is the income remaining after dividends, interest rebates and taxes for the year.

All of these positive numbers are signs of the Credit Union's strength and the work the Board of Directors has been doing to ensure that the Credit Union continues to grow financially. Because of our financial growth, we are able to return extra earnings to our Members instead of leaving the earnings in our equity. This year, an extra 262,000 was returned to Members, which demonstrates the benefits of doing business with your own company.

Q. WHAT CHANGES, IF ANY, HAS YOUR CREDIT UNION EXPERIENCED OVER THE PAST FISCAL YEAR?

A. There has been a significant change in our staff over the past year. Valerie Campbell, Manager Lending Services, retired after 35 years of outstanding service to our Credit Union. I believe I speak on behalf of all our Members and staff when I wish Valerie the best in her retirement years, and to thank her for her dedication and years of service to our Credit Union.

PAUL MACNEILL
GENERAL MANAGER



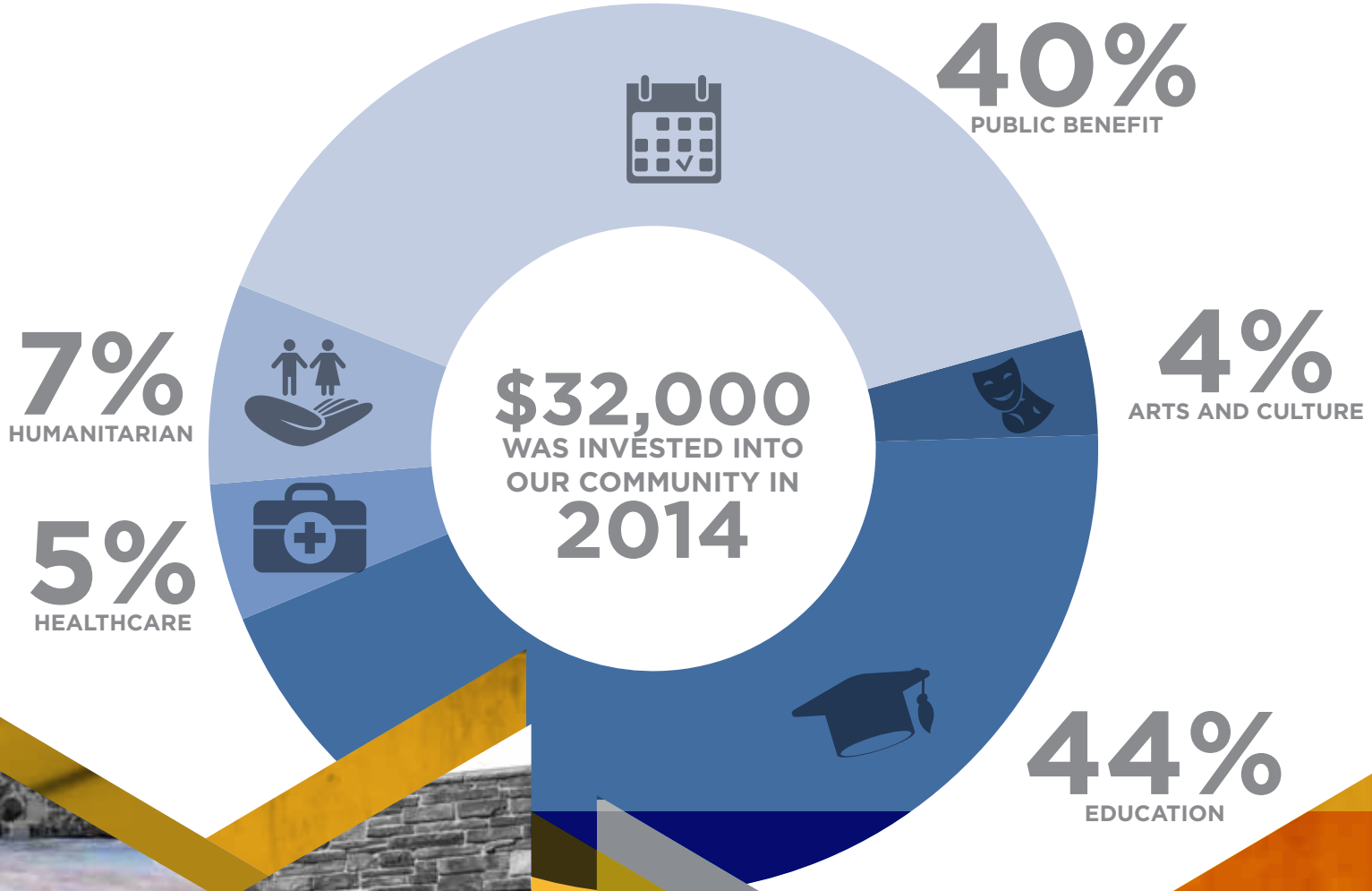
INVOLVED IN OUR COMMUNITY

Giving back to our Members and to the community has always been of high importance to Credit Unions. We have a high standard for social responsibility, and each year we strive to serve our community even more. One of the most significant ways in which we give back to the community is through donations. Donations of just over $ 27,000 were made this year, and with these donations, we were able to help countless people and change many lives. Decisions for donations are made so that they can have the biggest impact on people in need and the community as a whole, so we are confident that we are living up to our social responsibility standards and creating the greatest positive impact possible. As a financial co-operative, we strive to help our Members reach their financial goals, and with donations, we are able to help great community organizations reach their goals.

As well our Staff raised $6,485 through our monthly 50/50 draw, half of which was returned to the winning members and the other half used to fund our Medical Fund. As of September 30, 2014, $1,040 was provided to our members to help with the cost of travel to medical appointments.

PROVINCIAL EVENT SPONSOR OF THE RELAY FOR LIFE

Even though we are individually committed to community involvement and social responsibility, all the Credit Unions on Prince Edward Island also work together to sponsor larger events that affect all of P.E.I.. One of the major events that PEI Credit Unions sponsor is the Canadian Cancer Society's Relay For Life. This year, the PEI Credit Unions were again the Provincial Event Sponsor for the Relay For Life. In addition to the monetary funding, Credit Union employees volunteer their time and expertise to work bank nights in their local areas. Our staff also participated in the Relay for Life for the 9th consecutive year as team Members.


40%
PUBLIC BENEFIT
4%
ARTS AND CULTURE
44%
EDUCATION
5%
HEALTHCARE
7%
HUMANITARIAN
$32,000
WAS INVESTED INTO
OUR COMMUNITY IN
2014

$336K
FOR MEMBERS

IN 2014 ALONE, SOURIS CREDIT UNION PUT AN EXTRA $336K IN MEMBERS' POCKETS FROM SHARE AND PATRONAGE DIVIDENDS .

IN THE PAST **3 YEARS**, SOURIS CREDIT UNION GAVE OVER

$1.13 MILLION

TO OUR **MEMBERS** AND CHARITIES

FOCUSED ON OUR YOUTH

Making a positive impact on our youth's financial life is a challenge we have focused on for 2014 and will continue to work towards in the years to come.

REDEFINED "YOUTH"

The starting point for our youth strategy was to redefine what we mean when we say Youth. Typically in our industry, a youth is anyone under 18 years of age. Once they surpass 18years of age and are no longer attending school, we consider them adults. If they are attending a post-secondary school, we place them in a sub-category of Youth called Students. The reality is, leaving the school system and entering the real world is where our members need the greatest support. They need to get a good head start on life to prosper down the road. This is why we have redefined our definition of Youth, and all the costs savings that goes along with it, to all members 25 or under, regardless of their status.

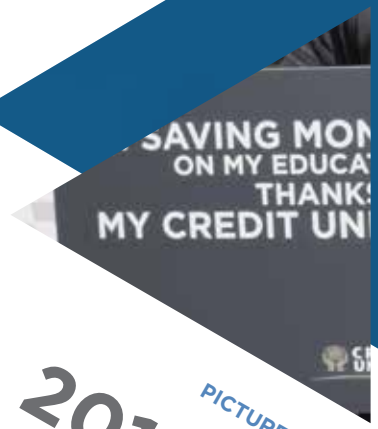
CREDIT UNIONS ARE NOW ON SOCIAL MEDIA

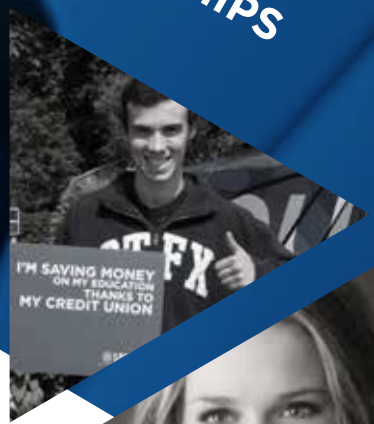
To better reach our young members, we have joined together with all Credit Unions on PEI and launched a single social media touch point in 2014. This makes connecting and staying up to date with your credit union more streamlined and easy for members, wherever and whenever they want.

NEW UNIVERSAL SCHOLARSHIP APPLICATION PROCESS

In 2014, Credit Unions on PEI launched a uniform scholarship application process for all students looking to apply for a credit union scholarship. This ensured that all students are treated equally regardless of what school or credit union they belong to. The application process was also moved exclusively online to make it more accessible to students to apply from a computer or mobile device. In total, over 140 students applied for credit union scholarships across the Island, with 42 students sharing over $42,000 in scholarships to further their education.

$10K IN SCHOLARSHIPS





PICTURED LEFT TO RIGHT: CALVIN MOONEY | PETER AITKEN | THOMAS BRUCE | COURTNEY DILL
NOT PICTURED: LUCINDA MYERS | JAYNE ROBERTSON

2014 SCHOLARSHIP RECIPIENTS

We are pleased to announce 6 Souris Credit Union Scholarship Recipients for 2014. Each scholarship recipient received $1,800 towards furthering their education. In total, Souris Credit Union distributed $10,800. We wish everyone the best of luck on their studies and future endeavors.

SOURIS CREDIT UNION IN 2014

	CREDIT UNIONS	POINTS OF SERVICE	MEMBERS	ASSETS
PROVINCIAL SYSTEM	8	14 LOCATIONS	54 THOUSAND	$856 MILLION
REGIONAL SYSTEM	55	159 LOCATIONS	328 THOUSAND	$4.9 BILLION
CANADIAN SYSTEM	317	1,740 LOCATIONS	5.32 MILLION	$165.6 BILLION

1 LOCATION

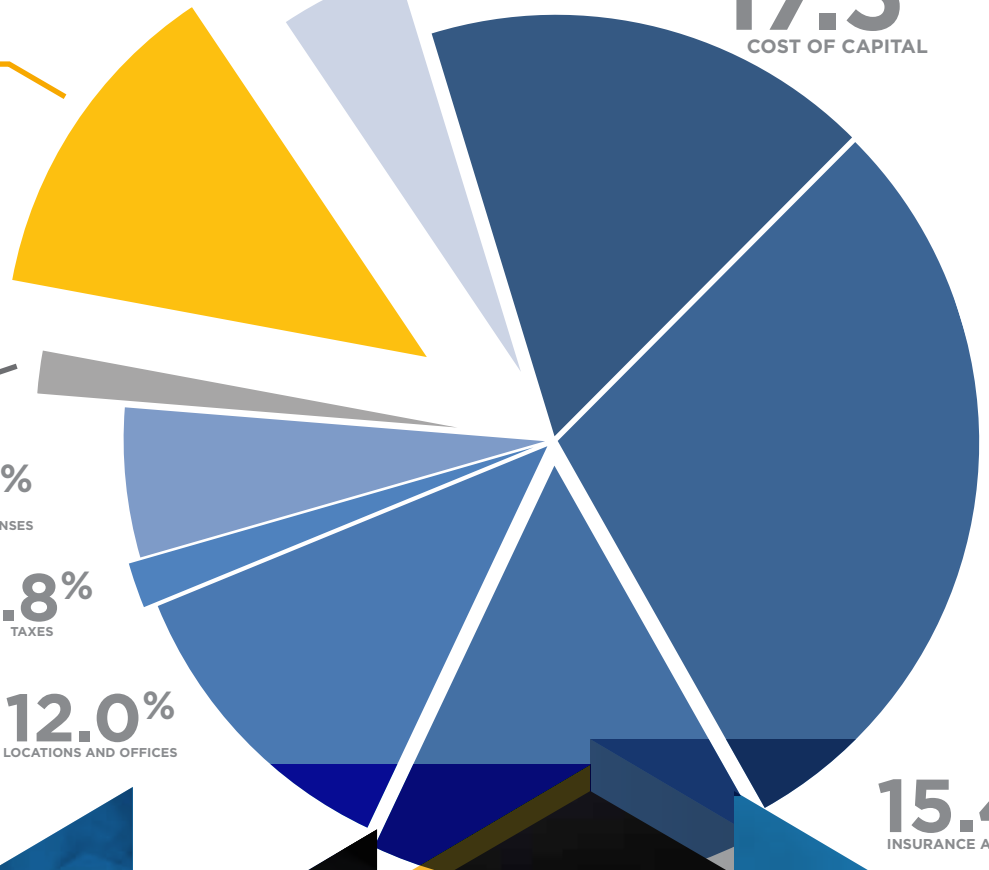
3.6K MEMBERS

$45 MILLION IN ASSETS

$34 MILLION IN DEPOSITS

$33 MILLION IN LOANS

FOR EVERY $1 EARNED IN 2014



MRSB Chartered Accountants

Shaun MacIsaac, C.A.
Everett Roche, C.A.
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Lloyd Compton, C.A.

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C1A 8C3

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INDEPENDENT AUDITOR'S REPORT

To the Members of Souris Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Souris Credit Union Limited, which comprise the statement of financial position as at September 30, 2014 and the statements of comprehensive income, changes in members' equity, and cash flow 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.

Auditor's Responsibility

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

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

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

(continues)

AUDITOR'S REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Souris Credit Union Limited as at September 30, 2014 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

MRSB Chartered Accountants

MRSB CHARTERED ACCOUNTANTS

Charlottetown, PE

October 23, 2014

SOURIS CREDIT UNION LIMITED
Statement of Financial Position
September 30, 2014

	2014	2013
Assets		
Cash and cash equivalents (Note 4)	**$ 3,783,388**	$ 2,715,798
Investments (Note 5)	**6,130,736**	3,940,009
Accounts receivable (Note 6)	**238,039**	290,467
Income taxes recoverable	**960**	-
Member loans and mortgages (Note 7)	**33,794,852**	33,192,455
Provision for impaired loans (Note 8)	**(450,000)**	(500,000)
Prepaid expense	**33,259**	37,026
Real estate for resale	**24,100**	55,000
Future income taxes (Note 10)	**33,094**	47,146
Property and equipment (Schedule 1)	**717,770**	747,855
Restricted cash - retirement allowance	**323,172**	288,543
Deferred pension benefit	**-**	38,089
	$ 44,629,370	$ 40,852,388
Liabilities		
Accounts payable and accrued liabilities	**$ 380,733**	$ 415,890
Employee benefits payable	**204,012**	189,178
Accrued interest payable	**207,993**	194,951
Income taxes payable	**-**	846
Member deposits (Note 11)	**34,291,316**	31,170,224
Share deposits	**4,032,161**	3,496,352
Retirement allowance payable	**323,172**	288,543
Deferred pension obligation (Note 12)	**125,266**	-
	39,564,653	35,755,984
Commitments (Note 13)		
Members' equity		
Members' shares (Statement 4)	**16,075**	15,970
Accumulated other comprehensive income (Statement 4)	**349,246**	505,038
Undistributed earnings (Statement 4)	**4,699,396**	4,575,396
	5,064,717	5,096,404
	$ 44,629,370	$ 40,852,388

ON BEHALF OF THE BOARD

Director

Director

Notes 1-24 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Statement of Changes in Member's Equity
Year Ended September 30, 2014

	2014	2013
Members' shares (Note 14)		
Balance - beginning of year	**$ 15,970**	$ 16,280
Issuance of members' shares, net of redemption	**105**	(310)
Balance - end of year	**16,075**	15,970
Accumulated other comprehensive income		
Balance - beginning of year, as previously stated	**505,038**	(139,827)
Prior period adjustment (Note 15)	**-**	139,600
Balance - beginning of year, restated	**505,038**	(227)
Actuarial gain (loss) on deferred pension plan	**(158,500)**	504,900
Foreign exchange gain	**2,708**	365
Balance - end of year	**349,246**	505,038
Undistributed earnings		
Balance - beginning of year, as previously stated	**4,575,396**	4,509,819
Prior period adjustment (Note 15)	**-**	(139,600)
Balance - beginning of year, restated	**4,575,396**	4,370,219
Net income (Statement 5)	**124,000**	205,177
Balance - end of year	**4,699,396**	4,575,396
Members' equity	**$ 5,064,717**	$ 5,096,404

Notes 1-24 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Statement of Comprehensive Income
Year Ended September 30, 2014

	2014	2013
Income		
Interest and investment	**$ 2,033,738**	$ 2,011,761
Cost of capital and borrowings (Note 16)	**788,748**	782,190
Financial margin	**1,244,990**	1,229,571
Other income (Note 17)	**565,213**	606,466
	1,810,203	1,836,037
Expenses		
Advertising and promotions	**87,828**	152,072
Amortization of property and equipment	**41,465**	45,493
Automated teller machines	**113,087**	99,943
Board honorarium	**15,024**	12,513
Data processing	**93,134**	83,674
Director training	**1,129**	8,619
Dues and memberships	**2,021**	1,473
Insurance	**71,193**	75,102
Meetings	**3,190**	3,501
Office	**94,937**	79,050
Premises	**50,793**	49,885
Professional fees	**23,208**	18,029
Provision for impaired loans	**50,781**	54,191
Service fees	**211,861**	189,046
Telephone	**10,928**	11,666
Travel	**9,909**	7,587
Wages and wage levies	**759,599**	769,998
	1,640,087	1,661,842
Income before income taxes and other comprehensive income	**170,116**	174,195
Income taxes (recovered)		
Current (Note 18)	**32,064**	33,022
Future	**14,052**	(64,004)
	46,116	(30,982)
Net income	**124,000**	205,177
Other comprehensive (income) loss		
Actuarial (gain) loss on deferred pension plan (Note 12)	**158,500**	(504,900)
Foreign exchange gain	**(2,708)**	(365)
	155,792	(505,265)
Net comprehensive income (loss)	**$ (31,792)**	$ 710,442

Notes 1-24 are an integral part of these financial statements

COMPREHENSIVE INCOME

SOURIS CREDIT UNION LIMITED
Statement of Cash Flow
Year Ended September 30, 2014

	2014	2013
Cash flows from operating activities		
Net comprehensive income (loss)	**$ (31,792)**	$ 710,442
Items not affecting cash:		
Amortization of property and equipment	**41,465**	45,493
Future income taxes	**14,052**	(64,004)
	23,725	691,931
Changes in non-cash working capital:		
Investments	**(2,190,727)**	26,771
Accounts receivable	**52,428**	12,467
Income taxes recoverable	**(1,806)**	16,386
Prepaid expense	**3,767**	3,131
Accounts payable and accrued liabilities	**(35,157)**	232,009
Employee benefits payable	**14,834**	16,322
Accrued interest payable	**13,042**	(29,337)
	(2,143,619)	277,749
	(2,119,894)	969,680
Cash flows from investing activities		
Increase in member loans and mortgages	**(652,397)**	(1,499,919)
Increase in restricted cash	**(34,629)**	(20,275)
Decrease in real estate for resale	**30,900**	53,341
Purchase of property and equipment	**(11,380)**	(13,053)
	(667,506)	(1,479,906)
Cash flows from financing activities		
Increase (decrease) in member deposits	**3,121,092**	(990,892)
Increase in share deposits and members' shares	**535,914**	33,053
Increase (decrease) in deferred pension obligation	**163,355**	(461,212)
Increase in retirement allowance payable	**34,629**	20,275
	3,854,990	(1,398,776)
Net change in cash and cash equivalents	**1,067,590**	(1,909,002)
Cash and cash equivalents - beginning of year	**2,715,798**	4,624,800
Cash and cash equivalents - end of year	**$ 3,783,388**	$ 2,715,798
Cash flow supplementary information		
Interest received	**$ 2,029,268**	$ 2,026,375
Interest paid	**449,529**	471,078
Income taxes paid	**33,870**	16,636

Notes 1-24 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended September 30, 2014

1. DESCRIPTION OF BUSINESS

Souris Credit Union Limited was incorporated under the Companies Act of Prince Edward Island on June 17, 1954 and is governed by the Prince Edward Island Credit Unions Act. Souris Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members in Souris, Prince Edward Island.

These financial statements were authorized for issue by the Board of Directors on October 23, 2014.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with and are in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in Note 3. These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and cash in financial institutions.

Investments

Investments for which there are quoted prices in an active market are carried at fair value by the Credit Union. Unrealized gains or losses are reported as part of net comprehensive income. Investments for which there is not an active market are carried at amortized cost, except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net comprehensive income.

Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and mortgages

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

Member loans and mortgages 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 and mortgages.

Impairment

Loans and mortgages are considered impaired when there has been deterioration in credit quality. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment followed by a measurable decrease in the estimated future cash flows from a loan or mortgage. Deterioration of estimated future cash flows is determined considering the financial condition of the borrower, payment history and security pledged.

The Credit Union first assesses whether objective evidence of impairment exists individually for member loans and mortgages. If it is determined that no objective evidence of impairment exists for individual assets, the asset is included in a group of financial assets with similar credit characteristics and that group is assessed collectively for impairment. Assets that are individually assessed for impairment are not included in the collective assessment. The expected cash flows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience, future estimates based on current events, and objective evidence of impairment similar to those in the portfolio.

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

Member loans and mortgages considered uncollectible are written off.

Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the provision for impaired loans. At September 30, 2014, interest accrued on impaired loans and mortgages totals $Nil (2013 - $16).

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount.

Real estate held for resale

Real estate held for resale is carried at the market value of the loan or mortgage foreclosed, adjusted for estimates of revenues to be received and costs to be incurred subsequent to foreclosure, and the estimated net proceeds from the sale of the assets.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future income taxes

Income tax expense comprises current and future tax.

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

Future tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of future 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 allows the future tax asset to be utilized. Future tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Property and equipment

Property and equipment is stated at cost less accumulated amortization. Property and equipment is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	5%
Furniture & equipment	20%
ATMs	20%
Computer hardware	30%
Pavement	8%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Finance charges

Fees related to the purchase of Index-Linked RRSP units are amortized using the straight-line method over the term of the investment and are netted against the cost of the liability.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee future benefits

The Credit Union records annually the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent years under the Credit Union's policy.

Liabilities are recorded for employee benefits including salaries and wages, deductions at source, paid annual or sick leave, variable compensation and bonuses that are expected to be settled within 12 months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on the remuneration rate that the Credit Union expects to pay at the financial statement date. The expected cost of variable compensation and bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be estimated reliably.

Benefits such as medical care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Severance benefits are recognized as an expense when the Credit Union is committed demonstrably, without realistic opportunity for withdrawal, to a formal detailed plan to provide severance benefits under certain circumstances. If material benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

Souris Credit Union Limited contributes to a defined benefit plan for employees, which is administered and managed through CUMIS. The Credit Union's defined benefit obligation is calculated by independent actuaries at the reporting date using the Projected Unit Credit Method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, mortality, and retirement age of employees.

Pension expense for the defined benefit plan includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations, and past service costs. The Credit Union recognizes all actuarial gains and losses arising from the defined benefit pension plan immediately in other comprehensive income.

Member deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method. Chequing accounts, call deposits and term deposits are on a call basis and earn interest at various rates.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2014 was 2.5% (2013 - 2.5%), and was based on the average of the lowest monthly share balances.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of $5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Corporation.

As at the financial statement date, the Credit Union has 3,215 member shares issued and outstanding with a value of $16,075 (2013 - 3,194 shares with a value of $15,970).

Revenue and expense 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 readily be measured. The principal sources of revenue are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the statement of comprehensive income, as a reduction to income over the expected life of the relevant loans and mortgages.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of other comprehensive income.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events, and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the provision for impaired loans, measurement of pension and employee benefits, and the estimates of useful lives for depreciation of property and equipment.

Financial instruments

The Credit Union classifies its financial assets and liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM), or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the statement of financial position with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair value of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of available for sale financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the statement of financial position as a separate component of Members' equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Credit Union has classified its equity investments as AFS; however, because there is no active market for these investments and their fair value cannot be estimated reliably, the Credit Union has not recorded any other comprehensive income as a result of these.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union has classified its financial instruments as follows:

FVTPL	Cash and cash equivalents
AFS	Investments - shares
HTM	Investments - debentures
L&R	Member loans and mortgages and accounts receivable
OFL	Accounts payable and accrued liabilities, employee benefits payable, accrued interest payable, and member and share deposits

The Credit Union utilizes settlement date accounting for all purchases and sales of financial assets in its investment portfolio. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

Fair value of financial instruments

The determination of the fair value of financial instruments requires the exercise of judgement by management. The fair value of financial instruments traded in active markets at the financial statement date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique which maximizes the use of observable market inputs.

For certain types of equity instruments, fair value is assumed to approximate carrying value where the range of reasonable valuation techniques is significant and the probabilities of such valuation techniques cannot be reasonably assessed. In such instances, fair value may not be reliably measurable due to the equity instruments' unique characteristics, including trading restrictions or that quoted market prices for similar securities are not available.

Changes in accounting standards

Effective October 1, 2013 the Credit Union adopted IFRS 13 - Fair Value Measurement. This standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard establishes a framework for measuring fair value, including a revised definition of fair value, and sets out disclosure requirements for fair value measurements. The Credit Union has concluded that there were no significant changes in the fair value measurement of financial instruments required on adoption of this new standard. In addition, adoption of this new standard did not result in any changes in the carrying amount of assets or liabilities as previously reported.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2014 and have not been adopted by the Credit Union in preparing these financial statements. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 9 - Financial Instruments

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way the Credit Union accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets - financial assets will be held at either fair value or amortized cost, except for equity investments not held for trading and certain eligible debt instruments, which may be held at fair value through other comprehensive income;
- Financial liabilities - gains and losses on fair value changes arising on non-derivative financial liabilities designated at fair value through profit or loss will be taken to other comprehensive income;
- Impairment - credit losses expected (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances; and
- Hedge accounting - hedge accounting will be more closely aligned with financial risk management.

In 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Credit Union has not yet been determined.

Other standards and amendments have been issued but are not yet effective and are not expected to have a material impact. They include:

IAS 32 - Financial Instruments: Presentation clarifies requirements for offsetting financial assets and financial liabilities. Presentation has been issued and is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. Amendments to this standard are not expected to have a material impact on the Credit Union.

4. CASH AND CASH EQUIVALENTS

	2014	2013
Cash in financial institutions	**$ 3,356,135**	$ 2,302,385
Cash on hand	**427,253**	413,413
	$ 3,783,388	$ 2,715,798

SOURIS CREDIT UNION LIMITED
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5. INVESTMENTS

	2014	2013
Shares		
Atlantic Central Credit Union Limited - common shares	**$ 393,830**	$ 384,870
Atlantic Central Credit Union Limited - Class B preferred shares	**117,200**	117,200
League Savings and Mortgage - Class A preferred shares	**50,478**	50,478
League Data Limited - 1,613 Class B preferred shares	**16,130**	16,130
Atlantic Central Credit Union Limited - Class PEI shares	**800**	800
7730543 Canada Inc. - Class A common shares	**8**	-
	578,446	569,478
Debentures		
Atlantic Central Credit Union Limited liquidity deposit - 1.00%	**2,695,098**	2,513,339
Atlantic Central Credit Union Limited term deposit - 1.17%; matures October 29, 2014	**428,596**	428,596
Atlantic Central Credit Union Limited term deposit - 1.47%; matures July 2, 2015	**428,596**	428,596
Atlantic Central Credit Union Limited term deposit - 1.18%; matures October 9, 2014	**1,500,000**	-
Atlantic Central Credit Union Limited term deposit - 1.23%; matures March 9, 2015	**500,000**	-
	5,552,290	3,370,531
	$ 6,130,736	$ 3,940,009

Liquidity deposits are investments placed with Atlantic Central Credit Union Limited to provide protection against cash flow demands. National standards have been established requiring 6% of Souris Credit Union Limited assets to be held on deposit.

6. ACCOUNTS RECEIVABLE

	2014	2013
Accrued interest - loans and mortgages	**$ 203,615**	$ 199,315
Other receivables	**31,265**	88,163
Accrued interest - investments	**3,159**	2,989
	$ 238,039	$ 290,467

7. MEMBER LOANS AND MORTGAGES

2014	**Total loans**	**Specific allowance**	**Net loans**
Commercial	**$ 12,257,942**	**$ (214,000)**	**$ 12,043,942**
Personal	**8,831,045**	**(225,658)**	**8,605,387**
Mortgages	**6,790,925**	**-**	**6,790,925**
LS&M high ratio mortgages	**4,295,329**	**-**	**4,295,329**
Lines of credit and overdrafts	**1,619,611**	**(10,342)**	**1,609,269**
	$ 33,794,852	**$ (450,000)**	**$ 33,344,852**

2013	Total loans	Specific allowance	Net loans
Commercial	$ 10,517,676	$ (366,681)	$ 10,150,995
Personal	8,959,074	(127,184)	8,831,890
Mortgages	7,558,919	-	7,558,919
LS&M high ratio mortgages	4,621,638	-	4,621,638
Lines of credit and overdrafts	1,535,148	(6,135)	1,529,013
	$ 33,192,455	$ (500,000)	$ 32,692,455

8. PROVISION FOR IMPAIRED LOANS

	2014	2013
Provision for impaired loans - beginning of year	**$ 500,000**	$ 500,413
Provision for impaired loans - current year	**50,781**	54,191
Recovery of loans written off	**14,205**	44,633
Loans written off - current year	**(114,986)**	(99,237)
Provision for impaired loans - end of year	**$ 450,000**	$ 500,000

Members' loans can have either variable or fixed rate of interest. 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.

9. LOANS IN ARREARS

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2014	2013
31 to 60 days	**$ 25,822**	$ 133,805
61 to 90 days	**126,061**	20,588
Over 90 days	**124,671**	69,765
	$ 276,554	$ 224,158

10. FUTURE INCOME TAXES

Future income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These future income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to future income tax assets are as follows:

	2014	2013
Future income tax asset		
Property and equipment	**$ 2,788**	$ 2,234
Retirement allowance	**30,306**	44,912
	$ 33,094	$ 47,146

11. MEMBER DEPOSITS

	2014	2013
Registered Retirement Savings Plan (RRSP) deposits	**$ 9,879,154**	$ 9,796,397
Call deposits	**8,929,800**	8,325,656
Chequing accounts	**7,530,032**	5,779,272
Term deposits	**4,748,963**	4,603,887
Registered Retirement Income Fund (RRIF) deposits	**1,779,972**	1,524,857
Tax Free Savings Account (TFSA) deposits	**1,423,395**	1,140,155
	$ 34,291,316	$ 31,170,224

12. DEFERRED PENSION PLAN

Defined benefit pension plan

Souris Credit Union Limited established a final salary defined benefit pension plan for its employees in 2002. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at November, 2011. The next actuarial valuation is scheduled to occur in November, 2014.

Information about the financial position of the Credit Union's defined benefit plan as at September 30 is as follows:

	2014	2013
Changes in accrued benefit obligation:		
Balance - beginning of year	**$ 2,128,000**	$ 2,317,500
Current service	**57,300**	75,000
Interest on liabilities	**104,600**	97,300
Employee contributions	**27,700**	26,800
Actuarial losses due to demographic experience	**106,700**	-
Actuarial (gains) losses due to financial experience	**255,000**	(321,500)
Benefits paid	**(67,100)**	(67,100)
Balance - end of year	**2,612,200**	2,128,000
Change in fair value of plan assets:		
Balance - beginning of year	**2,166,089**	1,894,377
Employer contributions	**52,845**	50,812
Employee contributions	**27,700**	26,800
Expected investment return	**104,200**	77,800
Actual gains due to financial experience	**203,200**	183,400
Benefits paid	**(67,100)**	(67,100)
Balance - end of year	**2,486,934**	2,166,089
	$ 125,266	$ (38,089)

In determining the accrued pension obligation, estimates and assumptions from market data and management's best estimates are used. Some of these estimates and assumptions have a high degree of uncertainty and increase the risk that the fair value of plan assets and obligations may change by a material amount in the future. The following actuarial assumptions have been used in the determination of the accrued pension obligation (benefit) and the fair value of plan assets:

Discount rate	**4.10 %**	4.80 %
Expected return on plan assets	**4.8 %**	6.5 %
Rate of salary increase	**2.0 %**	2.0 %
Inflation rate	**2.0 %**	2.0 %

Assumed retirement age: 62 or earliest unrecorded retirement age if later
Mortality rates: September 30, 2014 - CPM2014-Private Table with Improvement Scale CPM-B
Mortality rates: October 1, 2013 - 1994 UP with generations upgrade

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12. DEFERRED PENSION PLAN *(continued)*

	2014	2013
The expense for the Credit Union's defined benefit plan is as follows:		
Current service costs	**$ 57,300**	$ 75,000
Interest on liabilities	**104,600**	97,300
Expected investment return	**(104,200)**	(77,800)
Pension expense recognized in net income	**$ 57,700**	$ 94,500
Actuarial gain (loss) recognized in other comprehensive income	**$ (158,500)**	$ 504,900
Cumulative actuarial gains recognized in comprehensive income	**$ 346,400**	$ 504,900

The expected return on plan assets for the defined benefit pension plan is comprised of the estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of the pooled funds that make up the plan assets, additional returns assumed to be achievable due to active equity management, and implicit provision for expenses expected to be paid from the pension fund.

The investment asset mix of the defined benefit pension plan is as follows:

Fixed income	41 %	30 %
Equity	53 %	60 %
Short term	6 %	10 %
	100 %	100 %

Liabilities at September 30, 2014:	
Extrapolated present value of benefit obligation	**$ 2,612,200**
Sensitivity of liabilities at September 30, 2014:	
1.0% increase in discount rate	**$ 2,141,900**
1.0% decrease in discount rate	**$ 3,185,700**
1.0% increase in rate of salary increase	**$ 2,764,200**
1.0% decrease in rate of salary increase	**$ 2,468,600**
Maturity profile of liabilities at September 30, 2014:	
Weighted average duration of liabilities	**20.0 years**

The Credit Union expects employer contributions of approximately $75,400 to be paid for the next fiscal year.

13. COMMITMENTS

The Credit Union has entered into a lease agreement for a postage machine. Future minimum annual lease payments as at September 30, 2014, are as follows:

2015	$ 2,262
2016	2,262
2017	2,262
2018	2,262
2019	1,697

14. MEMBERS' SHARES

	Number of shares	**2014**	Number of shares	2013
Balance - beginning of year	**3,194**	**$ 15,970**	3,256	$ 16,280
Shares issued (redeemed), net	**21**	**105**	(62)	(310)
Balance - end of year	**3,215**	**$ 16,075**	3,194	$ 15,970

15. PRIOR PERIOD ADJUSTMENT

Under IAS 19 - Employee Benefits, revisions resulted in changes to the actuarial calculations of the defined pension obligation. Under these revisions, all gains and losses are to be recognized immediately in other comprehensive income in the year they are incurred. In addition, the liability interest cost and expected return of asset components of the pension expense have been eliminated and are replaced with a net interest cost component.

These revisions have been applied retroactively and have resulted in a transition adjustment of $139,600 to the opening 2013 comparative figures for accumulated other comprehensive income and undistributed earnings. In addition, the 2013 pension expense and actuarial gain on deferred pension plan have increased by $45,600 from the amounts previously reported on the September 30, 2013 audited financial statements.

16. COST OF CAPITAL AND BORROWINGS

	2014	2013
Interest and service charges	**$ 454,427**	$ 443,256
Patronage dividends	**259,175**	271,923
Share dividends	**75,146**	67,011
	$ 788,748	$ 782,190

17. OTHER INCOME

	2014	2013
Commissions	$ 543,103	$ 583,962
Miscellaneous	22,110	22,504
	$ 565,213	$ 606,466

18. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.50% (2013 - 30.75%) to the income for the year and is reconciled as follows:

	2014	2013
Income before income taxes and other comprehensive income	$ 170,116	$ 174,195
Income tax expense at the combined basic federal and provincial tax rate	$ 55,288	$ 53,565
Increase (decrease) resulting from:		
Small business deduction	(35,167)	(40,814)
Capital cost allowance claimed in excess of amortization	566	576
Non-deductible expenses	168	38
Tax reserves	14,625	114
Provision for loan loss reserve	16,504	16,666
Recovery of loans previously written off	4,617	13,727
Loans written off in the current year	(37,370)	(30,520)
Employee future benefits	12,833	5,648
Adjustments to prior year	-	14,022
Effective tax expense	$ 32,064	$ 33,022

The effective income tax rate is 18.85% (2013 - 18.96%).

19. LINE OF CREDIT AVAILABILITY

Souris Credit Union Limited has an approved line of credit with Atlantic Central Credit Union Limited of $2,000,000 which expires on December 31, 2020 and was not utilized at the year end. The line of credit bears an interest rate of 3.00% (prime + 0%) and is secured by a general security agreement.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Souris Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values, and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarcy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximates their fair value as they are short term in nature or are receivable on demand.

Long term investments in shares in the Credit Union System and others have been classified as available for sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments cannot be measured reliably and therefore measures these investments at cost with no adjustment to other comprehensive income. The Credit Union's investments in system debentures have been classified as held-to-maturity and are required to be measured at amortized cost.

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

21. RELATED PARTY TRANSACTIONS

Souris Credit Union Limited provides financial services to members. These members hold the loans, deposits, and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at year end, some members of the Board of Directors, Credit Committee, management, and employees had loans and mortgages from Souris Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel, and balances due to and from key management personnel are as follows:

	2014	2013
Short-term employee benefits	**$ 308,252**	$ 299,165
Contributions to a retirement pension plan	**33,765**	32,358
Mortgages, loan balances, and lines of credit due from key management at September 30	**287,702**	306,519
Deposit balances due to key management at September 30	**18,890**	18,631

Short-term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

22. RISK MANAGEMENT

The Credit Union manages significant risks through a comprehensive infrastructure of policies, procedures, methods, oversight, and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate, and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

Credit risk

Credit risk is the risk that a member will fail to meet their obligation to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

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2. RISK MANAGEMENT *(continued)*

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage, and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union maintains both specific and collective allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts and the general state of the economy. Senior management regularly monitors credit risk and reports to the Board of Directors on a monthly basis.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset 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 parties fail to perform their obligations. The principal collateral and other credit enhancements holds as security for loans include a) insurance and mortgages over properties, b) recourse to sell assets such as real estate, equipment, inventory, and accounts receivable and c) recourse to liquid assets, guarantees, and securities.

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities, and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are disclosed in Schedule 2. The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

(continues)

22. RISK MANAGEMENT *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

23. CAPITAL MANAGEMENT

Souris Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union during the 2014 fiscal year amounted to $33,794,852.

Consistent with other Prince Edward Island Credit Unions, Souris Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets. This ratio is calculated by adding the undistributed earnings at the end of the previous year plus the operating surplus in the current year and members' shares, divided by the total assets of the Credit Union.

	2014	2013
Members' shares	**$ 16,075**	$ 15,970
Accumulated other comprehensive income	**349,246**	505,038
Undistributed earnings	**4,699,396**	4,575,396
Total regulatory equity	**5,064,717**	5,096,404
Total assets	**44,629,370**	40,852,388
	11.35 %	12.48 %

(continues)

23. CAPITAL MANAGEMENT *(continued)*

Credit Union bylaws require Souris Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Overall, a minimum liquid asset level of 10% of total assets must be maintained to ensure ongoing cash flow requirements are met.

	2014	2013
Total assets	**$ 44,629,370**	$ 40,852,388
Liquid assets	**10,152,163**	6,946,274
	22.75 %	17.00 %

24. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements **(Schedule 1)**
Statement of Property and Equipment
Year Ended September 30, 2014

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Amort beginning of year	Amort in year	Disposals	Amort end of year	NBV 2014	NBV 2013
Land	$ 179,291	$ -	$ -	$ 179,291	$ -	$ -	$ -	$ -	$ 179,291	$ 179,291
Building	972,255	10,279	-	982,534	489,903	24,375	-	514,278	468,256	482,352
Furniture & equipment	196,243	1,100	-	197,343	161,096	7,139	-	168,235	29,108	35,146
ATMs	55,654	-	-	55,654	30,009	5,129	-	35,138	20,516	25,645
Computer hardware	122,627	-	-	122,627	109,954	3,802	-	113,756	8,871	12,673
Pavement	38,670	-	-	38,670	25,922	1,020	-	26,942	11,728	12,748
	$1,564,740	$ 11,379	$ -	$1,576,119	$ 816,884	$ 41,465	$ -	$ 858,349	$ 717,770	$ 747,855

Notes 1-24 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements **(Schedule 2)**
Interest Rate Sensitivity
Year Ended September 30, 2014

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	$ 3,354,369	$ -	$ -	$ 429,019	$ 3,783,388
Effective interest rate	0.93 %	- %	- %	- %	
Investments	5,552,290	-	-	578,446	6,130,736
Effective interest rate	1.12 %	- %	- %	- %	
Accounts receivable	-	-	-	238,039	238,039
Income taxes recoverable	-	-	-	960	960
Personal and commercial loans and mortgages	8,302,646	13,630,276	9,802,660	-	31,735,582
Effective interest rate	4.98 %	6.06 %	5.76 %	- %	
Lines of credit and overdrafts	1,609,270	-	-	-	1,609,270
Effective interest rate	8.42 %	- %	- %	- %	
Prepaid expense	-	-	-	33,259	33,259
Real estate for resale	-	-	-	24,100	24,100
Future income taxes	-	-	-	33,094	33,094
Property and equipment	-	-	-	717,770	717,770
Restricted cash - retirement allowance	-	-	-	323,172	323,172
	$ 18,818,575	$ 13,630,276	$ 9,802,660	$ 2,377,859	$ 44,629,370
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 380,733	$ 380,733
Employee benefits payable	-	-	-	204,012	204,012
Accrued interest payable	-	-	-	207,993	207,993
Member deposits	23,804,950	5,194,740	-	5,291,626	34,291,316
Effective interest rate	1.44 %	1.50 %	- %	- %	
Share deposits	4,032,161	-	-	-	4,032,161
Effective interest rate	2.50 %	- %	- %	- %	
Retirement allowance payable	-	-	-	323,172	323,172
Deferred pension obligation	-	-	-	125,266	125,266
Members' shares	16,075	-	-	-	16,075
Effective interest rate	2.50 %	- %	- %	- %	
Accumulated other comprehensive income	-	-	-	349,246	349,246
Undistributed earnings	-	-	-	4,699,396	4,699,396
	$ 27,853,186	$ 5,194,740	$ -	$ 11,581,444	$ 44,629,370

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

As at September 30, 2014, Souris Credit Union Limited's net interest spread was 2.57%. The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year end interest bearing liabilities.

Notes 1-24 are an integral part of these financial statements


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