Osoyoos Credit Union
Financial Statements
December 31, 2015

Contents

For the year ended December 31, 2015

Management's Responsibility

To the Members of Osoyoos Credit Union:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 17, 2016

Greg Sol
General Manager

C Cardoso
Controller

Independent Auditors' Report

To the Members of Osoyoos Credit Union:

We have audited the accompanying financial statements of Osoyoos Credit Union, which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive income, changes in members' equity 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.

Auditors' 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 auditors' 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 Osoyoos Credit Union 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.

Kelowna, British Columbia

MNP LLP

February 17, 2016

Chartered Professional Accountants

Osoyoos Credit Union
Statement of Financial Position
As at December 31, 2015

	2015	2014
Assets		
Cash	**11,493,779**	7,134,597
Investments *(Note 5)*	**21,079,457**	13,878,067
Member loans receivable *(Note 6)*	**87,339,984**	94,255,935
Income taxes recoverable *(Note 7)*	**43,664**	-
Property, plant and equipment *(Note 8)*	**2,970,532**	3,084,229
Intangible assets *(Note 9)*	**229,850**	266,587
Other assets *(Note 10)*	**485,381**	724,926
Investment property *(Note 11)*	**645,144**	652,120
	124,287,791	119,996,461
Liabilities		
Member deposits *(Note 12)*	**113,985,638**	109,845,306
Income taxes payable *(Note 7)*	**-**	57,834
Other liabilities	**249,015**	213,973
Deferred tax liabilities *(Note 7)*	**129,328**	127,263
Patronage and dividends payable *(Note 13)*	**219,224**	233,196
Member shares *(Note 13)*	**1,580,041**	1,657,001
	116,163,246	112,134,573

Commitments *(Note 18)*

Members' equity		
Member shares *(Note 13)*	**212,070**	226,345
Retained earnings	**7,912,475**	7,635,543
	8,124,545	7,861,888
	124,287,791	119,996,461

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

MNP LLP

Osoyoos Credit Union
Statement of Comprehensive Income
For the year ended December 31, 2015

	2015	*2014*
Interest revenue		
Interest on member loans	**3,418,793**	3,461,947
Interest on investments and deposits	**345,299**	389,274
	3,764,092	3,851,221
Interest expense		
Interest on member deposits	**1,153,631**	1,291,504
Financial margin	**2,610,461**	2,559,717
Impairment losses on member loans *(Note 6)*	**18,000**	18,000
	2,592,461	2,541,717
Other income		
Commissions and fees	**381,129**	410,314
Miscellaneous income	**76,695**	152,883
	457,824	563,197
	3,050,285	3,104,914
Operating expenses		
Deposit insurance	**118,285**	10,077
Depreciation of intangibles *(Note 9)*	**49,205**	45,742
Depreciation of property, plant and equipment *(Note 8), (Note 11)*	**134,222**	134,241
Director and committee expense	**16,225**	15,100
Distribution to members *(Note 13)*	**215,581**	229,377
Employee salaries and benefits	**1,327,284**	1,366,701
Occupancy and equipment	**124,704**	110,353
Operating and administrative expense *(Note 14)*	**723,965**	657,798
	2,709,471	2,569,389
Operating income	**340,814**	535,525
Provision for income taxes *(Note 7)*		
Current	**58,174**	105,834
Deferred	**2,065**	43,235
	60,239	149,069
Net income	**280,575**	386,456
Other comprehensive income		
Other comprehensive income for the year, net of income tax	**-**	-
Total comprehensive income for the year	**280,575**	386,456

The accompanying notes are an integral part of these financial statements

Statement of Changes in Members' Equity

For the year ended December 31, 2015

	Member shares	*Retained earnings*	*Total*
Balance December 31, 2013	**234,576**	**7,252,906**	**7,487,482**
Net income	**-**	**386,456**	**386,456**
Redemption of members' shares	**(8,231)**	**-**	**(8,231)**
Distribution to members	**-**	**(3,819)**	**(3,819)**
Balance December 31, 2014	**226,345**	**7,635,543**	**7,861,888**
Net income	**-**	**280,575**	**280,575**
Redemption of members' shares	**(14,275)**	**-**	**(14,275)**
Distributions to members	**-**	**(3,643)**	**(3,643)**
Balance December 31, 2015	**212,070**	**7,912,475**	**8,124,545**

	2015	*2014*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	**3,428,136**	3,472,103
Interest and dividends received from investments	**385,325**	410,691
Fees, commissions and miscellaneous income received	**457,824**	563,197
Cash paid to suppliers and employees	**(2,158,821)**	(2,632,457)
Interest paid on deposits	**(1,181,489)**	(1,288,245)
Patronage and dividends paid	**(229,729)**	(114,397)
Income taxes paid	**(40,194)**	(10,039)
	661,052	400,853
Financing activities		
Net change in member deposits	**4,168,190**	(1,461,181)
Net change in member shares	**(91,235)**	(169,754)
	4,076,955	(1,630,935)
Investing activities		
Net change in members' loans receivable	**6,888,607**	(9,683,994)
Net change in investments	**(7,241,415)**	8,580,370
Purchases of property, plant and equipment	**(13,549)**	(8,090)
Purchases of intangible assets	**(12,468)**	-
Acquisitions of investment property	**-**	(273,810)
	(378,825)	(1,385,524)
Increase (decrease) in cash resources	**4,359,182**	(2,615,606)
Cash resources, beginning of year	**7,134,597**	9,750,203
Cash resources, end of year	**11,493,779**	7,134,597

1. Nature of operations

Reporting Entity

Osoyoos Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, term deposits, TFSAs, RRSPs, RRIFs, automated banking machines, debit and credit cards, and internet banking. The Credit Union’s head office is located at 8312 Main Street, Osoyoos, BC.

Statement of compliance

The financial statements have been prepared in accordance with IFRS, issued by the IASB. The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2015.

These financial statements have been approved and authorized by the Board of Directors on February 17, 2016.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Basis of measurement

These financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2015. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- IAS 36 *Impairment of assets*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*
- IAS 40 *Investment property*

3. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Cash

Cash includes cash on hand and deposits with Central 1.

Cash is classified at fair value through profit or loss.

Investments - Central 1 Deposits

These deposit instruments are classified as held-to-maturity and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Investments - equity instruments and portfolio investments

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Member loans

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

Member loan losses

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in comprehensive income.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets are recorded as property held for resale or investment properties. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell. Losses arising on reduction of the net realizable value are charged to net income.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost, and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land, which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Rate
Buildings	10 - 50 years
ATM equipment	7 - 15 years
Computer equipment	4 - 10 years
Furniture, fixtures and other	10 - 15 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Intangible assets

Intangible assets consist of computer software and licenses. Computer software is not integral to the computer hardware owned by the Credit Union. Software and licenses are initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Rate
Software	5 - 10 years
Licences	5 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less cost to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

All investment property having a limited useful life is depreciated using the straight-line method over the estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Investment property is depreciated from the date of acquisition.

The residual value, useful life and depreciation method is reviewed at least annually and adjusted if necessary. The depreciation rate applicable during the current and comparative period is as follows:

	Rate
Building	40 years

Member deposits

All member deposits are classified as other financial liabilities and are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument and are subsequently measured at amortized cost, using the effective interest rate method.

Accounts payable and other payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability. Shares that contain redemption features are accounted for using the partial treatment requirements of IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Patronage distributions per member are determined based on member actual use of Credit Union services and on the overall financial operations of the Credit Union in any given year. Patronage amounts are payable at the discretion of the Board of Directors.

Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Interest on loans is recorded on an accrual basis using the effective interest method.

Investment income is recorded on an accrual basis using the effective interest method.

Commissions and service charges are recognized as income when the related service is provided or entitlement to receive income is earned.

Loan negotiation fees are recognized using the effective interest rate method. Income recorded on prepayment or renegotiation of fixed term loans is recognized when received.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable earnings.

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

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

Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in the statement of other comprehensive income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Financial instruments

All financial instruments are initially recognized on the statement of financial position at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. During the year, there has been no reclassification of financial instruments.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, derivative assets and liabilities.

Available-for-sale

Available-for-sale financial assets are subsequently measured at their fair value, with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union's financial instruments classified as available-for-sale include investments - equity instruments and portfolio investments.

Loans and receivables

Financial assets classified as loans and receivables are subsequently measured at their amortized cost. The Credit Union's financial instruments classified as loans and receivables include member loans receivable, accrued interest and other receivables.

Held-to-maturity

Financial assets classified as held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method. The Credit Union's financial instruments classified as held-to-maturity include Central 1 and Concentra deposits.

Financial liabilities measured at amortized cost

Financial instruments classified as other financial liabilities include member deposits, member shares - liability and other liabilities. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through" arrangement; and either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset, or
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union’s continuing involvement in the asset. In that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2015 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of the standard on its financial statements.

9. Intangible assets

	Software	Licences	Total
Cost			
Balance at December 31, 2013	333,878	93,200	427,078
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2014	333,878	93,200	427,078
Additions	-	12,468	12,468
Disposals	-	-	-
Balance at December 31, 2015	333,878	105,668	439,546
Accumulated Amortization			
Balance at December 31, 2013	90,410	24,339	114,749
Depreciation expense	33,949	11,793	45,742
Balance at December 31, 2014	124,359	36,132	160,491
Depreciation expense	34,398	14,807	49,205
Balance at December 31, 2015	158,757	50,939	209,696
Carrying amounts			
December 31, 2014	209,519	57,068	266,587
December 31, 2015	**175,121**	**54,729**	**229,850**

10. Other assets

	2015	2014
Accounts receivable	333,072	521,756
Prepaid expenses and deposits	152,309	203,170
	485,381	724,926

11. Investment properties

Changes to the carrying amount of investment property during the end of the year is as follows:

	2015	2014
Carrying amount, beginning of year	652,120	384,674
Acquisitions	-	273,809
Depreciation expense	(6,976)	(6,363)
Carrying amount	645,144	652,120

Fair value of investment properties as at December 31, 2015 is $664,236 (2014 – $664,236).

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers,* and SIC 31 *Revenue – barter transactions involving advertising services*.The standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are:
1. Identify the contract(s) with customers.
2. Identify the performance obligation(s) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Credit Union is currently assessing the impact of this standard on its financial statements.

4. Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Judgments

Member loan loss provision
In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgemental to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 6.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments
The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, in determining the fair value of the financial instruments are disclosed in Note 16.

Income taxes
The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome that the amount included in the tax liabilities.

5. Investments

The following table provides information on the investments by type and security and issuer. The maximum exposure to credit risk would be the fair value as detailed in Note 16.

	2015	*2014*
Central 1 and Concentra deposits		
Term deposits due by March 31, 2016 or earlier	**8,455,000**	-
Term deposits due between April 1 and December 31, 2016, bearing interest at 1.63%	**1,250,000**	6,000,000
Term deposits due more than 1 year, bearing interest at 0.75% - 2.40%	**10,750,000**	7,250,000
Accrued interest	**100,723**	110,570
	20,555,723	13,360,570
Equity Instruments		
Central 1 shares - Class A	**457,183**	439,032
Central 1 shares - Class E	**4,893**	4,893
Co-op EFT Development Association	**59**	59
Stabilization Credit Union Shares	**141**	141
CUPP Services Ltd.	**43,194**	43,194
Accrued dividends on Central 1 shares	**18,264**	30,178
	523,734	517,497
Total	**21,079,457**	13,878,067

Liquidity reserve deposit

The Credit Union must maintain liquid reserve deposits with Central 1 at 8% of total member deposits at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total member deposits or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and as a condition of membership in Central 1.

Central 1 shares consist of Class A and Class E shares. Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. Class E shares are issued with a par value; however, are redeemable at par at the option of Central 1. There is no separately quoted market value for either Class A or Class E shares. Fair value is determined to be equivalent to the par value for Class A shares due to the fact transactions occur at par value on a regular and recurring basis while fair value could not be measured reliably for Class E shares as the timing of redemption for these shares could not be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates could not be reasonably assessed and as a result, Class E shares are recorded at cost.

Class A shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are declared and paid at the discretion of the Board of Directors of Central 1.

During the year ended December 31, 2015, $33,622 of rental income from investment property was recognized in income (2014 – $8,542). Direct operating expense of $34,440 relating to investment property was recognized in operating and administrative expenses (2014 – $12,697).

12. Member deposits

	2015	2014
Demand deposits	**57,421,975**	53,259,311
Term deposits	**37,623,160**	38,379,585
Registered plans	**18,342,606**	17,580,042
Dormant accounts	**23,255**	21,191
Non-equity shares	**43,361**	46,039
Accrued interest	**531,281**	559,138
	113,985,638	109,845,306

Included in registered plans are retirement savings plans, retirement income funds, educational savings plans, and tax free savings accounts.

13. Members' shares

		2015		2014	
	Authorized	**Equity**	**Liability**	Equity	Liability
Membership equity shares	**Unlimited**	**212,070**	**665,563**	226,345	653,880
Investment equity shares	**Unlimited**	**-**	**914,478**	-	1,003,121
	-	**212,070**	**1,580,041**	226,345	1,657,001

Membership or Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 *Financial Instrument Presentation* and IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*. If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

Membership equity shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold a certain amount of membership shares. These membership shares are redeemable at par only when a membership is withdrawn subject to a 10% redemption maximum based on the prior years issued and outstanding total. The authorized shares for new issuances of Class A shares is unlimited. Dividends are declared and paid at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by CUDIC. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 19), as is the payment of any dividends on these shares. Member holdings of Class A membership share is limited to 1,000 shares. Membership shares that are available for redemption are classified as a liability and shares subject to redemption restrictions are classified as equity.

Investment shares

Class B investment shares were issued to increase capital and are no longer offered by the Credit Union. They are non-voting and are redeemable at par only when requested by a member. There is a 3,000 share limit which can be held by a member. Investment shares are all available for redemption at any time and are therefore classified as a liability. Dividends are declared and paid at the discretion of the Board of Directors.

6. Member loans receivable

Principal and allowance by loan type:

					2015
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Commercial mortgages	**23,851,708**	**-**	**-**	**-**	**23,851,708**
Consumer loans	**14,467,321**	**-**	**-**	**-**	**14,467,321**
Commercial loans	**2,633,342**	**-**	**-**	**-**	**2,633,342**
Residential mortgages	**46,289,403**	**-**	**-**	**25,571**	**46,263,832**
Accrued interest	**123,781**	-	-	-	**123,781**
Total	**87,365,555**	-	-	**25,571**	**87,339,984**

					2014
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Commercial mortgages	25,603,181	-	-	-	25,603,181
Consumer loans	16,080,573	-	-	-	16,080,573
Commercial loans	2,497,788	-	-	-	2,497,788
Residential mortgages	49,948,840	-	-	7,571	49,941,269
Accrued interest	133,124	-	-	-	133,124
Total	94,263,506	-	-	7,571	94,255,935

The allowance for loan impairment changed as follows:

	2015	*2014*
Balance, beginning of year	**7,571**	67,587
Impairment losses on member loans	**18,000**	18,000
Subtotal	**25,571**	85,587
Less: accounts written off	**-**	78,016
Balance, end of year	**25,571**	7,571

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-29 days	**30-89 days**	**Over 90 days**	**2015**
Personal	**-**	**2,525**	**256,369**	**258,894**
Commercial	**-**	**113**	**-**	**113**
	-	**2,638**	**256,369**	**259,007**

	1-29 days	30-89 days	Over 90 days	2014
Personal	1,372	2,511	264,492	268,375

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

Loan portfolios and syndication

The Credit Union has included in its member loans, mortgage loan portfolios acquired in the normal course of operations. The portfolio acquired includes personal mortgage loans totaling $18,366,341 (2014 - $20,255,473) and commercial mortgage loans totaling $6,437,991 (2014 - $6,672,889). The loans are administered by the vendor credit union who collects payments and remits on the Credit Union's behalf.

Included in the Credit Union's loan portfolio are commercial syndicated loans that are recorded on the Credit Union's financial records, but are administered by the lead lender on the Credit Union's behalf. The balance of the syndicated loans as a participating lender is $11,187,158 (2014 - $12,307,163).

7. Income taxes

The significant components of income tax expense included in net income are composed of:

	2015	*2014*
Current income tax expense		
Based on current year taxable income	**58,174**	105,834
Deferred income tax expense		
Origination and reversal of temporary difference	**2,065**	43,235
	60,239	149,069

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.00% (2014 - 26.00%) are as follows:

	2015	*2014*
Net income for the year	**340,814**	535,525
Income tax expense on the statutory rate	**88,612**	139,237
Preferred rate deduction for Credit Unions	**(20,449)**	(32,132)
Items not deductible for tax purposes	**5,859**	5,608
Change in tax reserves	**(2,661)**	-
Other	**(13,187)**	(6,879)
	58,174	105,834

Patronage amounts

Patronage distributions per member are determined based on member actual use of Credit Union services and on the overall financial operations of the Credit Union in any given year. Patronage amounts are declared and paid at the discretion of the Board of Directors.

Distribution to members

	2015	2014
Patronage distributions	**174,163**	185,371
Dividends on members' shares	**45,061**	47,825
	219,224	233,196

Total patronage and dividends of $215,581 were recognized through income while $3,643 was recognized in equity (2014 - $229,377 and $3,819, respectively).

14. Operating and administrative expenses

	2015	2014
Advertising and promotion	**45,371**	42,337
Annual meeting	**4,322**	2,838
Bank charges	**58,860**	57,445
Data processing	**182,397**	188,118
Education and travel	**41,077**	50,663
Insurance	**28,389**	24,557
Investment property expenses	**34,440**	12,697
Office	**35,915**	45,203
Other expenses	**111,477**	89,831
Professional fees	**136,081**	96,172
Savings and loans insurance	**3,550**	4,240
Scholarships	**5,500**	5,500
Telephone	**36,586**	38,197
	723,965	657,798

15. Related party transactions

Key management compensation of the Credit Union

The Credit Union entered into the following transactions with key management personnel ("KMP"), which are defined by IAS 24 *Related Party Disclosures*, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel, along with their close family members.

	2015	2014
Salaries, and other short-term employee benefits	**493,296**	490,310
Total pension and other post-employment benefits	**76,456**	87,014
Total remuneration	**569,752**	577,324

The movement in 2015 deferred income tax assets and liabilities are:

	Jan 1, 2015	Recognized in net income	Dec 31, 2015
Deferred income tax assets:			
Retirement allowance	**27,629**	**(1,730)**	**25,899**
Other liabilities	**1,119**	**(1)**	**1,118**
	28,748	**(1,731)**	**27,017**
Deferred income tax liabilities:			
Property, plant and equipment	**156,011**	**334**	**156,345**
2015 net deferred tax liability	**(127,263)**	**(2,065)**	**(129,328)**

The movement in 2014 deferred income tax assets and liabilities are:

	Jan 1, 2014	Recognized in net income	Dec 31, 2014
Deferred income tax assets:			
Allowance for impaired loans	912	(912)	-
Retirement allowance	16,647	10,982	27,629
Other liabilities	756	363	1,119
	18,315	10,433	28,748
Deferred income tax liabilities:			
Property, plant and equipment	102,343	53,668	156,011
2014 net deferred tax liability	(84,028)	(43,235)	(127,263)

	2015	*2014*
Deferred income tax assets to be settled after more than 12 months	**27,017**	28,748
Deferred income tax liabilities to be recovered after more than 12 months	**(156,345)**	(156,011)
Net deferred tax liabilities	**(129,328)**	(127,263)

8. Property, plant and equipment

	Land	*Buildings*	*Furniture and fixtures*	*Total*
Cost				
Balance at December 31, 2013	**84,770**	**3,347,596**	**1,751,061**	**5,183,427**
Additions	**-**	**8,090**	**-**	**8,090**
Disposals	**-**	**-**	**-**	**-**
Balance at December 31, 2014	**84,770**	**3,355,686**	**1,751,061**	**5,191,517**
Additions	**-**	**-**	**13,550**	**13,550**
Disposals	**-**	**-**	**-**	**-**
Balance at December 31, 2015	**84,770**	**3,355,686**	**1,764,611**	**5,205,067**
Depreciation				
Balance at December 31, 2013	**-**	**680,178**	**1,299,233**	**1,979,411**
Depreciation expense	**-**	**62,094**	**65,783**	**127,877**
Balance at December 31, 2014	**-**	**742,272**	**1,365,016**	**2,107,288**
Depreciation expense	**-**	**62,319**	**64,928**	**127,247**
Balance at December 31, 2015	**-**	**804,591**	**1,429,944**	**2,234,535**
Net book value				
December 31, 2014	84,770	2,613,414	386,045	3,084,229
December 31, 2015	**84,770**	**2,551,095**	**334,667**	**2,970,532**

Transactions with key management personnel

The Credit Union's policy for lending to key management personnel is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. There are nominal benefits and no concessional terms and conditions applicable to related parties.

There are no loans that are impaired in relation to loan balances with KMP.

	2015	*2014*
Aggregate value of loans advanced	**904,857**	1,455,602
Interest received on loans advanced	**28,356**	58,745
Total value of lines of credit advanced	**1,101,686**	1,134,567
Interest received on lines of credit advanced	**34,950**	36,811
Unused value of lines of credit	**752,514**	719,633

	2015	*2014*
Deposits		
Aggregate value of demand, term and registered deposits	**1,867,141**	2,759,823
Total interest paid on demand, term and registered deposits	**19,025**	39,966

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to related parties.

16. Fair value measurements

Recurring fair value measurements

The Credit Union’s assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

	2015 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash	**11,493,779**	**11,493,779**	**-**	**-**
Available-for-sale financial assets				
Investments - equity instruments and portfolio investments	**523,734**	**-**	**523,734**	**-**
	12,017,513	**11,493,779**	**523,734**	**-**
Liabilities	**-**	**-**	**-**	**-**
Total recurring fair value measurements	**12,017,513**	**11,493,779**	**523,734**	**-**

MNP LLP

	2014 Fair Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
Cash	7,134,597	7,134,597	-	-
Available-for-sale financial assets				
Investments - equity instruments and portfolio investments	517,497	-	517,497	-
	7,652,094	7,134,597	517,497	-
Liabilities	-	-	-	-
Total recurring fair value measurements	7,652,094	7,134,597	517,497	-

Valuation techniques and inputs for recurring level 2 fair value measurements is as follows:

Fair value measurement	Fair Value	Valuation technique(s)	2015 Inputs
Investments - equity instruments and portfolio investments	523,734	Fair value is determined to be equivalent to par value for shares due to the fact transactions occur at par value on a regular and recurring basis.	Equity shares

Fair value measurement	Fair Value	Valuation technique(s)	2014 Inputs
Investments - equity instruments and portfolio investments	517,497	Fair value is determined to be equivalent to par value for shares due to the fact transactions occur at par value on a regular and recurring basis.	Equity shares

Asset and liabilities for which fair value is only disclosed

The following table analyzes within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value at December 31, 2015 but for which fair value is disclosed:

	2015			
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Member loans	**88,327,984**	**-**	**88,327,984**	**-**
Investments - Central 1 and Concentra	**20,862,723**	**-**	**20,862,723**	**-**
Other assets	**379,004**	**-**	**379,004**	**-**
Total assets	**109,569,711**	**-**	**109,569,711**	**-**
Liabilities				
Member deposits	**114,333,638**	**-**	**114,333,638**	**-**
Other liabilities	**468,235**	**-**	**468,235**	**-**
Member shares - liability	**1,580,041**	**-**	**-**	**1,580,041**
Total liabilities	**116,381,914**	**-**	**114,801,873**	**1,580,041**

	2014			
	Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Member loans	95,332,935	-	95,332,935	-
Investments - Central 1 and Concentra	13,457,570	-	13,457,570	-
Other assets	521,757	-	521,757	-
Total assets	109,312,262	-	109,312,262	-
Liabilities				
Member deposits	110,114,306	-	110,114,306	-
Other liabilities	447,169	-	447,169	-
Member shares - liability	1,657,001	-	-	1,657,001
Total liabilities	112,218,476	-	110,561,475	1,657,001

17. Financial instrument risk management

General objectives, policies and processes

The Board has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board receives monthly reports from the Credit Union's General Manager through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is mainly exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. The assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of loans written off and allowance for doubtful loans quarterly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is $nil (2014 - $nil).

A sizeable portfolio of the loan book is secured by residential property in Osoyoos, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Financial Institutions Act of British Columbia require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union must maintain a minimum liquidity ratio of 8%.

The Credit Union manages its liquidity risk by:
- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year. At December 31, 2015, the Credit Union liquidity deposits exceeded the minimum requirement by $23,737,256 (2014 - $12,309,542).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include two types of risk: interest rate risk and currency risk.

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Credit Union's goal is to manage the foreign exchange risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its foreign exchange mitigation activities.

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $500,000 (2014 - $500,000) in US funds. For the year ended December 31, 2015, the Credit Union's exposure to foreign exchange risk was within the controlled limits.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest rate risk

Traditional financial activities, such as deposit taking and lending, expose the Credit Union to market risk, of which interest rate risk is the largest component. The Credit Union's goal is to manage the interest rate risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured quarterly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans (assets) and interest paid on member deposits (liabilities). The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Board on a quarterly basis. Board reports are then submitted to FICOM on a monthly basis.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

(In thousands)

	Variable rate	*Within 1 year*	*Within 1 to 5 years*	*Non-Interest Sensitive*	***2015*** *Total*	*2014* *Total*
Assets						
Cash	11,494	-	-	-	**11,494**	7,135
Effective interest rate %	*0.90*	-	-	-	*0.90*	*1.40*
Investments	-	9,736	10,820	523	**21,079**	13,878
Effective interest rate %	-	*2.21*	*1.90*	-	*1.96*	*1.76*
Member loans	27,022	14,651	45,667	-	**87,340**	94,256
Effective interest rate %	*4.03*	*3.52*	*3.65*	-	*3.62*	*3.77*
Other assets	-	-	-	379	**379**	521
	38,516	**24,387**	**56,487**	**902**	**120,292**	115,790
Liabilities						
Member deposits	28,110	28,718	22,987	34,171	**113,986**	109,845
Effective interest rate %	*0.65*	*1.69*	*2.05*	-	*1.98*	*2.01*
Other liabilities and member shares	-	-	-	2,048	**2,048**	2,104
	28,110	**28,718**	**22,987**	**36,219**	**116,034**	112,007
Net sensitivity	**10,406**	**(4,331)**	**33,500**	**(35,317)**	**4,258**	3,783

Based on the current financial instruments, it is estimated that a 1.0% increase in prime interest rate would increase financial margin by $43,990 (2014 - $46,850). A 1.0% decrease in the prime interest rate would decrease financial margin by $27,450 (2014 - $49,510).

18. Commitments

Contractual obligations

The Credit Union has a commitment to acquire on-line data processing services through Open Solutions Canada that expires in December 2021. The fixed annual payments for core contracted services is $62,160 plus a variable charge based on use. The total charge for the year was $182,397 (2014 - $188,118).

Credit facilities

The Credit Union has available to it, through Central 1, a $750,000 CAD and $500,000 US demand operating line of credit secured by a demand debenture and the general assignment of book debts. The outstanding balance at December 31, 2015 was $nil (2014 - $nil).

Member loans

The Credit Union has the following commitments to its members in loans, unused lines of credit and letters of credit:

	2015	*2014*
Unadvanced loans	**671,677**	246,245
Unused lines of credit	**13,213,674**	14,384,159
Letters of credit	**105,967**	135,967

19. Capital management

In managing its capital, the Credit Union's primary objective is to ensure it maintains adequate liquidity to meet its financial obligations, make necessary capital purchases and support ongoing business. The Credit Union monitors and assesses its financial performance to ensure it is meeting its objectives.

The Financial Institutions Act (British Columbia) requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset.

The Financial Institutions Act (British Columbia) regulations prescribe that the minimum required capital ratio exceeds 8.0% for the Credit Union's fiscal year. At December 31, 2015, the Credit Union's capital ratio is 22.00% (2014 - 20.76%), exceeding the minimum requirement.

The Credit Union considers its capital to include membership shares (member shares and investment shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Union which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2015 was $48,381,631 (2014 - $50,307,739).

	2015	*2014*
Primary capital		
Retained earnings	**7,912,475**	7,635,543
Membership equity shares	**944,126**	951,139
Deferred income tax	**129,328**	127,263
	8,985,929	8,713,945
Secondary capital		
Eligible secondary capital	**865,000**	839,164
Other equity shares	**1,061,359**	1,159,362
Deductions from capital	**(231,094)**	(270,060)
Capital base	**10,681,194**	10,442,411