NLCU

2014 FINANCIALS

Annual Report 2014

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2014
(CDN dollars)

	2014	2013
	$	$
FINANCIAL REVENUE		
Members' loans and mortgages	20,883,958	20,948,370
Investment income	550,196	578,110
	21,434,154	21,526,480
Cost of funds		
Interest on members' deposits	6,469,723	6,566,050
Net financial margin	14,964,431	14,960,430
Other income		
Service charges	2,757,794	2,538,237
Insurance commissions	956,224	898,599
Other	307,245	258,361
Rental	194,624	178,098
Financial margin and other income	19,180,318	18,833,725
OPERATING EXPENSES		
Personnel	9,708,578	9,648,479
General business	3,973,497	3,616,389
Occupancy	1,487,293	1,446,217
Members' security	1,228,136	1,110,643
Depreciation	939,573	1,007,056
Total operating expenses	17,337,077	16,828,784
Earnings before income taxes	1,843,241	2,004,941
Income taxes		
Current	511,086	494,185
Deferred (recovery)	(48,080)	(1,873)
	463,006	492,312
Net earnings	1,380,235	1,512,629
Retained earnings, beginning of year	18,881,589	17,487,460
Dividends	(123,000)	(118,500)
RETAINED EARNINGS, END OF YEAR	20,138,824	18,881,589

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014
(CDN dollars)

	2014	2013
	$	$
ASSETS		
Cash and cash equivalents	**11,213,339**	8,839,978
Investments	**38,645,153**	34,922,181
Loans and mortgages receivable		
Mortgage loans	**342,144,983**	323,210,206
Personal loans	**88,847,387**	94,308,939
Commercial loans and mortgages	**34,953,225**	34,598,514
	465,945,595	452,117,659
Less allowance for impaired loans and mortgages	**(805,505)**	(684,820)
	465,140,090	451,432,839
Capital assets	**18,183,568**	18,593,099
Derivative financial instruments	**2,948,802**	2,554,636
Other assets	**2,723,115**	2,947,720
	538,854,067	519,290,453
LIABILITIES		
Bank indebtedness	**–**	2,916,791
Accounts payable and accrued liabilities	**1,180,652**	1,403,428
Severance provisions	**1,687,843**	1,418,612
Members' deposits	**512,897,946**	492,115,397
Derivative financial instruments	**2,948,802**	2,554,636
	518,715,243	500,408,864
MEMBERS' EQUITY		
Retained earnings	**20,138,824**	18,881,589
	538,854,067	519,290,453

APPROVED ON BEHALF OF THE BOARD:

Dan LaVallée
Director

Allan Thomas
Director

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

Year ended December 31, 2014

(CDN dollars)	2014	2013
	$	$
OPERATING ACTIVITIES		
Net earnings	1,380,235	1,512,629
Adjustments for:		
Provision for impaired loans and mortgages	208,161	149,415
Financial revenue	(21,434,154)	(21,526,480)
Cost of funds – interest on members' deposits	6,469,723	6,566,050
Depreciation	939,573	1,007,056
Current income taxes	511,086	494,185
Future income tax recovery	(48,080)	(1,873)
	(11,973,456)	(11,799,018)
Changes in operating assets/liabilities:		
Change in loans and mortgages receivable	(13,937,432)	(35,986,223)
Change in members' deposits	20,943,742	25,805,602
Change in other operating assets	272,685	140,927
Change in other operating liabilities	52,175	(101,682)
Cash used in operating activities before interest and taxes	(4,642,286)	(21,940,394)
Interest received	21,458,894	21,521,440
Interest paid	(6,381,719)	(6,871,451)
Income taxes paid	(516,806)	(397,637)
Cash generated (used) in operating activities	9,918,083	(7,688,042)
INVESTING ACTIVITIES		
(Decrease) increase in bank indebtedness	(2,916,791)	2,916,791
(Increase) decrease in investments	(3,725,692)	1,930,054
Purchase of capital assets	(530,042)	(2,755,289)
Cash (used) generated in investing activities	(7,172,525)	2,091,556
FINANCING ACTIVITIES		
Decrease in membership share capital	(253,697)	(149,240)
Dividends paid on membership shares	(118,500)	(112,420)
Cash used in financing activities	(372,197)	(261,660)
Net increase (decrease) in cash and cash equivalents	2,373,361	(5,858,146)
Cash and cash equivalents, beginning of year	8,839,978	14,698,124
CASH AND CASH EQUIVALENTS, END OF YEAR	11,213,339	8,839,978

Deloitte.

Financial statements of

Newfoundland and Labrador Credit Union Limited

December 31, 2014

Newfoundland and Labrador Credit Union Limited

December 31, 2014

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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, 2014 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, 2014 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 31, 2015

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, 2014 were authorized for issue by the Board of Directors on January 31, 2015.

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. The Notes to the Financial Statements set out 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 advances*

The Credit Union reviews its individually significant loans and advances 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 advances have been assessed individually and collectively for impairment. The impairment loss on loans and advances 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 advances.

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)

Application of new and revised standards

In the current year, the Credit Union applied the following new and amended IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the year ended December 31, 2014.

Recoverable Amount Disclosures for Non-Financial Assets

The Credit Union has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Futhermore, the amendments introduce additional disclosure requirements applicable when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The adoption of the new and amended standards had no impact on the operations or reporting of the Credit Union.

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, 2014, 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 2013, 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.

The Credit Union is assessing the potential impact of these new amendments and standards.

2. Basis of preparation (Continued)

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 believe 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.

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, 2017, with earlier application permitted. 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 fair value through profit or loss, 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	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.

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 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.

3. Significant accounting policies (Continued)

Financial instruments (continued)

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 receipts (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)

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 membership 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 membership and continues to control the transferred asset or when the Credit Union retains substantially all the risks and rewards of membership. 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 they 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 an item of property, plant and equipment 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 membership 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. Dividends are recorded when declared by the Board of Directors.

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 substantially 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

	2014	2013
	$	$
Personal loans	**5,368,282**	5,777,839
Residential mortgages	**13,692,682**	13,551,842
Commercial loans and mortgages	**1,822,994**	1,618,689
	20,883,958	20,948,370

5. Interest on members' deposits

	2014	2013
	$	$
Personal chequing accounts	**9,356**	10,279
Savings accounts	**824,296**	782,121
Term deposits	**2,555,736**	2,669,609
Registered savings accounts	**2,029,402**	2,042,443
Tax free savings accounts	**377,156**	316,229
Index - Linked deposits	**645,764**	731,183
Other	**28,013**	14,186
	6,469,723	6,566,050

(CDN dollars)

6. Cash and cash equivalents

	2014	2013
	$	$
Cash on hand	**4,566,701**	4,406,461
Cash held with Credit Union Central	**4,523,107**	2,126,334
Cash held with other chartered banks	**2,123,531**	2,307,183
	11,213,339	8,839,978

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, 2014, there was $Nil drawn on these facilities (2013 - $2,916,791). 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.

7. Investments

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

	2014	2013
	$	$
Loans and receivables		
Mandatory liquidity reserve deposits	**32,369,000**	31,454,000
Other deposits	**5,630,988**	2,820,296
Available-for-sale		
Equity investments	**457,107**	457,107
	38,457,095	34,731,403
Accrued interest	**188,058**	190,778
Carrying value	**38,645,153**	34,922,181
Market value	**38,645,153**	34,922,181

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.

(CDN dollars)

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:

	2014	2013
	$	$
Insured mortgages	**233,896,278**	223,028,912
Uninsured mortgages	**126,422,786**	117,650,720
Secured loans	**70,220,371**	75,728,143
Unsecured loans	**35,406,160**	35,709,884
	465,945,595	452,117,659

Syndicated loans

At December 31, 2014, the Credit Union did not hold any syndicated loans or mortgages (2013 – Nil).

9. Allowance for impaired loans

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

	2014				2013
	Personal	**Mortgages**	**Commercial**	**Total**	Total
	$	**$**	**$**	**$**	$
Balance, beginning of year	**626,433**	**-**	**58,387**	**684,820**	619,595
Loans written-off as uncollectible	**(87,476)**	**-**	**-**	**(87,476)**	(84,190)
Provision for impaired loans and mortgages	**208,172**	**-**	**(11)**	**208,161**	149,415
Balance, end of year	**747,129**	**-**	**58,376**	**805,505**	684,820

(CDN dollars)

9. Allowance for impaired loans (Continued)

Credit quality of member loans is summarized as follows:

	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.

	Personal	Mortgages	Commercial	Total 2013
	$	$	$	$
Neither past due (1) nor impaired	93,558,894	322,807,532	34,540,127	450,906,553
Past due but not impaired				
31 to 90 days	81,617	254,365	-	335,982
91 and greater	41,995	148,309	-	190,304
Impaired	626,433	-	58,387	684,820
	94,308,939	323,210,206	34,598,514	452,117,659
Less: specific allowances	(626,433)	-	(58,387)	(684,820)
	93,682,506	323,210,206	34,540,127	451,432,839

(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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Annual Report 2014

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