

2015

annual  
report



**CREDIT  
UNION**

SOURIS

# Table of Contents

3	Mission
3	Values
5	Board of Directors
5	Staff
7	President's Report
9	Manager's Report
11	In our Community
12	Scholarships
12	Relay For Life
13	Focused on Youth
13	Investing In People
15	More Money in your Pocket
18	Auditor's Report
19	Statement of Financial Position
20	Statement of Changes in Member's Equity
21	Statement of Comprehensive Income
22	Statement of Cash Flow
23	Notes to the Financial Statements



## Mission

To provide outstanding service and professional advice to enable our members to reach their financial goals.

## Values

Honest

Passionate

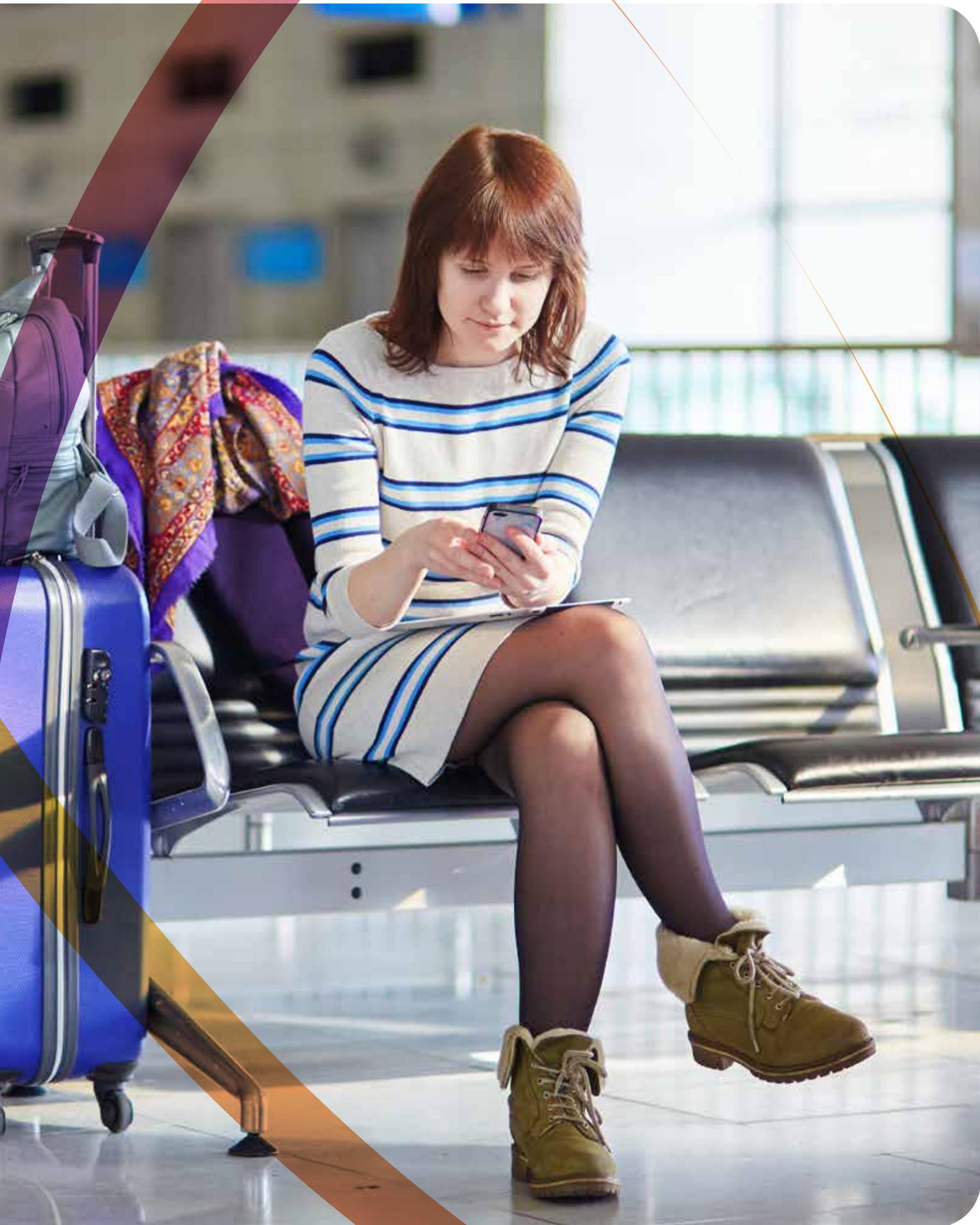
Holistic

Spiritual

Evolutionary

Simplistic

Inclusive



# Board of Directors



Nova MacIsaac, President



Gail Jennings



Judy MacAulay



Megan Cheverie



Dennis McNally



Tammy Daley



Glen Cameron



Dale Cahill



Walter Bruce

Staff



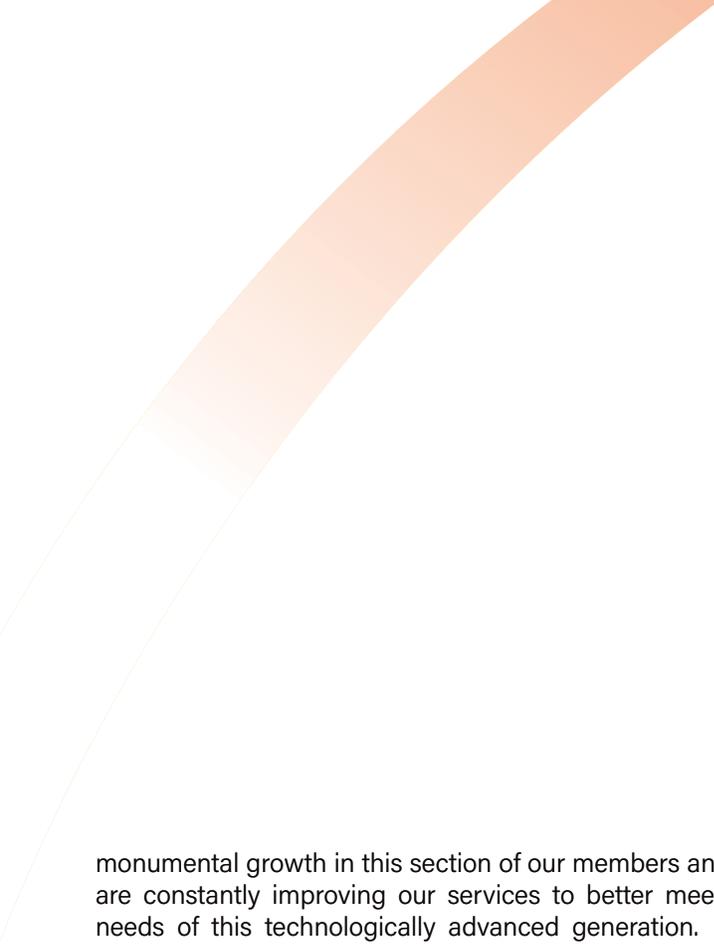
## President's Report



It has truly been a privilege and honour for me to serve as President of the Credit Union and to represent our members on the Board of Directors.

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. We have worked with various partners, including 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.

When speaking of successes of the Credit Union, one must first attribute this year's success to our members. Without their support, input and dedication our achievements would be near impossible. In 2015, the Credit Union was devoted to retaining and growing their youth (age 19-25) portfolio. We have seen



monumental growth in this section of our members and we are constantly improving our services to better meet the needs of this technologically advanced generation. This leads me to praise the advancement the Credit Union has seen this year in our mobile convenience section of our services. Both Apple and Android versions of our Mobile Banking App are available to all members with the added feature of Deposit Anywhere.

Every year brings some extent of challenges and this year was no exception. With the advancement and success we have had in terms of our mobile connectedness, we are now faced with the task of making these mobile services forefront to our members. We hope to take great strides in 2016 with more members accessing the mobile services and finding them simple to navigate.

Building on the success on 2015, we look to expand our relationship with youth. We recognize that youth are our future, we have dedicated a considerable amount of resources to the development of products, services, and

programs that are extremely relevant to today's generation. We want the credit union to be their first choice, well-knowing that we have the best products and services for their needs.

In conclusion, I am happy to present that with the growth we achieved this year we have declared a 2.00% dividend for the fiscal year ended on December 31st, 2015. On behalf of the Board of Directors I would like to thank the staff of the Credit Union for their friendly and professional service but also their commitment to bettering our community.

## Manager's Report



As the manager of the Credit Union it is my pleasure to speak to this past fiscal year and the upward trend of success the credit union has seen.

This year we have seen great growth in our mobile services and our ability to be the most convenient banking choice. With help from Atlantic Central and other credit unions in the Atlantic region we have been able to collaboratively remain competitive in a broader marketplace. Working with other credit unions has allowed us to keep up with consumer demands and to deliver many new technologies such as Deposit Anywhere and our mobile banking app for both Apple and Android. As we continue to compete with banks, our ability to adapt to newer technologies has allowed us to remain user-friendly but to also provide our members with the advice and information they need, when they need it.

Looking at the last year, financially, I must say I am very pleased with our financial growth despite the difficult economy. As of December 31, 2015, our assets have reached \$ 46.4 million, which is a growth of 1.7 million or 4 %. Our loans have increased significantly by 2.4

million and make up 78 % of our current assets. Alongside our growth in loans, we have also experienced an increase of 1.3 million in member deposits. This growth in our member deposits translates into more liquidity for the credit union. Undistributed income has also increased by \$ 317,800 which is the income remaining after dividends, interest rebates and taxes for the year. In addition, equity has increased and remains close to 12 %. These numbers speak loudly to the overall success of the credit union and the staff which propels us forward. Because of our financial growth, we are able to return extra earnings in the form of a Patronage Dividend to our members, this year, returning more than \$ 258,000 to members, showing why banking with the credit union yields a positive result!

We have identified several ambitious goals for the upcoming year. With the acquisition of our new mobile features, one goal for this year is to make our members aware, and also comfortable of these new beneficial offerings. We are also looking to continue to grow our Youth portfolio.

Understanding that our Youth are the pillars of our future, we're striving to meet their needs and to become top of mind when considering a financial institution. These goals will be met with help from the Joint Marketing Group and Atlantic Central respectively.

Much of the success of the last year can be contributed to our Members. Without their constant support and input we would not be able to easily achieve our set goals for the year. Much like our Members, we are heavily reliant on our staff. As we have progressed in this ever changing market our staff has shown an ability to adapt and change. We are very fortunate to also have the expertise of our numerous Board Members. Their willingness to volunteer their time has been essential to our success as a financial institution.



## In our Community



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

This year, over **\$26,500.00** in donations were made on behalf of the credit union, benefitting not only community groups but also numerous families alike. We are completely confident that this year we created a noteworthy impact on our community through our numerous donations. While we are a financial co-operative and strive to help our members reach their financial goals, we also put great emphasis on the goals of the community.



**\$26,500**  
was invested into our community in  
**2015**

# Scholarships

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We are pleased to announce 6 Souris Credit Union Scholarship Recipients for 2015. Each scholarship recipient received \$1,800 towards furthering their education. In total, Souris Credit Union distributed \$10,800. We wish everyone all the best in their studies and future endeavors.



Carly MacDonald

Carson Deveau

Drew McClumpha

Grace MacDonald

Megan O'Hanley

Victoria MacDonald

## Relay For Life

While each credit union on PEI are individually committed to local initiatives, on occasion all credit unions will work together to sponsor larger scale events that affect all of PEI. For the last 10 years we have been the Provincial Sponsor for the Canadian Cancer Society's Relay For Life. Along with the sponsorship of the events themselves, our staff have been willfully involved in fundraising for the event as well as donating their time with numerous collected volunteer hours. Over the last ten years as Provincial Sponsor, PEI Credit Unions has contributed over \$463,000 to the Canadian Cancer Society, more impressively, over \$283,000 of the total was raised by staff themselves.

## Focused on Youth

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

The Cash Dash was created out of wanting a more creative way to attain and attract new youth members. Partnering with local radio station Hot 105.5, we created an amazing-race styled event that took place over the better part of the Island. Four teams of two raced across our different services areas completing tasks and different challenges.

The prize? \$5,000.00.

We had an overwhelming response to the contest both in interest and online through our social pages.

## Investing In People

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

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



#InvestingInPeople

 /PEICreditUnions



More Money in your  
Pocket

**\$258,268**

In 2015 alone, Souris Credit Union put an extra \$258,268 in members' pockets from share and patronage dividends.

**Over \$1.48 Million**

In the past four years, Souris Credit Union gave over \$1.486 Million to our members and charities.

# \$50,000

donated to the Eastern Kings Health Foundation

With a mandate in place to support community initiatives, 2015 marked a pivotal year for Souris Credit Union. As Eastern Kings Health Foundation launched their People You Know, Care You Can Count on campaign, the credit union supported their initiative with a substantial \$50,000 donation. This

donation will allow the EKHF to purchase innovative medical equipment, enhance existing programs and to generally enrich the quality of life of the residents, patients and clients who utilize the essential services offered by the Eastern Kings Health Centre and other partnering institutions.



# Financial Statements



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## INDEPENDENT AUDITOR'S REPORT

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### 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 December 31, 2015 and the statements of comprehensive income, changes in members' equity, and cash flow for the 15 months then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Souris Credit Union Limited as at December 31, 2015 and its financial performance and its cash flow for the 15 months then ended in accordance with International Financial Reporting Standards.

*MRSB Chartered Accountants*

MRSB CHARTERED ACCOUNTANTS

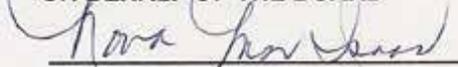
Charlottetown, PE

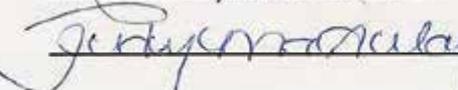
February 17, 2016

**SOURIS CREDIT UNION LIMITED**  
**Statement of Financial Position**  
**December 31, 2015**

	December 31 2015	September 30 2014
<b>Assets</b>		
Cash and cash equivalents (Note 4)	\$ 1,547,804	\$ 3,783,388
Investments (Note 5)	7,440,139	6,130,736
Accounts receivable (Note 6)	614,220	238,039
Income taxes recoverable	-	960
Member loans and mortgages (Note 7)	36,217,220	33,794,852
Provision for impaired loans (Note 8)	(600,000)	(450,000)
Prepaid expense	32,312	33,259
Deferred income taxes (Note 10)	69,344	33,094
Property and equipment (Schedule 1)	679,996	717,770
Restricted cash - retirement allowance	260,275	323,172
Deferred pension benefit (Note 11)	166,447	-
Real estate for resale	-	24,100
	<b>\$ 46,427,757</b>	<b>\$ 44,629,370</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 389,866	\$ 380,732
Employee benefits payable	205,591	204,012
Accrued interest payable	178,514	207,993
Income taxes payable	5,849	-
Member deposits (Note 12)	35,418,032	34,291,316
Share deposits	4,268,169	4,032,161
Retirement allowance payable	260,275	323,172
Deferred pension obligation (Note 11)	-	125,266
	<b>40,726,296</b>	<b>39,564,652</b>
Contingent liability (Note 13)		
Commitments (Note 14)		
<b>Members' equity</b>		
Members' shares (Statement 4)	15,985	16,075
Accumulated other comprehensive income Statement 4)	665,836	346,536
Undistributed earnings (Statement 4)	5,019,640	4,702,107
	<b>5,701,461</b>	<b>5,064,718</b>
	<b>\$ 46,427,757</b>	<b>\$ 44,629,370</b>

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**  
**15 Months Ended December 31, 2015**

	December 31 2015	September 30 2014 (12 months)
<b>Members' shares (Note 15)</b>		
Balance - beginning of period	\$ 16,075	\$ 15,970
Issuance of members' shares, net of redemption	<u>(90)</u>	<u>105</u>
Balance - end of period	<u>15,985</u>	<u>16,075</u>
<b>Accumulated other comprehensive income</b>		
Balance - beginning of period	346,536	505,036
Actuarial gain (loss) on deferred pension plan (Statement 5)	<u>319,300</u>	<u>(158,500)</u>
Balance - end of period	<u>665,836</u>	<u>346,536</u>
<b>Undistributed earnings</b>		
Balance - beginning of period	4,702,103	4,575,399
Net income (Statement 5)	<u>317,537</u>	<u>126,708</u>
Balance - end of period	<u>5,019,640</u>	<u>4,702,107</u>
<b>Members' equity</b>	<u>\$ 5,701,461</u>	<u>\$ 5,064,718</u>

**SOURIS CREDIT UNION LIMITED**  
**Statement of Comprehensive Income**  
**15 Months Ended December 31, 2015**

	December 31 2015	September 30 2014 (12 months)
<b>Income</b>		
Interest and investment	\$ 2,576,063	\$ 2,033,738
Cost of capital and borrowings (Note 16)	<u>866,205</u>	<u>788,748</u>
Financial margin	1,709,858	1,244,990
<b>Other income</b> (Note 17)	<u>885,074</u>	<u>567,921</u>
	<u><b>2,594,932</b></u>	<u>1,812,911</u>
<b>Expenses - by nature</b>		
Advertising and promotions	120,036	87,828
Amortization of property and equipment	48,109	41,465
Automated teller machines	145,140	113,087
Board honorarium	21,283	15,024
Data processing	111,635	93,134
Director training	1,110	1,129
Dues and memberships	4,609	2,021
Insurance	91,752	71,193
Meetings	4,144	3,190
Office	115,472	94,937
Premises	59,850	50,793
Professional fees	38,010	23,208
Provision for impaired loans	263,174	50,781
Service fees	270,914	211,861
Telephone	16,653	10,928
Travel	10,920	9,909
Wages and wage levies	<u>945,498</u>	<u>759,599</u>
	<u><b>2,268,309</b></u>	<u>1,640,087</u>
<b>Income before income taxes and other comprehensive income</b>	<u><b>326,623</b></u>	<u>172,824</u>
<b>Income taxes (recovery)</b>		
Current (Note 18)	45,336	32,064
Deferred	<u>(36,250)</u>	<u>14,052</u>
	<u><b>9,086</b></u>	<u>46,116</u>
<b>Net income</b>	<u><b>317,537</b></u>	<u>126,708</u>
<b>Other comprehensive (income) loss</b>		
Actuarial (gain) loss on deferred pension plan (Note 11)	<u>(319,300)</u>	<u>158,500</u>
<b>Net comprehensive income (loss)</b>	<u><b>\$ 636,837</b></u>	<u>\$ (31,792)</u>

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

**SOURIS CREDIT UNION LIMITED**  
**Statement of Cash Flow**  
**15 Months Ended December 31, 2015**

	December 31 2015	September 30 2014 (12 months)
<b>Cash flows from operating activities</b>		
Net comprehensive income (loss)	\$ 636,837	\$ (31,792)
Items not affecting cash:		
Amortization of property and equipment	48,109	41,465
Deferred income taxes	(36,250)	14,052
	<b>648,696</b>	<b>23,725</b>
Changes in non-cash working capital:		
Investments	(1,309,403)	(2,190,727)
Accounts receivable	(376,181)	52,428
Income taxes payable	6,809	(1,806)
Prepaid expense	947	3,767
Accounts payable and accrued liabilities	9,129	(35,157)
Employee benefits payable	1,579	14,834
Accrued interest payable	(29,479)	13,042
	<b>(1,696,599)</b>	<b>(2,143,619)</b>
	<b>(1,047,903)</b>	<b>(2,119,894)</b>
<b>Cash flows from investing activities</b>		
Increase in member loans and mortgages, net of provisions	(2,272,368)	(652,397)
(Increase) decrease in restricted cash	62,897	(34,629)
Decrease in real estate for resale	24,100	30,900
Purchase of property and equipment	(10,334)	(11,380)
	<b>(2,195,705)</b>	<b>(667,506)</b>
<b>Cash flows from financing activities</b>		
Increase in member deposits	1,126,716	3,121,092
Increase in share deposits and members' shares	235,918	535,914
Increase (decrease) in deferred pension obligation	(291,713)	163,355
Increase in retirement allowance payable	(62,897)	34,629
	<b>1,008,024</b>	<b>3,854,990</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,235,584)</b>	<b>1,067,590</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>3,783,388</b>	<b>2,715,798</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 1,547,804</b>	<b>\$ 3,783,388</b>
<b>Cash flow supplementary information</b>		
Interest received	\$ 2,469,841	\$ 2,029,268
Interest paid	563,933	449,529
Income taxes paid	38,527	33,870

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

Notes to the Financial Statements



**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**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 February 17, 2016.

All Credit Unions on Prince Edward Island have changed their year end date from September 30 to December 31, to coincide with most other Credit Unions in the Atlantic Canada region. Souris Credit Union Limited's financial statements for the period ending December 31, 2015 comprise 15 months compared to 12 months for the year ending September 30, 2014. As a result, the amounts presented in the financial statements are not entirely comparable.

**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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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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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 December 31, 2015, interest accrued on impaired loans and mortgages totals \$189 (2014 - \$Nil).

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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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. 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 period end date.

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

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period 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.

*(continues)*

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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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 periods 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 prorated 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 2015 was 2.0% (2014 - 2.5%), and was based on the average of the lowest monthly share balances.

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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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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 3,197 member shares issued and outstanding with a value of \$15,985 (2014 - 3,215 shares with a value of \$16,075).

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 net income.

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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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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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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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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

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2015 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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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Changes in accounting standards (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.

**4. CASH AND CASH EQUIVALENTS**

	<b>December 31 2015</b>	September 30 2014
Cash in financial institutions	<b>\$ 1,130,029</b>	\$ 3,356,135
Cash on hand	<b>417,775</b>	427,253
	<b>\$ 1,547,804</b>	\$ 3,783,388

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**5. INVESTMENTS**

	<b>December 31 2015</b>	September 30 2014
<b>Shares</b>		
Atlantic Central Credit Union Limited - common shares	\$ 410,150	\$ 393,830
Concentra Financial - Class D preferred shares	500,000	-
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	8
	<b>1,094,766</b>	<b>578,446</b>
<b>Debentures</b>		
Atlantic Central Credit Union Limited liquidity deposit - 0.67%	2,916,777	2,695,098
Atlantic Central Credit Union Limited term deposit - 1.10%; matures August 8, 2016	1,000,000	1,500,000
Concentra Financial term deposit - 1.55%; matures August 15, 2016	1,000,000	-
Atlantic Central Credit Union Limited term deposit - 1.45%; matures April 18, 2016	500,000	428,596
Atlantic Central Credit Union Limited term deposit - 1.55%; matures April 24, 2016	500,000	500,000
Atlantic Central Credit Union Limited term deposit - 0.73%; matures January 4, 2016	428,596	428,596
	<b>6,345,373</b>	<b>5,552,290</b>
	<b>\$ 7,440,139</b>	<b>\$ 6,130,736</b>

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**

	<b>December 31 2015</b>	September 30 2014
Accrued interest - loans and mortgages	\$ 324,430	\$ 203,615
Other receivables	267,755	31,265
Accrued interest - investments	22,035	3,159
	<b>\$ 614,220</b>	<b>\$ 238,039</b>

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**7. MEMBER LOANS AND MORTGAGES**

December 31 2015	Total loans	Specific allowance	Net loans
Commercial	\$ 14,334,359	\$ (388,551)	\$ 13,945,808
Personal	8,443,842	(162,597)	8,281,245
Mortgages	6,276,950	-	6,276,950
LS&M high ratio mortgages	5,541,654	-	5,541,654
Lines of credit and overdrafts	1,620,415	(48,852)	1,571,563
	<b>\$ 36,217,220</b>	<b>\$ (600,000)</b>	<b>\$ 35,617,220</b>
<hr/>			
September 30 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
	<b>\$ 33,794,852</b>	<b>\$ (450,000)</b>	<b>\$ 33,344,852</b>

**8. PROVISION FOR IMPAIRED LOANS**

	December 31 2015	September 30 2014
Provision for impaired loans - beginning of period	\$ 450,000	\$ 500,000
Provision for impaired loans - current period	263,174	50,781
Recovery of loans written off	2,256	14,205
Loans written off - current period	<u>(115,430)</u>	<u>(114,986)</u>
Provision for impaired loans - end of period	<b>\$ 600,000</b>	<b>\$ 450,000</b>

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.

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**9. LOANS IN ARREARS**

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

	<u>December 31 2015</u>	<u>September 30 2014</u>
31 to 60 days	\$ 148,650	\$ 25,822
61 to 90 days	133,396	126,061
Over 90 days	<u>32,469</u>	<u>124,671</u>
	<u>\$ 314,515</u>	<u>\$ 276,554</u>

**10. DEFERRED INCOME TAXES**

Deferred 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 deferred 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 deferred income tax assets are as follows:

	<u>December 31 2015</u>	<u>September 30 2014</u>
Deferred income tax asset		
Property and equipment	\$ 3,202	\$ 2,788
Retirement allowance	<u>66,142</u>	<u>30,306</u>
	<u>\$ 69,344</u>	<u>\$ 33,094</u>

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**11. 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, 2014. The next actuarial valuation is scheduled to occur in November, 2017.

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

	<b>December 31 2015</b>	September 30 2014
Changes in accrued benefit obligation:		
Balance - beginning of period	\$ 2,612,200	\$ 2,128,000
Current service	84,400	57,300
Interest on liabilities	135,900	104,600
Employee contributions	33,100	27,700
Actuarial losses due to demographic experience	-	106,700
Actuarial (gains) losses due to financial experience	(78,300)	255,000
Benefits paid	(120,500)	(67,100)
Balance - end of period	<b>2,666,800</b>	2,612,200
Change in fair value of plan assets:		
Balance - beginning of year	2,486,934	2,166,089
Employer contributions	61,613	52,845
Employee contributions	33,100	27,700
Expected investment return	131,100	104,200
Actual gains due to financial experience	241,000	203,200
Benefits paid	(120,500)	(67,100)
Balance - end of period	<b>2,833,247</b>	2,486,934
	<b>\$ (166,447)</b>	\$ 125,266

In determining the accrued pension obligation (benefit), 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	4.20 %	4.10 %
Expected return on plan assets	4.2 %	4.8 %
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: December 31, 2015 - CPM2014-Private Table with Improvement Scale CPM-B

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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**11. DEFERRED PENSION PLAN (continued)**

	<i>December 31</i> <b>2015</b>	<i>September 30</i> <b>2014</b>
The expense for the Credit Union's defined benefit plan is as follows:		
Current service costs	\$ <b>84,400</b>	\$ 57,300
Interest on liabilities	<b>135,900</b>	104,600
Expected investment return	<b>(131,100)</b>	(104,200)
	<hr/>	<hr/>
Pension expense recognized in net income	<b>\$ 89,200</b>	\$ 57,700
	<hr/>	<hr/>
Actuarial gain (loss) in other comprehensive income	<b>\$ 319,300</b>	\$ (158,500)
	<hr/>	<hr/>
Cumulative actuarial gains recognized in comprehensive income	<b>\$ 665,700</b>	\$ 346,400

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 %	41 %
Equity	53 %	53 %
Short term	6 %	6 %
	<hr/>	<hr/>
	100 %	100 %

Liabilities at December 31, 2015:

Extrapolated present value of benefit obligation	\$ <b>2,666,800</b>
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Sensitivity of liabilities at December 31, 2015:

1.0% increase in discount rate	\$ <b>2,261,800</b>
1.0% decrease in discount rate	\$ <b>3,184,300</b>
1.0% increase in rate of salary increase	\$ <b>2,831,100</b>
1.0% decrease in rate of salary increase	\$ <b>2,522,500</b>

Maturity profile of liabilities at December 31, 2015:

Weighted average duration of liabilities	<b>17.3 years</b>
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The Credit Union expects employer contributions of approximately \$70,900 to be paid for the next fiscal year.

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**12. MEMBER DEPOSITS**

	<b>December 31 2015</b>	September 30 2014
Call deposits	\$ 9,739,221	\$ 8,929,800
Chequing accounts	8,571,890	7,530,032
Registered Retirement Savings Plan (RRSP) deposits	8,370,341	9,879,154
Term deposits	4,109,659	4,748,963
Registered Retirement Income Fund (RRIF) deposits	2,958,546	1,779,972
Tax Free Savings Account (TFSA) deposits	1,668,375	1,423,395
	<b>\$ 35,418,032</b>	<b>\$ 34,291,316</b>

**13. CONTINGENT LIABILITY**

Souris Credit Union Limited has provided letters of credit on behalf of members in the amount of \$105,963.

**14. COMMITMENTS**

The Credit Union has entered into a lease agreement for a postage machine. Future minimum annual lease payments as at December 31, 2015, are as follows:

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

**15. MEMBERS' SHARES**

	<b>Number of shares</b>	<b>December 31 2015</b>	Number of shares	September 30 2014
Balance - beginning of period	3,215	\$ 16,075	3,194	\$ 15,970
Shares issued (redeemed), net	(18)	(90)	21	105
Balance - end of period	<b>3,197</b>	<b>\$ 15,985</b>	<b>3,215</b>	<b>\$ 16,075</b>

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**16. COST OF CAPITAL AND BORROWINGS**

	<b>December 31 2015</b>	September 30 2014
Interest and service charges	\$ 538,419	\$ 454,427
Patronage dividends	256,914	259,175
Share dividends	70,872	75,146
	<b>\$ 866,205</b>	<b>\$ 788,748</b>

**17. OTHER INCOME**

	<b>December 31 2015</b>	September 30 2014
Commissions	\$ 827,894	\$ 545,811
Miscellaneous	57,180	22,110
	<b>\$ 885,074</b>	<b>\$ 567,921</b>

**18. INCOME TAXES**

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.50% (2014 - 31.99%) to the income for the period and is reconciled as follows:

	<b>December 31 2015</b>	September 30 2014
Income before income taxes and other comprehensive income	<b>\$ 326,623</b>	<b>\$ 172,824</b>
Income tax expense at the combined basic federal and provincial tax rate	<b>\$ 106,152</b>	<b>\$ 55,286</b>
Increase (decrease) resulting from:		
Small business deduction	(41,580)	(35,167)
Capital cost allowance claimed in excess of amortization	386	566
Non-deductible expenses	(860)	170
Tax reserves	8,775	14,625
Provision for loan loss reserve	10,749	16,504
Recovery of loans previously written off	733	4,617
Loans written off in the current year	(21,232)	(37,370)
Employee future benefits	(16,203)	12,833
Adjustments for October to December 2014 tax provision included in 15 month financial statements	(1,584)	-
Effective tax expense	<b>\$ 45,336</b>	<b>\$ 32,064</b>

The effective income tax rate is 13.88% (2014 - 18.55%).

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**19. LINE OF CREDIT AVAILABILITY**

Souris Credit Union Limited has an approved line of credit with Atlantic Central Credit Union Limited of \$1,100,000 which expires on December 31, 2020 and was not utilized at the year end. The line of credit bears an interest rate of 2.20% 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 hierarchy 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.

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**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 period 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:

	<b>December 31 2015</b>	September 30 2014
Short-term employee benefits	<b>\$ 308,110</b>	\$ 308,252
Contributions to a retirement pension plan	<b>41,750</b>	33,765
Mortgages, loan balances, and lines of credit due from key management	<b>94,295</b>	287,702
Deposit balances due to key management	<b>9,590</b>	18,890

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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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**22. 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.

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**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

**22. RISK MANAGEMENT (continued)**

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 period 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.

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 2015 fiscal year amounted to \$36,217,220.

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.

	<b>December 31 2015</b>	September 30 2014
Members' shares	\$ 15,985	\$ 16,075
Accumulated other comprehensive income	665,836	346,536
Undistributed earnings	5,019,644	4,702,107
Total regulatory equity	5,701,465	5,064,718
Total assets	46,427,757	44,629,370
	<b>12.28 %</b>	11.35 %

*(continues)*

**SOURIS CREDIT UNION LIMITED**  
**Notes to Financial Statements**  
**15 Months Ended December 31, 2015**

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**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.

	<b>December 31 2015</b>	September 30 2014
Total assets	<b>\$ 46,427,757</b>	\$ 44,629,370
Liquid assets	<b>9,602,163</b>	10,152,163
	<b>20.68 %</b>	22.75 %

**24. COMPARATIVE FIGURES**

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

**SOURIS CREDIT UNION LIMITED**  
**Schedules to Financial Statements**  
**Statement of Property and Equipment**  
**15 Months Ended December 31, 2015**

(Schedule 1)

	Cost beginning of period	Cost end of period	Disposals and write downs	Amort beginning of period	Amort in period	Amort end of period	NBV Dec 31, 2015	NBV Sept 30, 2014
	Additions	of period		of period	Reductions	period	2015	2014
Land	\$ 179,291	\$ 179,291	-	-	\$ -	\$ -	\$ 179,291	\$ 179,291
Building	982,534	982,534	-	514,277	29,267	543,544	438,990	468,256
Furniture & equipment	197,342	197,342	-	168,235	7,277	175,512	21,830	29,107
ATMs	55,654	55,654	-	35,138	5,129	40,267	15,387	20,516
Computer hardware	122,628	132,962	-	113,756	5,264	119,020	13,942	8,872
Pavement	38,670	38,670	-	26,942	1,172	28,114	10,556	11,728
	<b>\$ 1,576,119</b>	<b>\$ 1,586,453</b>	<b>-</b>	<b>\$ 858,348</b>	<b>\$ 48,109</b>	<b>\$ 906,457</b>	<b>\$ 679,996</b>	<b>\$ 717,770</b>

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

**SOURIS CREDIT UNION LIMITED**  
**Schedules to Financial Statements**  
**Interest Rate Sensitivity**  
**15 Months Ended December 31, 2015**

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 893,926	\$ -	\$ -	\$ 653,878	\$ 1,547,804
Effective interest rate	0.45 %	-	-	-	
Investments	6,345,372	-	-	1,094,767	7,440,139
Effective interest rate	1.01 %	-	-	-	
Accounts receivable	-	-	-	614,220	614,220
Personal and commercial loans and mortgages	10,646,949	16,775,379	6,623,329	-	34,045,657
Effective interest rate	4.95 %	5.57 %	5.49 %	-	
Lines of credit and overdrafts	1,571,563	-	-	-	1,571,563
Effective interest rate	8.03 %	-	-	-	
Prepaid expense	-	-	-	32,312	32,312
Deferred income taxes	-	-	-	69,344	69,344
Property and equipment	-	-	-	679,996	679,996
Restricted cash - retirement allowance	-	-	-	260,275	260,275
Deferred pension benefit	-	-	-	166,447	166,447
	<b>\$ 19,457,810</b>	<b>\$ 16,775,379</b>	<b>\$ 6,623,329</b>	<b>\$ 3,571,239</b>	<b>\$ 46,427,757</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 389,866	\$ 389,866
Employee benefits payable	-	-	-	205,591	205,591
Accrued interest payable	-	-	-	178,514	178,514
Income taxes payable	-	-	-	5,849	5,849
Member deposits	25,133,950	4,062,623	-	6,221,459	35,418,032
Effective interest rate	1.18 %	1.62 %	-	-	
Share deposits	4,268,169	-	-	-	4,268,169
Effective interest rate	2.00 %	-	-	-	
Retirement allowance payable	-	-	-	260,275	260,275
Members' shares	15,985	-	-	-	15,985
Effective interest rate	2.00 %	-	-	-	
Accumulated other comprehensive income	-	-	-	665,836	665,836
Undistributed earnings	-	-	-	5,019,640	5,019,640
	<b>\$ 29,418,104</b>	<b>\$ 4,062,623</b>	<b>\$ -</b>	<b>\$ 12,947,030</b>	<b>\$ 46,427,757</b>

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 December 31, 2015, Souris Credit Union Limited's net interest spread was 3.45%. 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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