Financial statements of

Newfoundland and Labrador Credit Union Limited

December 31, 2015

Newfoundland and Labrador Credit Union Limited
December 31, 2015

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Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4 Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

Independent Auditor's Report

To the Members of
Newfoundland and Labrador Credit Union Limited

We have audited the accompanying financial statements of Newfoundland and Labrador Credit Union Limited, which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Newfoundland and Labrador Credit Union Limited as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
January 30, 2016

Newfoundland and Labrador Credit Union Limited

Statement of Comprehensive Income

Year ended December 31, 2015
(CDN dollars)

	2015	2014
	$	$
Financial revenue		
Members' loans and mortgages (Note 4)	**20,180,488**	20,883,958
Investment income	**586,523**	550,196
	20,767,011	21,434,154
Cost of funds		
Interest on members' deposits (Note 5)	**6,230,933**	6,469,723
Net financial margin	**14,536,078**	14,964,431
Other income		
Service charges	**2,977,137**	2,757,794
Other	**272,709**	307,245
Insurance commissions	**816,310**	956,224
Rental	**212,063**	194,624
Financial margin and other income	**18,814,297**	19,180,318
Operating expenses		
Personnel	**9,620,836**	9,708,578
General business	**3,700,038**	3,973,497
Occupancy	**1,533,736**	1,487,293
Members' security	**1,232,471**	1,228,136
Depreciation	**987,837**	939,573
Total operating expenses	**17,074,918**	17,337,077
Earnings before income taxes	**1,739,379**	1,843,241
Income taxes (Note 12)		
Current	**466,613**	511,086
Deferred (recovery)	**(17,595)**	(48,080)
	449,018	463,006
Net earnings	**1,290,361**	1,380,235
Retained earnings, beginning of year	**20,138,824**	18,881,589
Dividends (Note 11)	**(124,000)**	(123,000)
Retained earnings, end of year	**21,305,185**	20,138,824

Newfoundland and Labrador Credit Union Limited

Statement of Financial Position

As at December 31, 2015
(CDN dollars)

	2015	2014
	$	$
Assets		
Cash and cash equivalents (Note 6)	**11,330,266**	11,213,339
Investments (Note 7)	**59,589,978**	38,645,153
Loans and mortgages receivable (Note 8)		
Mortgage loans	**354,518,009**	342,144,983
Personal loans	**86,757,730**	88,847,387
Commercial loans and mortgages	**36,198,036**	34,953,225
	477,473,775	465,945,595
Less allowance for impaired loans and mortgages (Note 9)	**(900,509)**	(805,505)
	476,573,266	465,140,090
Capital assets (Note 10)	**19,108,020**	18,183,568
Derivative financial instruments (Note 17)	**1,374,753**	2,948,802
Other assets	**2,493,373**	2,723,115
	570,469,656	538,854,067
Liabilities		
Accounts payable and accrued liabilities	**1,265,577**	1,180,652
Severance provisions	**1,762,970**	1,687,843
Members' deposits (Note 11)	**544,761,171**	512,897,946
Derivative financial instruments (Note 17)	**1,374,753**	2,948,802
	549,164,471	518,715,243
Members' equity		
Retained earnings	**21,305,185**	20,138,824
	570,469,656	538,854,067

Approved on behalf of the Board:

_______________________________ Director _______________________________ Director

Newfoundland and Labrador Credit Union Limited

Statement of Cash Flows

Year ended December 31, 2015
(CDN dollars)

	2015	2014
	$	$
Operating activities		
Net earnings	**1,290,361**	1,380,235
Adjustments for:		
Provision for impaired loans and mortgages (Note 9)	**195,502**	208,161
Financial revenue	**(20,767,011)**	(21,434,154)
Cost of funds - interest on members' deposits	**6,230,933**	6,469,723
Depreciation	**987,837**	939,573
Current income taxes (Note 12)	**466,613**	511,086
Deferred income tax recovery (Note 12)	**(17,595)**	(48,080)
	(11,613,360)	(11,973,456)
Changes in operating assets/liabilities:		
Change in loans and mortgages receivable	**(11,624,651)**	(13,937,432)
Change in members' deposits	**31,956,324**	20,943,742
Change in other operating assets	**247,337**	272,685
Change in other operating liabilities	**221,432**	52,175
Cash used in operating activities before interest and taxes	**9,187,082**	(4,642,286)
Interest received	**20,759,429**	21,458,894
Interest paid	**(6,260,268)**	(6,381,719)
Income taxes paid	**(527,993)**	(516,806)
Cash generated in operating activities	**23,158,250**	9,918,083
Investing activities		
Decrease in bank indebtedness	**-**	(2,916,791)
Increase in investments	**(20,941,270)**	(3,725,692)
Purchase of capital assets	**(1,912,289)**	(530,042)
Cash used in investing activities	**(22,853,559)**	(7,172,525)
Financing activities		
Decrease in membership share capital	**(64,764)**	(253,697)
Dividends paid on membership shares	**(123,000)**	(118,500)
Cash used in financing activities	**(187,764)**	(372,197)
Net increase in cash and cash equivalents	**116,927**	2,373,361
Cash and cash equivalents, beginning of year	**11,213,339**	8,839,978
Cash and cash equivalents, end of year	**11,330,266**	11,213,339

1. Reporting entity

Newfoundland and Labrador Credit Union Limited (the "Credit Union" or "NLCU") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act") and is a member of the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador. The Credit Union commenced operations in 1957. It currently operates twelve branches that offer a full range of financial services to the people of Newfoundland and Labrador. The registered office of NLCU is at 240 Water Street, St. John's, Newfoundland and Labrador.

2. Basis of preparation

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

The financial statements for the year ended December 31, 2015 were authorized for issue by the Board of Directors on January 30, 2016.

Basis of preparation

These financial statements are presented in Canadian dollars which is the Credit Union's functional currency. They are prepared on the historical cost basis except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss ("FVTPL") which are stated at their fair value.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements are as follows:

a) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, and prepayment rates. The valuation of financial instruments is described in more detail in Note 16.

2. Basis of preparation (Continued)

Use of significant accounting judgments, estimates and assumptions (continued)

b) *Impairment losses on loans and mortgages*

The Credit Union reviews its individually significant loans and mortgages at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as the length of time payments are past due and the amount of security held on the loan. Actual results may differ, resulting in future changes to the allowance.

Loans and mortgages have been assessed individually and collectively for impairment. The impairment loss on loans and mortgages is disclosed in more detail in Note 9.

c) *Impairment of available-for-sale investments*

The Credit Union reviews its equity instruments classified as available-for-sale investments at each Statement of Financial Position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and mortgages.

The Credit Union also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment.

d) *Deferred tax assets*

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets to recognize, based upon the likely timing and level of future taxable income, together with future tax planning strategies measured at the tax rate expected to apply.

e) *Economic lives of capital assets*

Management determines the estimated useful lives of its capital assets based on historical experience of the actual lives of capital assets of similar nature and functions, and reviews these estimates at the end of each reporting period.

f) *Provisions*

The amount recognized as provisions relates to the Credit Union’s severance accrual and is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation. In addition, severance will only be settled when employees who have been working with the Credit Union for twenty years, cease employment with the Credit Union. Therefore, an assessment of the severance accrual inherently involves the exercise of significant judgment and estimates of the number of employees who will continue working with the Credit Union until their severance vests.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

2. Basis of preparation (Continued)

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB, but are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements:

a) *Financial instruments*

In November 2009 and October 2010, the IASB issued IFRS 9 - Financial instruments ("IFRS 9"), Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.

In November 2014, the IASB announced the completion of a package of three amendments to the accounting requirements for financial instruments set out in IFRS 9. The amendments are as follows:

(i) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;

(ii) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and

(iii) remove the January 1, 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management of the Credit Union is assessing the potential impact of this new standard.

b) *Clarification of Acceptable Methods of Depreciation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for capital assets.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Credit Union uses the straight-line and declining balance methods for depreciation of its capital assets. Management of the Credit Union believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, management of the Credit Union does not anticipate that the application of this amendment to IAS 16 will have a material impact on the Credit Union's financial statements.

c) *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

2. Basis of preparation (Continued)

c) Revenue from Contracts with Customers (continued)

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management of the Credit Union is assessing the potential impact of this new standard.

d) Leases

On January 13, 2016, the IASB issued IFRS 16 Leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers. Management of the Credit Union is assessing the potential impact of this new standard.

3. Significant accounting policies

The following significant accounting policies have been applied consistently by the Credit Union to all periods presented in these financial statements without exception.

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union’s designation of such instruments.

3. Significant accounting policies (Continued)

Financial instruments (continued)

The Credit Union is required to classify all financial assets either as fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity, or loans and receivables, and financial liabilities are classified as either FVTPL, or other liabilities. The standards require that all financial assets and financial liabilities, including derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated, and other liabilities. Settlement date accounting is used.

a) *Classification*

Cash and cash equivalents	Loans and receivables
Investments:	
Equity investments	Available-for-sale
Liquidity reserve	Loans and receivables
Loans and mortgages	Loans and receivables
Other assets:	
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Members' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative financial instruments	Fair value through profit or loss

b) *Fair value through profit or loss ("FVTPL")*

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL, if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The Credit Union's financial instruments designated as FVTPL consist of derivative financial instruments.

c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are initially recognized at fair value. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and the gains and losses on such assets are recorded in other comprehensive income until the investment is derecognized or until the investment is identified as being subject to impairment.

Dividend income is recognized in profit or loss when the Credit Union's right to receive the dividends is established. Interest income is recognized in income using the effective interest method.

Shares in Central 1, League Data, and Concentra Financial held by the Credit Union are not traded in an active market and are classified as available-for-sale. Available-for-sale equity investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

3. Significant accounting policies (Continued)

Financial instruments (continued)

d) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables including cash, liquidity reserve investments, loans and mortgages to members, accrued interest on loans, accrued interest on investments and accounts receivable, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

e) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees, transaction costs and other premiums or discounts) through the expected life of the asset/liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

f) *Impairment of financial assets and allowance for impaired loans*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management’s best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly. Each component of the allowance for impaired loans is reviewed at least on the reporting date.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

3. Significant accounting policies (Continued)

Financial instruments (continued)

g) Derecognition of financial assets

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Credit Union continues to recognize the transferred asset to the extent that the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset or when the Credit Union retains substantially all the risks and rewards of ownership. In the latter case, the Credit Union also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

h) Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

i) Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or expire.

j) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and Credit Union Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

Loans to members

Loans to members include personal loans, mortgages and commercial loans and are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

Capital assets

Capital assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When parts of a capital asset have different useful lives, they are accounted for as separate assets.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives with the exception of depreciation of paved areas and furniture and equipment, which is recognized using the declining balance method.

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

3. Significant accounting policies (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

Rental income from operating leases is recognized on a straight-line basis over the term of the related lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Deposits from members

Deposits from members are disclosed in Note 11 and are the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Provisions

Provisions are recognized when the Credit Union has a present obligation (legal or constructive), as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefits

a) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

b) Severance benefits

Severance benefits are accounted for on an accrual basis and are calculated based upon years of service and current salary levels. The right to be paid severance pay vests with employees with twenty years of continual service with the Credit Union. Severance is payable when the employee ceases employment with the Credit Union.

Membership shares

The Credit Union's membership shares are presented in the Statement of Financial Position as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. All membership shares of the Credit Union are classified as liabilities. Payments of dividends on membership shares presented as a financial liability are recognized as a distribution of profit or loss.

3. Significant accounting policies (Continued)

Revenue recognition

Interest income is accrued monthly by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income in the Statement of Comprehensive Income.

Other fees and commission income include account service fees, investment management fees, and insurance fees which are recognized over the period the services are performed.

Income taxes

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the Statement of Comprehensive Income.

Foreign currency translation

The financial statements are presented in Canadian dollars.

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in profit or loss and are included in the 'other income' line item in the Statement of Comprehensive Income.

Financial guarantees

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment due in accordance with the debt instrument. Financial guarantee liabilities are recognized at fair value.

(CDN dollars)

4. Financial revenue – members' loans and mortgages

	2015	2014
	$	$
Personal loans	**4,988,351**	5,368,282
Residential mortgages	**13,366,292**	13,692,682
Commercial loans and mortgages	**1,825,845**	1,822,994
	20,180,488	20,883,958

5. Interest on members' deposits

	2015	2014
	$	$
Personal chequing accounts	**7,578**	9,356
Savings accounts	**663,299**	824,296
Term deposits	**2,562,018**	2,555,736
Registered savings accounts	**1,987,897**	2,029,402
Tax free savings accounts	**466,106**	377,156
Index - linked deposits	**528,339**	645,764
Other	**15,696**	28,013
	6,230,933	6,469,723

6. Cash and cash equivalents

	2015	2014
	$	$
Cash on hand	**4,432,612**	4,566,701
Cash held with Credit Union Central	**5,193,871**	4,523,107
Cash held with other chartered banks	**1,703,783**	2,123,531
	11,330,266	11,213,339

The Credit Union has available lines of credit with Central 1 in the amounts of $9,900,000 (CDN) and $300,000 (USD). As at December 31, 2015, there were no drawings on these facilities (2014 - $ Nil). There is also a $3,000,000 (CDN) credit facility with Atlantic Central available to the Credit Union which was not drawn on at year-end (2014 - $Nil).

(CDN dollars)

7. Investments

The following table provides information on the investments held by the Credit Union.

	2015	2014
	$	$
Loans and receivables		
Mandatory liquidity reserve deposits	**32,776,500**	32,369,000
Other deposits	**26,164,758**	5,630,988
Available-for-sale		
Equity investments	**457,107**	457,107
	59,398,365	38,457,095
Accrued interest	**191,613**	188,058
Carrying value	**59,589,978**	38,645,153
Market value	**59,589,978**	38,645,153

Central 1 Credit Union - liquidity reserve deposit

As a condition of maintaining membership in good standing with Central 1, the Credit Union is required to maintain on deposit with Central 1 an amount equal to 6% of the Credit Union's total assets as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central 1.

Equity investments

Equity investments are recorded at cost as they do not have quoted market prices in an active market.

8. Loans to members

Mortgages are repayable in monthly blended principal and interest installments over a maximum term of seven years based on a maximum amortization as prescribed by Provincial law. Mortgages are secured by residential and commercial properties.

Personal loans, including line of credit loans, are repayable in monthly blended principal and interest installments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

Credit quality of loans

Security held on a portfolio basis is as follows:

	2015	2014
	$	$
Insured mortgages	**244,291,955**	233,896,278
Uninsured mortgages	**125,165,993**	126,422,786
Secured loans	**71,878,235**	70,220,371
Unsecured loans	**36,137,592**	35,406,160
	477,473,775	465,945,595

(CDN dollars)

8. Loans to members (Continued)

Syndicated loans

At December 31, 2015, the Credit Union held a syndicated loan with a balance of $973,077 (2014 – $Nil).

9. Allowance for impaired loans and mortgages

The activity in the allowance for impaired loans is summarized as follows:

	2015				2014
	Personal	**Mortgages**	**Commercial**	**Total**	Total
	$	**$**	**$**	**$**	$
Balance, beginning of year	**747,129**	**-**	**58,376**	**805,505**	684,820
Loans written-off as uncollectible	**(100,498)**	**-**	**-**	**(100,498)**	(87,476)
Provision for impaired loans and mortgages	**187,847**	**7,655**	**-**	**195,502**	208,161
Balance, end of year	**834,478**	**7,655**	**58,376**	**900,509**	805,505

Credit quality of member loans is summarized as follows:

	Personal	**Mortgages**	**Commercial**	**Total 2015**
	$	**$**	**$**	**$**
Neither past due (1) nor impaired	**85,760,169**	**352,761,676**	**36,139,660**	**474,661,505**
Past due but not impaired				
31 to 90 days	**90,270**	**518,099**	**-**	**608,369**
91 and greater	**72,813**	**1,230,579**	**-**	**1,303,392**
Impaired	**834,478**	**7,655**	**58,376**	**900,509**
	86,757,730	**354,518,009**	**36,198,036**	**477,473,775**
Less: specific allowances	**(834,478)**	**(7,655)**	**(58,376)**	**(900,509)**
	85,923,252	**354,510,354**	**36,139,660**	**476,573,266**

(1) A loan is considered to be past due when the counterparty has not made a payment the day of the contractual payment date.

(CDN dollars)

9. Allowance for impaired loans and mortgages (Continued)

	Personal	Mortgages	Commercial	Total 2014
	$	$	$	$
Neither past due [1] nor impaired	88,048,683	341,274,254	34,894,849	464,217,786
Past due but not impaired				
31 to 90 days	51,575	726,330	-	777,905
91 and greater	-	144,399	-	144,399
Impaired	747,129	-	58,376	805,505
	88,847,387	342,144,983	34,953,225	465,945,595
Less: specific allowances	(747,129)	-	(58,376)	(805,505)
	88,100,258	342,144,983	34,894,849	465,140,090

[1] A loan is considered to be past due when the counterparty has not made a payment the day of the contractual payment date.

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(CDN dollars)

10. Capital assets

2015

	Land	Buildings	Roof & Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and Equipment	Computer Terminals	Automated Banking Machines	Automobile	Personal Computers and Software	Total 2015
	$	$	$	$	$	$	$	$	$	$	$
Rate		**50 Years**	**25 Years**	**8%**	**5 Years**	**20%**	**5 Years**	**5 Years**	**5 Years**	**3 Years**	
Cost											
Balance, beginning of year	**3,951,343**	**14,251,669**	**2,524,770**	**674,270**	**1,739,071**	**6,052,341**	**529,084**	**1,862,557**	**53,708**	**1,779,582**	**33,418,395**
Additions	**-**	**995,518**	**219,233**	**7,995**	**-**	**298,010**	**91,394**	**193,247**	**-**	**106,892**	**1,912,289**
Disposals	**-**	**-**	**330,100**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**330,100**
Balance, end of year	**3,951,343**	**15,247,187**	**2,413,903**	**682,265**	**1,739,071**	**6,350,351**	**620,478**	**2,055,804**	**53,708**	**1,886,474**	**35,000,584**
Accumulated depreciation											
Balance, beginning of year	**-**	**3,543,420**	**722,513**	**288,253**	**1,639,519**	**4,958,838**	**520,510**	**1,794,000**	**53,708**	**1,714,066**	**15,234,827**
Depreciation expense	**-**	**349,355**	**82,072**	**31,521**	**82,559**	**278,303**	**20,422**	**66,672**	**-**	**76,933**	**987,837**
Disposals	**-**	**-**	**330,100**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**330,100**
Balance, end of year	**-**	**3,892,775**	**474,485**	**319,774**	**1,722,078**	**5,237,141**	**540,932**	**1,860,672**	**53,708**	**1,790,999**	**15,892,564**
Net Book Value	**3,951,343**	**11,354,412**	**1,939,418**	**362,491**	**16,993**	**1,113,210**	**79,546**	**195,132**	**-**	**95,475**	**19,108,020**

2014

	Land	Buildings	Roof & Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and Equipment	Computer Terminals	Automated Banking Machines	Automobile	Personal Computers and Software	Total 2014
	$	$	$	$	$	$	$	$	$	$	$
Rate		50 Years	25 Years	8%	5 Years	20%	5 Years	5 Years	5 Years	3 Years	
Cost											
Balance, beginning of year	3,951,343	14,013,675	2,524,770	666,580	1,736,875	5,853,539	518,366	1,862,557	53,708	1,706,940	32,888,353
Additions	-	237,994	-	7,690	2,196	198,802	10,718	-	-	72,642	530,042
Disposals	-	-	-	-	-	-	-	-	-	-	-
Balance, end of year	3,951,343	14,251,669	2,524,770	674,270	1,739,071	6,052,341	529,084	1,862,557	53,708	1,779,582	33,418,395
Accumulated depreciation											
Balance, beginning of year	-	3,235,309	642,930	254,686	1,556,290	4,685,462	502,726	1,726,945	42,967	1,647,939	14,295,254
Depreciation expense	-	308,111	79,583	33,567	83,229	273,376	17,784	67,055	10,741	66,127	939,573
Disposals	-	-	-	-	-	-	-	-	-	-	-
Balance, end of year	-	3,543,420	722,513	288,253	1,639,519	4,958,838	520,510	1,794,000	53,708	1,714,066	15,234,827
Net Book Value	3,951,343	10,708,249	1,802,257	386,017	99,552	1,093,503	8,574	68,557	-	65,516	18,183,568

(CDN dollars)

11. Members' deposits

	2015	2014
	$	$
Personal chequing accounts	**101,128,443**	91,251,037
Savings accounts	**112,496,507**	123,928,190
Term deposits	**146,590,399**	119,858,267
Registered retirement savings plans	**110,110,416**	113,304,338
Registered retirement income funds	**25,077,006**	23,149,481
Tax free savings accounts	**42,800,580**	34,785,049
Share accounts	**6,557,820**	6,621,584
	544,761,171	512,897,946

Term deposits

Term deposits for periods of one to seven years generally may not be withdrawn prior to maturity.

Registered retirement plans

The Credit Union has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by the Credit Union, on behalf of the trustee.

Share accounts

Member equity shares consist of 20 shares at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member, as provided for in the Credit Union Act and Regulations and in the By-laws of the Credit Union. Currently, there are 16,696 (2014 – 17,210) fully paid equity share accounts with an aggregate value of $2,598,755 (2014 - $2,578,209).

Surplus shares may be issued in an unlimited number at par value of five dollars ($5.00) per share. The holders of surplus shares have all of the rights and privileges and are subject to the restrictions applicable to members, as outlined in the Credit Union Act and Regulations and in the By-laws of the Credit Union. Currently, there are 2,163 (2014 – 2,225) fully paid surplus share accounts with an aggregate value of $10,815 (2014 - $11,125).

Incentive shares may be issued by the Credit Union to a maximum number of ten thousand shares as approved by the Regulator in accordance with the Credit Union Act and Regulations and in the By-laws of the Credit Union. Currently, there are 815 (2014 – 854) share accounts outstanding with an aggregate value of $3,948,250 (2014 - $4,032,250).

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in Note 13.

The Board of Directors declared a dividend of $124,000 as of December 31, 2015 (2014 - $123,000).

(CDN dollars)

12. Income taxes

The provision for income taxes reported for the year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2015	2014
	$	$
Earnings before income taxes	**1,739,379**	1,843,241
Income tax expense based on statutory rate of approximately 27.4% (2014 - 26.6%)	**476,590**	490,302
Effect of non-deductible expenses	**31,445**	83,161
Other	**(41,422)**	(62,377)
	466,613	511,086
Deferred income tax recovery	**(17,595)**	(48,080)
Total income tax expense	**449,018**	463,006

Temporary differences, which give rise to the deferred income tax asset, are as follows:

	2015	2014
	$	$
Deferred income tax assets (liabilities)		
Capital assets and other	**(325,942)**	(309,449)
Severance	**483,054**	448,966
Deferred income tax asset	**157,112**	139,517

13. Capital adequacy

Capital management

The Board approves annually the capital management policy and the annual business plan. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of total assets. Alternatively, Credit Unions are able to use an 8% risk weighted model. Additionally, retained earnings cannot be less than 3% of the Credit Union's total assets.

The Credit Union is in compliance with its policies and those of the Act regarding regulatory capital as at December 31 as outlined in the following table.

(CDN dollars)

13. Capital adequacy (Continued)

	2015	2014
	$	$
Retained earnings	**21,305,185**	20,138,824
Members' shares	**6,557,820**	6,621,584
Deferred tax asset	**(157,112)**	(139,517)
Capital base	**27,705,893**	26,620,891
Risk weighted assets	**164,411,117**	164,854,436
Capital adequacy		
Actual	**16.85%**	16.15%
Regulatory requirement	**8.00%**	8.00%
Retained earnings as a percentage of assets		
Actual	**3.73%**	3.74%
Regulatory requirement	**3.00%**	3.00%

On a risk weighted basis, the Credit Union's capital position for the year ended December 31, 2015 was 16.85% (2014 – 16.15%) and the capital held in retained earnings was 3.73% (2014 – 3.74%) of total assets. NLCU has exceeded the risk weighted capital required by regulation by 8.85% (2014 – 8.15%) and exceeded the retained earnings capital requirement by 0.73% (2014 – 0.74%).

14. Related party transactions

At December 31, 2015, the aggregate value of personal and mortgage loans outstanding to directors, designated employees and all related parties totalled $2,729,019 (2014 – $2,296,571). The maximum balances of these loans during the year was $2,902,106 (2014 – $2,682,354). The aggregate value of deposits outstanding to directors, designated employees and all related parties totalled $4,750,747 (2014 – $4,598,075).

The interest rates charged on balances outstanding from directors and all related parties are the same as those charged in an arm's length transaction. Loans to designated employees are granted at a discount rate, consistent with industry practices and in accordance with board approved policy. Loan and mortgage balances with directors, designated employees and all related parties are secured as per the Credit Union's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2015 and December 31, 2014.

Key management personnel received salaries and other short-term employee benefits during the year of $3,352,050 (2014 – $3,619,119).

At December 31, 2015, directors received expense reimbursement of $24,327 (2014 – $21,843) and remuneration of $46,500 (2014 – $43,350) for serving the Credit Union.

(CDN dollars)

15. Commitments

Under present lease agreements for rental space the Credit Union is committed to the following expenditures:

	$
2016	139,638
2017	59,858
2018	62,626
2019	31,313
	293,435

16. Fair value of financial instruments

Fair value

The Credit Union's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets/liabilities that are not considered financial instruments, such as prepaids, capital assets, deferred tax asset and accrued severance liability.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

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

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair value of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

The fair value of investments is based on quoted market values where available (see Note 3).

16. Fair value of financial instruments (Continued)

Fair value hierarchy (continued)

Shares in Central 1, League Data, and Concentra are measured at cost less any identified impairment losses at the end of each reporting period. These investments do not have a quoted price in an active market and their fair value cannot be reliably measured.

The Credit Union holds derivative financial instruments classified as FVTPL. These are classified as Level 2 financial instruments.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2015 and 2014.

Additionally, there are no financial instruments classified in Level 3.

17. Nature and extent of risks arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

(CDN dollars)

17. Nature and extent of risks arising from financial instruments (Continued)

Liquidity risk (continued)

The Act requires credit unions to maintain 6% of liabilities for adequate liquidity. Assets held by the Credit Union for such purposes are outlined in the table below.

	2015	2014
	$	$
Cash and cash equivalents	**11,330,266**	11,213,339
Investments		
Central 1 (matures January 2016)	**4,500,000**	5,000,000
Central1 (matures December 2016, redeemable anytime)	**10,000,000**	-
Concentra (matures December 2016, redeemable March 2016)	**10,000,000**	-
Liquidity reserve deposit	**32,776,500**	32,369,000
Total assets held for liquidity	**68,606,766**	48,582,339

Contractual maturities of financial liabilities are shown under interest rate risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's Asset and Liability Management and Investment Policy set by the Board. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets or which are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board and regulations.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates.

(CDN dollars)

17. Nature and extent of risks arising from financial instruments (Continued)

Interest rate risk (continued)

2015

	On Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	Effective interest rate
	$	$	$	$	$	$	%
Investments	4,500,000	6,554,575	27,179,244	21,064,513	291,646	59,589,978	1.30
Loans and advances to members	95,273,212	24,319,693	89,952,848	265,757,478	2,170,544	477,473,775	4.07
Deposits from members	115,444,277	31,382,831	95,316,467	177,182,636	125,434,960	544,761,171	1.14

2014

	On Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	Effective interest rate
	$	$	$	$	$	$	%
Investments	5,000,000	2,850,078	10,996,284	19,757,144	41,647	38,645,153	1.44
Loans and advances to members	86,631,275	16,479,495	74,899,785	285,649,066	2,285,974	465,945,595	4.35
Deposits from members	124,277,426	38,297,351	111,618,408	125,944,877	112,759,884	512,897,946	1.30

At December 31, 2015, if interest rates at that date had been 100 (2014 – 100) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately $186,345 (2014 - $86,428) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages, and lower interest revenue on liquidity investments. If interest rates had been 100 (2014 – 100) basis points higher, with all other variables held constant, after-tax net income would have been approximately $261,564 (2014 - $66,689) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages, and higher interest on liquidity investments.

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union’s earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. The Credit Union does not hold foreign investments beyond cash required to meet daily operational requirements.

Index-linked deposits

At December 31, 2015, the Credit Union has issued $33,992,704 (2014 - $37,013,087) of index-linked term deposits (registered and non-registered deposits) to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term based on the performance of various Toronto Stock Exchange (“TSX”) indices. The Credit Union has entered into derivative agreements with Central 1 to offset the exposure to these indices associated with these products. The Credit Union pays Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, the Credit Union receives payments from the counterparty, Central 1, equal to the amount that will be paid to the depositors based on the performance of various TSX indices.

17. Nature and extent of risks arising from financial instruments (Continued)

Index-linked deposits (continued)

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have a fair value that varies based on the particular contract and changes in interest rates. The fair value of these agreements is $1,374,753 (2014 - $2,948,802) at year end and has been accounted for as an embedded derivative in accordance with the Credit Union’s accounting policy.