
Kawartha Credit Union Limited

Financial Statements

At December 31, 2015

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Independent Auditor's Report

To the Members of Kawartha Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Kawartha Credit Union Limited, which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive income, changes in members' equity and cash 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 Kawartha Credit Union Limited as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Peterborough, Ontario
February 23, 2016

KAWARTHA CREDIT UNION LIMITED

Statement of Financial Position

December 31

2015

2014

(thousands of Canadian dollars)

Assets

Cash resources (Note 4)	\$ 19,814	\$ 15,594
Liquidity deposits (Note 5)	72,677	68,157
Investments (Note 5)	9,635	8,883
Derivative financial instruments (Note 6)	1,173	538
Loans to members (Note 7)	1,101,434	1,014,397
Other assets (Note 10)	8,896	21,140
Property and equipment (Note 9)	15,585	15,454
	<u>\$ 1,229,214</u>	<u>\$ 1,144,163</u>

Liabilities and Members' Equity


Liabilities

Term loans (Note 22a)	\$ 18,000	\$ 54,700
Member deposits (Note 11)	1,029,131	931,803
Accounts payable and accrued liabilities	3,918	3,751
Derivative financial instruments (Note 6)	1,918	1,315
Securitized mortgages under administration (Note 24)	87,430	67,756
Members' shares (Note 14)	1,181	1,185
Employee future benefits (Note 12)	3,727	3,552
	<u>1,145,305</u>	<u>1,064,062</u>

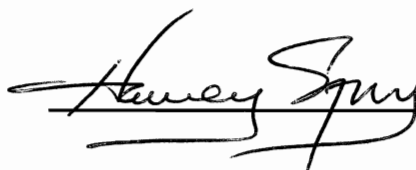
Members' Equity

Class A Investment shares (Note 14)	25,830	25,830
Class B Affinity shares (Note 14)	11,200	10,276
Contributed surplus	350	316
Retained earnings	44,765	42,327
Accumulated other comprehensive income	1,764	1,352
	<u>83,909</u>	<u>80,101</u>
	<u>\$ 1,229,214</u>	<u>\$ 1,144,163</u>

Approved by the Board:



Director



Director

KAWARTHA CREDIT UNION LIMITED

Statement of Income

For the year ended December 31

2015

2014

(thousands of Canadian dollars)

Financial Revenue		
Interest on loans to members	\$ 43,990	\$ 42,994
Investment income	1,183	1,156
	<u>45,173</u>	<u>44,150</u>
Financial Expense		
Interest on deposits	15,319	14,696
Interest on borrowings	377	454
	<u>15,696</u>	<u>15,150</u>
Financial Margin	29,477	29,000
Other Income	7,021	6,356
	<u>36,498</u>	<u>35,356</u>
Operating Expenses		
Salaries and employee benefits	17,171	16,192
Loan loss expense (Note 8)	1,119	1,359
Occupancy	4,203	4,322
Banking costs	701	860
Other expenses (Note 15)	3,455	4,172
Data costs	2,281	2,203
Deposit insurance	675	638
Promotion	1,351	1,447
Directors' expenses	194	213
	<u>31,150</u>	<u>31,406</u>
Operating Income	5,348	3,950
Increase in fair value of investments	119	151
Patronage distributions	(986)	(1,057)
Income before income taxes	4,481	3,044
Income tax expense (Note 13)	277	185
Net Income	<u>\$ 4,204</u>	<u>\$ 2,859</u>

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Comprehensive Income

For the year ended December 31

2015

2014

	(thousands of Canadian dollars)	
Net Income (Page 4)	\$ 4,204	\$ 2,859
Other comprehensive income		
Unrealized gains on financial derivatives designated as cash flow hedges	<u>412</u>	<u>364</u>
Comprehensive income	<u>\$ 4,616</u>	<u>\$ 3,223</u>

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Changes in Members' Equity

	Accumulated Other Comprehensive Income	Class A Investment Shares	Class B Affinity Shares	Retained Earnings and Contributed Surplus	Total
	(thousands of Canadian dollars)				
Balance on December 31, 2013	\$ 988	\$ 25,830	\$ 9,279	\$ 41,475	\$ 77,572
Net income	-	-	-	2,859	2,859
Dividends (Note 14)				(1,722)	(1,722)
Class B Affinity shares					
Share issuance	-	-	1,028	-	1,028
Forfeitures	-	-	(31)	31	-
Change in unrealized gains (losses) on cash flow hedges	364	-	-	-	364
Balance on December 31, 2014	1,352	25,830	10,276	42,643	80,101
Net income	-	-	-	4,204	4,204
Dividends (Note 14)	-	-	-	(1,766)	(1,766)
Class B Affinity Shares					
Net share issuance	-	-	958	-	958
Forfeitures	-	-	(34)	34	-
Actuarial gain on remeasurement of defined benefit pension plans	-	-	-	-	-
Change in unrealized gains (losses) on cash flow hedges	412	-	-	-	412
Balance on December 31, 2015	\$ 1,764	\$ 25,830	\$ 11,200	\$ 45,115	\$ 83,909

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Cash Flows

For the year ended December 31	2015	2014
	(thousands of Canadian dollars)	
Operating activities		
Net income	\$ 4,204	\$ 2,859
Adjustments for:		
Depreciation	1,675	1,690
Unrealized gains on fair value adjustments of investments	(119)	(151)
	<u>5,760</u>	<u>4,398</u>
Changes in operating assets and liabilities:		
Other assets	12,244	(6,446)
Derivative financial instruments	380	400
Accounts payable and accrued liabilities	167	794
Employee future benefits	175	181
Changes in allowance for loan losses	(666)	333
Increase in members' deposits	96,588	50,444
Increase in accrued interest payable	740	(910)
Increase in loans to members	(86,245)	(100,033)
Increase (decrease) in accrued interest receivable	(126)	(163)
Total cash inflows (outflows) from operating activities	<u>29,017</u>	<u>(51,002)</u>
Financing Activities		
Increase in liquidity deposits	(4,520)	(6,323)
Advances (repayments) of term loans	(36,700)	44,700
Proceeds of mortgage securitization	53,205	27,140
Payment of mortgage securitization liabilities	(33,531)	(8,638)
Increase in contributed surplus	34	31
Increase in Class B Affinity shares	924	997
Increase in membership shares	(4)	16
Dividends paid to members	(1,766)	(1,722)
Total cash inflows (outflows) from financing activities	<u>(22,358)</u>	<u>56,201</u>
Investing Activities		
Purchases of property and equipment (net of disposals)	(1,806)	(5,871)
Decrease (increase) in investments (net)	(633)	867
Total cash outflows from investing activities	<u>(2,439)</u>	<u>(5,004)</u>
Net increase in cash resources	4,220	195
Cash resources, beginning of year	<u>15,594</u>	<u>15,399</u>
Cash resources, end of year	<u>\$ 19,814</u>	<u>\$ 15,594</u>

Refer to Note 17 for supplementary cash flow information.

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

1. Nature of Operations

Kawartha Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario 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 Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and internet banking. The Credit Union head office is located at 1054 Monaghan Road, Peterborough, Ontario, Canada.

These financial statements were authorized for issue by the Board of Directors on February 23, 2016.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

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

The Credit Union's functional and presentation currency is the Canadian dollar.

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 3.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with Central 1 and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as fair value through profit and loss under Financial Instrument reporting requirements and are carried at fair value.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

c) Investments

These instruments are classified as either available for sale or fair value through profit and loss. They 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 of investments carried at fair value through profit and loss, except for those arising from interest calculated using the effective interest rate, are recognized in net income as increase in fair value of investments. A gain or loss on available for sale financial assets, except for impairment losses are recognized in comprehensive income.

d) Hedges

The Credit Union, in accordance with its risk management policies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

d) Hedges (continued)

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

e) Other Non-Hedge Derivatives

The Credit Union measures certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

f) 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.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

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

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

g) Bad Debts Written Off

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.

h) Loan Securitization

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

i) Property and Equipment

Property 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:

Parking lot		25 years
Buildings		25 - 50 years
Buildings	- interior renovations	10 years
Equipment	- computer	3 - 5 years
	- furniture & other	5 - 10 years
Leasehold improvements		Remaining term of the lease

Where components of an item of buildings have different useful lives, they are accounted for as separate items of buildings.

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

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

j) 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 costs 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.

k) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income.

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

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 profit or loss.

Recognition of deferred tax assets for 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 amounts are settled.

l) Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

m) Employee Future Benefits

The Credit Union provides health and dental benefits for retired employees who were employed on a full time basis prior to November 1, 2003. The Credit Union recognizes these post retirement costs in the period in which the employees render their services. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of retirement ages of employees, employee turnover and expected health care costs. Gains or losses arising from actuarial assessments are recognized through Other Comprehensive Income. The most recent actuarial valuation of the obligation was performed as at December 31, 2013.

n) Accounts Payable and Other Payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value and subsequently carried at amortized cost using the effective interest rate method.

o) Provisions

Provisions are recognized for liabilities of uncertain timing or amount 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.

p) 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 or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

q) Revenue Recognition

Interest income is recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. The calculation of the effective interest rate includes transaction costs and discounts or premiums that are an integral part of the effective interest rate.

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.

r) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

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 net income.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

2. Significant Accounting Policies (continued)

s) Standards, Amendments and Interpretations Effective from January 1, 2015

There are no new standards effective from January 1, 2015 that are applicable to the Credit Union.

t) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2016 or later periods that the Credit Union has decided not to early adopt.

The following new standards, interpretations and amendments, which have not been applied in these financial statements, that will or may have an effect on the Credit Union's future financial statements are:

- IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Credit Union is in the process of evaluating the impact of the new standard.
- IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to members in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Credit Union is in the process of evaluating the impact of the new standard.
- IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Credit Union is in the process of evaluating the impact of the new standard.
- The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Credit union is in the process of evaluating the impact of these amendments.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

3. 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.

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.

a) Fair Value of Financial Instruments

A number of assets and liabilities included in the Credit Union's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Credit Union's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 18.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

3. Critical Accounting Estimates and Judgments (continued)

b) 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 judgment 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 8.

c) 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 than the amount included in the tax liabilities.

4. Cash and Cash Equivalents

The Credit Union's current accounts are held with Central 1. The yield on the accounts at December 31, 2015 is 0.90% (2014 - 1.40%).

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

5. Investments

Liquidity Deposits

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity deposits have various maturities up to 5 years. They bear interest at rates ranging between 0.54% and 2.30%. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

Other Investments

Other investments are comprised of the following instruments:

(thousands of Canadian dollars)

	<u>2015</u>	<u>2014</u>
Central 1 Credit Union Limited		
- Class A membership shares	\$ 4,359	\$ 3,726
- Class E membership shares	3,196	3,196
CUCO Co-operative Association		
- Class B investment shares	1,957	1,838
GIC - Toronto Dominion Bank	100	100
Co-operators General Insurance	11	11
Credential Securities Inc., Debenture	5	5
Concentra Financial	7	7
	<u>\$ 9,635</u>	<u>\$ 8,883</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

5. Investments (continued)

Other Investments (continued)

The 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.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares were issued to Ontario Credit Unions as part of the combination agreement between CUCO and CUCBC with a par value and are redeemable at the option of Central 1. There is no separately quoted market value for these shares. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

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 at the discretion of the Board of Directors of Central 1.

On August 17, 2011 Credit Union Central of Ontario Limited (CUCO) discontinued as a regulated financial institution and continued as a co-operative known as CUCO Cooperative Association (CUCO Co-op). On August 31, 2011 CUCO Co-op purchased the investment portfolio of long term notes from ABCP LP in exchange for Class B investment shares which were distributed to the ABCP LP unit holders. At December 31, 2015, the Credit Union held 1,162,761,316 Class B investment shares. At December 31, 2015 CUCO Co-operative provided an estimate of fair value of this investment at 1,957,015.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

6. Derivative Financial Instruments

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities. The tables below provide an overview of the Credit Union's derivative portfolio.

(thousands of Canadian dollars)

	Maturities of Derivatives (Notional Amounts)			December 31, 2015	
	Within 1 year	1 to 5 years	Total	Fair Value Asset	Liability
Interest rate swaps:					
Receive fixed	\$ 80,000	\$ 60,000	\$ 140,000	\$ 1,114	\$ -
Pay fixed	10,000	-	10,000	-	109
Foreign exchange	4,500	-	4,500	-	1,750
Index-linked options	926	3,915	4,841	59	59
Total	\$ 95,426	\$ 63,915	\$ 159,341	\$ 1,173	\$ 1,918

	Maturities of Derivatives (Notional Amounts)			December 31, 2014	
	Within 1 year	1 to 5 years	Total	Fair Value Asset	Liability
Interest rate swaps:					
Receive fixed	\$ 40,000	\$ 140,000	\$ 180,000	\$ 355	\$ -
Pay fixed	-	10,000	10,000	-	232
Foreign exchange	5,500	-	5,500	-	900
Index-linked options	2,482	926	3,408	183	183
Total	\$ 47,982	\$ 150,926	\$ 198,908	\$ 538	\$ 1,315

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

6. Derivative Financial Instruments (continued)

Interest Rate Swaps

The Credit Union has entered into 2 (2014 - 4) delayed start and 2 (2014 - 1) receive fixed interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2015, the Credit Union had entered into an interest rate swap contract for a total of \$140,000,000 of notional principal whereby it has agreed to pay at variable interest rates based on Banker's Acceptance rates for one month and receive at fixed interest rates. The swap contracts are for one year terms and have fixed interest rates ranging from 1.350% and 2.240% and will mature over the next three years.

As at December 31, 2015, the Credit Union had entered into 1 (2014 - 1) pay fixed interest rate swap contract for a total of \$10,000,000 of notional principal whereby it has agreed to pay at a fixed interest rate and receive based on Banker's Acceptance rates for one month. This swap contract has a fixed interest rate of 3.035% and will mature on June 15, 2016.

The agreements are secured by a general security agreement covering all assets of the Credit Union.

Foreign Exchange Swaps

The Credit Union uses foreign exchange derivative instruments as a hedge to manage currency risk. These derivatives consist of US dollar swap transactions which are simultaneous sell/buy and buy/sell of an identical amount of US dollars over two different days at an agreed exchange rate. Board policy governs the amount and term of these instruments.

Equity Index-Linked Deposits

The Credit Union has outstanding \$5,039,066 (2014 - \$3,398,345) in index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in assets and liabilities and have a fair value of \$59,333 (2014 - \$183,243).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2015, the Credit Union had entered into such contracts on index linked term deposits for a total of \$4,841,439 (2014 - \$3,408,349). The agreements are secured by a general security agreement covering all assets of the Credit Union.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

7. Member Loans

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Residential mortgages	\$ 710,794	\$ 635,918
Personal Loans	129,107	134,709
Commercial loans	<u>266,137</u>	<u>249,166</u>
	1,106,038	1,019,793
Accrued interest receivable	1,998	1,872
Allowance for impaired loans (Note 8)	<u>(6,602)</u>	<u>(7,268)</u>
Net loans to members	<u>\$ 1,101,434</u>	<u>\$ 1,014,397</u>

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.00% to prime plus 20.00%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2015 was 4.00%.

The interest rate offered on fixed rate loans being advanced at December 31, 2015 ranges from 2.00% to 13.00%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

7. Member Loans (continued)

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2015		2014	
	Principal	Yield (%)	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable Rate	\$ 298,345	5.35	\$ 277,172	5.48
Fixed rate due less than one year	150,654	4.82	165,268	4.86
Fixed rate due between one and five years	<u>657,039</u>	3.68	<u>577,353</u>	4.06
	<u>\$ 1,106,038</u>		<u>\$ 1,019,793</u>	

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2015	2014
	(thousands of Canadian dollars)	
Unsecured loans	\$ 129,608	\$ 135,238
Loans secured by cash, member deposits	116	136
Loans secured by real property	706,286	656,419
Residential mortgages insured by third party	45,867	36,078
Residential mortgages insured by government	<u>224,161</u>	<u>191,922</u>
	<u>\$ 1,106,038</u>	<u>\$ 1,019,793</u>

Concentration of Risk

There are no individual or related groups of members loans which exceed 10% of members' equity.

Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

	2015	2014
	(thousands of Canadian dollars)	
Residential mortgages	\$ 715,636	\$ 640,376
Personal loans	129,074	134,632
Commercial loans	<u>267,110</u>	<u>249,853</u>
	<u>\$ 1,111,820</u>	<u>\$ 1,024,861</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

8. Allowance for Impaired Loans

Total allowance for impaired loan provision comprises:

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Collective provision	\$ 2,651	\$ 3,517
Individual specific provision	<u>3,951</u>	<u>3,751</u>
Total provision	<u>\$ 6,602</u>	<u>\$ 7,268</u>

Movement in individual specific provision and collective provision for impairment:

	<u>Personal Loans</u>	<u>Residential Mortgages</u>	<u>Commercial Loans</u>	<u>Total</u>
	(thousands of Canadian dollars)			
December 31, 2015				
Balance as at December 31, 2014	\$ 1,765	\$ 504	\$ 4,999	\$ 7,268
Recoveries	112	-	-	112
Loan loss expense	<u>727</u>	<u>325</u>	<u>67</u>	<u>1,119</u>
Write-offs	<u>2,604</u>	<u>829</u>	<u>5,066</u>	<u>\$ 8,499</u>
	(650)	(322)	(925)	(1,897)
Balance as at December 31, 2015	<u>\$ 1,954</u>	<u>\$ 507</u>	<u>\$ 4,141</u>	<u>\$ 6,602</u>
Principal balance of impaired loans	<u>\$ 3,256</u>	<u>\$ 10,955</u>	<u>\$ 11,001</u>	<u>\$ 25,212</u>
December 31, 2014				
Balance as at December 31, 2013	\$ 1,694	\$ 334	\$ 4,907	\$ 6,935
Recoveries	122	-	5	127
Loan loss expense	<u>712</u>	<u>498</u>	<u>149</u>	<u>1,359</u>
Write-offs	<u>2,528</u>	<u>832</u>	<u>5,061</u>	<u>8,421</u>
	(763)	(328)	(62)	(1,153)
Balance as at December 31, 2014	<u>\$ 1,765</u>	<u>\$ 504</u>	<u>\$ 4,999</u>	<u>\$ 7,268</u>
Principal balance of impaired loans	<u>\$ 2,957</u>	<u>\$ 7,805</u>	<u>\$ 6,578</u>	<u>\$ 17,340</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

8. Allowance for Impaired Loans (continued)

	2015		2014	
	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of delinquency			(thousands of Canadian dollars)	
Less than 90 Days	\$ 4,628	\$ 452	\$ 2,358	\$ 421
90 Days and Over	<u>7,332</u>	<u>2,559</u>	<u>7,357</u>	<u>2,941</u>
Total loans in arrears	11,960	3,011	9,715	3,362
Total loans not in arrears	<u>13,252</u>	<u>940</u>	<u>7,625</u>	<u>389</u>
Total loans	<u>\$ 25,212</u>	<u>\$ 3,951</u>	<u>\$ 17,340</u>	<u>\$ 3,751</u>

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, business losses, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. For purposes of calculating the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

9. Property and Equipment

(thousands of Canadian dollars)

Cost	Land and Parking Lots	Buildings	Equipment	Leasehold Improvements	Total
Balance at December 31, 2013	\$ 2,464	\$ 9,116	\$ 7,294	\$ 3,151	\$ 22,025
Additions	1,213	2,987	1,153	518	5,871
Balance on December 31, 2014	3,677	12,103	8,447	3,669	27,896
Additions	-	432	951	423	1,806
Balance on December 31, 2015	\$ 3,677	\$ 12,535	\$ 9,398	\$ 4,092	\$ 29,702
Accumulated Depreciation					
Balance at December 31, 2013	\$ 29	\$ 3,060	\$ 5,565	\$ 2,098	\$ 10,752
Depreciation Expense	22	391	822	455	1,690
Balance on December 31, 2014	51	3,451	6,387	2,553	12,442
Depreciation Expense	25	447	848	355	1,675
Balance on December 31, 2015	\$ 76	\$ 3,898	\$ 7,235	\$ 2,908	\$ 14,117
Net Book Value					
December 31, 2014	\$ 3,626	\$ 8,652	\$ 2,060	\$ 1,116	\$ 15,454
December 31, 2015	\$ 3,601	\$ 8,637	\$ 2,163	\$ 1,184	\$ 15,585

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

10. Other Assets

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Interest receivable	\$ 457	\$ 572
Deferred income taxes (Note 13)	1,642	1,780
Other securitization assets (Note 24)	1,518	14,583
Other assets	<u>5,279</u>	<u>4,205</u>
	<u>\$ 8,896</u>	<u>\$ 21,140</u>

11. Member Deposits

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Chequing accounts	\$ 193,136	\$ 177,818
Demand savings accounts	85,132	86,242
Term deposits	427,672	380,777
Registered retirement savings plans	153,296	150,419
Registered retirement income funds	53,308	47,898
Tax free savings account	<u>108,194</u>	<u>80,996</u>
	1,020,738	924,150
Accrued interest on member deposits	<u>8,393</u>	<u>7,653</u>
	<u>\$ 1,029,131</u>	<u>\$ 931,803</u>

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.25% at December 31, 2015. Interest is calculated daily and paid on the accounts monthly.

Demand savings accounts are due on demand and bear interest at a variable rate up to 0.50% at December 31, 2015. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits on December 31, 2015 range from 0.50% to 1.80%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at a rate of 0.25% at December 31, 2015.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above. The variable rate tax-free savings accounts bear interest at a rate of 1.10% at December 31, 2015.

Included in chequing deposits is an amount of \$6,690,580 denominated in US dollars.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

11. Member Deposits (continued)

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields:

	2015		2014	
	Principal	Yield (%)	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable rate	\$ 297,202	0.29	\$ 281,951	0.31
Fixed rate due less than one year	467,923	1.89	371,300	2.07
Fixed rate due between one and five years	<u>255,613</u>	2.23	<u>270,899</u>	2.32
	<u>\$ 1,020,738</u>		<u>\$ 924,150</u>	

Fair Value

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

	2015	2014
	(thousands of Canadian dollars)	
Chequing and demand savings accounts	\$ 278,268	\$ 264,060
Term deposits	425,048	379,271
Registered plans	312,917	277,959
	<u>\$ 1,016,233</u>	<u>\$ 921,290</u>

Concentration of Risk

The Credit Union does not have exposure to groupings of individual deposits that exceed 10% of member deposits which concentrate risk and create exposure to particular segments.

12. Employee Future Benefits

Defined Contribution Pension Plan

The Credit Union sponsors a defined contribution pension plan. Contributions to the plan during the year ended December 31, 2015 were \$826,913 (2014 - \$774,121).

Defined Benefit Post-Retirement Non-Pension Plan

The Credit Union pays certain post retirement benefits of its retired employees. The Credit Union recognizes these post retirement costs in the period in which the employees render the services. The accrued benefit obligation at December 31, 2015 of \$3,726,649 (2014 - \$3,552,395) and the net periodic benefit cost for the year ending December 31, 2015 was determined by actuarial valuation using a discount rate of 5.00% (2014 - 5.00%).

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

12. Employee Future Benefits (continued)

Information about the Credit Union's defined benefit plans is as follows:

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Accrued benefit obligation		
Balance at the beginning of the period	\$ 3,552	\$ 3,371
Service cost for the period	74	74
Interest cost for the period	166	166
Benefits cost for the period	<u>(65)</u>	<u>(59)</u>
Accrued liability	<u>\$ 3,727</u>	<u>\$ 3,552</u>
Components of net periodic benefit cost		
Service cost for the period	\$ 74	\$ 74
Interest cost for the period	<u>166</u>	<u>166</u>
Net periodic benefit cost	<u>\$ 240</u>	<u>\$ 240</u>

The main actuarial assumptions employed for the valuations are as follows:

General Inflation (CPI rate)	2.00%
Interest (discount) rate	5.00%

Medical costs were assumed to increase at the CPI rate plus 4.70% in 2015, decreasing by 0.30% each year until reaching the CPI rate plus 2.6% in 2022 and thereafter.

Dental costs were assumed to increase at the CPI rate plus 2.6% in 2015 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2015:

	<u>Increase</u>	<u>Decrease</u>
Total of service and interest cost	\$ 62,000	\$ (40,000)
Accrued benefit obligation	\$ 685,000	\$ (533,000)

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

13. Income Taxes

The effects of temporary differences, which give rise to the deferred income tax assets reported in other assets on the balance sheet, are as follows:

	Balance as at December 31 2014	Recognized in Net Income (thousands of Canadian dollars)	Balance as at December 31 2015
Employee future benefits	\$ 690	\$ 37	727
Allowance for impaired loans	760	(165)	595
Property and equipment	270	(7)	263
Other	60	(3)	57
	<u>\$ 1,780</u>	<u>\$ (138)</u>	<u>1,642</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2015 (thousands of Canadian dollars)	2014
Income before income taxes	\$ 4,481	\$ 3,044
Statutory income tax rate	26.50 %	26.50 %
Expected income tax expense	1,187	807
Increase (decrease) in taxes resulting from:		
Available credit union small business deduction	(403)	(425)
Tax savings on dividends	(471)	(292)
Non-deductible expenses and other reconciling items	(36)	95
Income tax expense	<u>\$ 277</u>	<u>\$ 185</u>

The income tax expense consists of the following:

	2015 (thousands of Canadian dollars)	2014
Current provision	\$ 139	\$ 175
Deferred provision	138	10
	<u>\$ 277</u>	<u>\$ 185</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

14. Members' Shares

	2015		2014	
	<u>Equity</u>	<u>Liability</u>	<u>Equity</u>	<u>Liability</u>
Membership Shares	\$ -	\$ 1,181	\$ -	\$ 1,185
Class A Investment Shares (net of issuance costs)	25,830	-	25,830	-
Class B Affinity Shares	<u>11,200</u>	<u>-</u>	<u>10,276</u>	<u>-</u>
	<u>\$ 37,030</u>	<u>\$ 1,181</u>	<u>\$ 36,106</u>	<u>\$ 1,185</u>

Terms and Conditions

Membership Shares

The credit union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold 5 member shares with a par value of \$5 per share, with the exception of members under 18 years old who are only required to hold 1 member share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. As at December 31, 2015, there were 236,294 membership shares issued (2014 - 236,984).

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any dividends on these shares.

Class A Investment Shares

The Credit Union is authorized to issue an unlimited number of Class A Investment shares, in series, with rights, privileges, restrictions and conditions to be determined by the Board of Directors, subject to statutory restrictions. As at December 31, 2015, there were 26,089,267 Class A shares issued (2014 - 26,089,267). The Class A Series 1 shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors after five years, subject to a maximum of 10% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any distributions on these shares. Class A shares that are available for redemption are classified as Tier 2 capital. Class A shares available for redemption as of December 31, 2015 total 1,609,000.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

14. Members' Shares (continued)

Class B Affinity Shares

The Credit Union is authorized to issue an unlimited number of Non-Cumulative Redeemable Non-Voting Non-Participating Class B Affinity shares. As at December 31, 2015, there were 11,200,456 Class B Affinity shares issued (2014 - 10,275,844). The Class B shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any distributions on these shares. On February 24, 2015 the Credit Union issued 960,378 Class B Series 2 Affinity Shares. Class B shares available for redemption as of December 31, 2015 total 265,300.

Distributions to Members

Dividends recorded to Members' Equity are as follows:

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Dividends on Class A shares	\$ 1,304	\$ 1,304
Dividends on Class B Affinity shares	<u>462</u>	<u>418</u>
	<u>\$ 1,766</u>	<u>\$ 1,722</u>

In addition to the amounts paid above, the Credit Union recorded patronage allocations of \$986,184 (2014 - \$1,057,077). These are recorded as an expense on the Statement of Income.

15. Other Expenses

	<u>2015</u>	<u>2014</u>
	(thousands of Canadian dollars)	
Other supplies and postage	\$ 737	\$ 825
Equipment costs	482	551
Central dues & regulatory assessments	152	151
Savings and loan life insurance	39	54
Education and staff development	897	838
Bonding insurance	118	133
Professional services	519	378
Collection costs	123	112
Telephone	175	173
Miscellaneous	<u>213</u>	<u>957</u>
	<u>\$ 3,455</u>	<u>\$ 4,172</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

16. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, 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.

	<u>2015</u>		<u>2014</u>
	(thousands of Canadian dollars)		
Compensation:			
Salaries, and other short-term employee benefits	\$ 1,306	\$	1,221

	<u>2015</u>		<u>2014</u>
	(thousands of Canadian dollars)		
Loans to key management personnel:			
Aggregate value of loans advanced	\$ 752	\$	885
Interest received on loans advanced	26		32
Total value of lines of credit advanced	38		48
Interest received on lines of credit advanced	1		2
Unused value of lines of credit	58		60

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

	<u>2015</u>		<u>2014</u>
	(thousands of Canadian dollars)		
Deposits from key management personnel:			
Aggregate value of term and savings deposits	\$ 1,956	\$	1,536
Total interest paid on term and savings deposits	43		42

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 key management personnel or close family members.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

16. Related Party Transactions (continued)

Regulatory Reporting

a) Remuneration of Officers and Employees

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded \$150,000. If there are more than five officers and employees of a credit union whose total remuneration for the year was over \$150,000, the five officers and employees with the highest total remuneration for the year are disclosed. The table below provides this information for the 2015 calendar year:

	Total Salary Received	Monetary Value of Benefits Received
Robert Wellstood, CEO	\$ 340,985	\$ 12,685
Julian Sellers, CFO	\$ 216,930	\$ 12,685
Jennifer Mowry, VP Human Resources	\$ 161,369	\$ 11,200

b) Restricted Party Loans

The Credit Union has enacted a policy requiring disclosure and Board approval of all restricted party transactions. Restricted parties have been defined in the policy to include anyone who is, or has been within the preceding twelve months, a Director or Officer of the Credit Union, their spouse or relatives residing within the same house. The Credit Unions and Caisses Populaires Act, 1994, provides a broader definition of restricted parties which includes all relatives of Directors and Officers. There were no loans advanced to restricted parties as defined by policy during the year, and there are 14 loans outstanding to such parties with an aggregate value of \$1,685,752 at December 31, 2015.

c) Other Statutory Information

Pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 1994, the following information is provided:

	2015	2014
	(thousands of Canadian dollars)	
Director remuneration paid	\$ 164	\$ 172
Deposit insurance premium paid	\$ 675	\$ 638

17. Statement of Cash Flows

The following amounts are included in the cash provided by operations:

	2015	2014
	(thousands of Canadian dollars)	
Interest received on loans to members	\$ 43,870	\$ 42,883
Interest paid on member deposits	\$ 14,579	\$ 15,606

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

18. Fair Value Measurements

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of Level 2 and Level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are described below:

Level 2 Financial Instruments

a) Central 1 Credit Union Interest Rate Swap Contracts

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves

b) Central 1 Credit Union Limited - Class A Shares

Fair value is determined based on the rebalancing mechanism used by Central 1, which calculates the amount of shares a credit union must hold in relation to its capital.

c) CUCO Cooperative Association

The fair value is calculated based on the value of the underlying investments held by the CUCO Cooperative Association. At December 31, 2015 an independent valuation was completed on the underlying investments of the CUCO Cooperative Association. The majority of the investments held by CUCO Cooperative Association have sufficient market liquidity and frequent availability of dealers' bid-ask indications to enable the use of a mark-to-market valuation technique. For a small portion of the underlying investments there is insufficient liquidity and information available to consider it an active market. For these investments the Association determined or estimated the principal characteristics of the investments, including the interest rate, maturity date and credit rating. Then an estimate was made of the yield that a potential investor would require in order to purchase each class of note.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

19. Financial Instrument Classification

The carrying amount of the Credit Union's financial instruments by classification is as follows:

	<u>Fair Value through Profit or Loss</u>	<u>Cash Flow Hedges</u>	<u>Available for Sale</u>	<u>Loans and Receivables and Other Financial Liabilities</u>	<u>Total</u>
	(thousands of Canadian dollars)				
December 31, 2015					
Cash resources	\$ 19,814	\$ -	\$ -	\$ -	\$ 19,814
Liquidity deposits	72,677	-	-	-	72,677
Investments	1,957	-	7,678	-	9,635
Derivative financial instruments	-	1,173	-	-	1,173
Loans to members	-	-	-	1,101,434	1,101,434
Term loans	-	-	-	(18,000)	(18,000)
Member deposits	-	-	-	(1,029,131)	(1,029,131)
Accounts payable and accrued liabilities	-	-	-	(3,918)	(3,918)
Securitized mortgage liability	-	-	-	(87,430)	(87,430)
Derivative financial instruments	-	(1,918)	-	-	(1,918)
Members' shares	-	-	-	(1,181)	(1,181)
	<u>\$ 94,448</u>	<u>\$ (745)</u>	<u>\$ 7,678</u>	<u>\$ (38,226)</u>	<u>\$ 63,155</u>
December 31, 2014					
Cash resources	\$ 15,594	\$ -	\$ -	\$ -	\$ 15,594
Liquidity deposits	68,157	-	-	-	68,157
Investments	1,838	-	7,045	-	8,883
Derivative financial instruments	-	538	-	-	538
Loans to members	-	-	-	1,014,397	1,014,397
Term loans	-	-	-	(54,700)	(54,700)
Member deposits	-	-	-	(931,803)	(931,803)
Accounts payable and accrued liabilities	-	-	-	(3,751)	(3,751)
Securitized mortgage liability	-	-	-	(67,756)	(67,756)
Derivative financial instruments	-	(1,315)	-	-	(1,315)
Members' shares	-	-	-	(1,185)	(1,185)
	<u>\$ 85,589</u>	<u>\$ (777)</u>	<u>\$ 7,045</u>	<u>\$ (44,798)</u>	<u>\$ 47,059</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

19. Financial Instrument Classification (continued)

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels as described in Note 3a.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(thousands of Canadian dollars)			
December 31, 2015				
Cash resources	\$ 19,814	\$ -	\$ -	\$ 19,814
Liquidity deposits	72,677	-	-	72,677
Index linked term deposits	-	5,039	-	5,039
Central 1 Credit Union interest rate swap contracts	-	(745)	-	(745)
Central 1 Credit Union Limited - Class A	-	4,359	-	4,359
CUCO Co-operative Association	-	1,957	-	1,957
	<u>\$ 92,491</u>	<u>\$ 10,610</u>	<u>\$ -</u>	<u>\$ 103,101</u>
December 31, 2014				
Cash resources	\$ 15,594	\$ -	\$ -	\$ 15,594
Liquidity deposits	68,157	-	-	68,157
Index linked term deposits	-	3,398	-	3,398
Central 1 Credit Union interest rate swap contracts	-	(777)	-	(777)
Central 1 Credit Union Limited - Class A	-	3,726	-	3,726
CUCO Cooperative Association	-	1,838	-	1,838
	<u>\$ 83,751</u>	<u>\$ 8,185</u>	<u>\$ -</u>	<u>\$ 91,936</u>

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

20. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors 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 of Directors receives monthly reports from the Credit Union's Chief Financial Officer 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 financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is 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. To 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 schedule of assigned limits;
- 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 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 bad debts. The Board of Directors also receives an analysis of allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risk of a reduction of the loan to value ratio (LVR) cover should the property market decline. The risk of losses from loans undertaken is primarily reduced by adhering to other lending criteria including a borrower's ability to pay.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

20. Financial Instrument Risk Management (continued)

There have been no significant changes from the previous year in the 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 Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The credit union has set a minimum liquidity ratio of 7%.

The Credit Union manages liquidity risk by:

- Continuously monitoring cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

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 period.

As at December 31, 2015, the position of the Credit Union is as follows:

	<u>Maximum Exposure</u>
	(thousands of Canadian dollars)
Qualifying liquid assets on hand	
Cash resources	\$ 19,814
Liquidity reserve deposit	<u>72,677</u>
	92,491
Total liquidity requirement	<u>78,829</u>
Excess liquidity requirement	<u>\$ 13,662</u>

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

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

20. Financial Instrument Risk Management (continued)

Liquidity Risk (continued)

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

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 three types of risk: interest rate risk, currency risk, and equity risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending and on its investment in CUCO Cooperative Association.

The Credit Union manages the interest rate risk within approved limits. The Credit Union continually monitors the effectiveness of its interest rate 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 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 member loans and interest paid on member deposits. The objective of asset and 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 in accordance with the Credit Union's policy. For the year ended December 31, 2015, the Credit Union was in compliance with this policy.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

20. Financial Instrument Risk Management (continued)

Interest Rate Risk (continued)

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. An adjustment has been made for repayments that may occur prior to maturity based on recent member activity. Amounts that are not interest sensitive have been grouped together, regardless of maturity. The amounts shown are in thousands of dollars.

<u>Maturity dates</u>	<u>Assets</u>	<u>Yield (%)</u>	<u>Liabilities and Members' Equity</u>	<u>Cost (%)</u>	<u>Gap</u>
				(thousands of Canadian dollars)	
<i>Interest sensitive</i>					
< 6 months	\$ 464,725	3.35	\$ 571,046	1.10	\$ (106,321)
1 year	122,491	3.87	224,361	1.91	(101,870)
2 years	191,177	3.59	169,801	2.38	21,376
3 years	132,899	3.55	90,574	2.55	42,325
4 years	148,282	3.24	65,659	2.42	82,623
5 years	<u>135,245</u>	2.92	<u>40,192</u>	2.44	<u>95,053</u>
Interest sensitive	<u>\$ 1,194,819</u>		<u>\$ 1,161,633</u>		<u>\$ 33,186</u>
Non-interest sensitive	<u>\$ 34,395</u>		<u>\$ 67,581</u>		<u>\$ (33,186)</u>
Total	<u>\$ 1,229,214</u>		<u>\$ 1,229,214</u>		<u>\$ -</u>

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of \$1,057,000 while a decrease in interest rates of 0.5% could result in an increase to net income of \$557,000.

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.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

20. Financial Instrument Risk Management (continued)

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 foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its foreign currency exposure in accordance with its exchange risk management policy. Foreign currency changes are continually monitored by the asset/liability committee for effectiveness of foreign exchange mitigation activities and holdings.

Risk Measurement

The Credit Union's exposure is measured daily. Measurement of risk exposure is the difference between the United States dollar assets and United States dollar liabilities.

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 in U.S. funds.

For the year ended December 31, 2015, the Credit Union's exposure to foreign exchange risk is within policy.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Unions portfolio is comprised of shareholdings as outlined in Note 5.

Investments are required to be held in accordance with the Credit Union's agreement with Central 1.

21. Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Regulatory capital calculated in accordance with the Act shall not be less than 4% of the book value of assets; and
- Regulatory capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

21. Capital Management (continued)

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than 5.5% of the book value of all assets, and members' capital as shown on the balance sheet shall not be less than 10.5% of the risk weighted value of its assets and an operational risk requirement.

The Credit Union considers its capital to include membership shares (member shares, Class A Investment shares, Class B Affinity shares), and retained 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 Unions and Caisses Populaires Act of 1994 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 \$598,529,004 (2014 - \$581,615,301).

Total regulatory capital is composed of Tier 1 and Tier 2 Capital as follows:

	2015	2014
	(thousands of Canadian dollars)	
Tier 1 Capital		
Class A Investment Shares	\$ 25,830	\$ 25,830
Class B Affinity Shares	11,200	10,276
Less: Redeemable Portion of Class A and Class B Shares	(1,874)	(1,753)
Membership Shares	1,181	1,185
Contributed Surplus	350	316
Retained Earnings	44,765	42,327
Total Tier 1 Capital	<u>81,452</u>	<u>78,181</u>
Tier 2 Capital		
Redeemable portion of Class A and Class B Shares	1,874	1,753
Collective Loan Loss Provision	2,651	3,517
Total Tier 2 Capital	<u>4,525</u>	<u>5,270</u>
Total regulatory capital	<u>\$ 85,977</u>	<u>\$ 83,451</u>

The applicable capital ratios are as follows:

Tier 1 Capital to Risk Weighted Assets	13.61 %	13.44 %
Total Regulatory Capital to Risk Weighted Assets	14.37 %	14.35 %
Total Regulatory Capital to Total Assets	6.99 %	7.29 %

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

22. Commitments

a) Credit Facilities

The Credit Union has a committed line of credit and term loan facilities with Central 1 Credit Union Limited totaling \$54,000,000. As of December 31, 2015 the Credit Union had unused credit facilities totaling \$36,000,000. The authorized lines of credit bear interest at 1.36%. Security given is an assignment of loans receivable and a general security agreement covering all assets of the Credit Union.

b) Loan Commitments

At December 31, 2015, the Credit Union is committed to advance approximately \$7,099,422 on mortgage loans and \$32,087,086 on commercial loans. In addition, lines of credit which had been approved but not used at year-end totaled approximately \$139,541,470.

c) Lease Agreements

The Credit Union has entered into lease agreements for branch offices. Rental payments for these branches for the year ended December 31, 2015 totaled \$1,359,189, which is included in occupancy expense on the Statement of Income.

The minimum future payments in each of the next five years are as follows:

	(thousands of Canadian dollars)
2016	\$ 1,443
2017	1,106
2018	1,006
2019	968
2020	883

d) Contingencies

The nature of the Credit Union's activities are such that there may be litigation pending or in progress at any time. With respect to claims at December 31, 2015 management believes the Credit Union has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Credit Union's financial position.

23. Subsequent Events

On January 26, 2016, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 5% on the Class A Investment Shares, payable to the shareholders of record at December 31, 2015.

On January 26, 2016, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 4.5% on the Class B Affinity Shares, payable to the shareholders of record at December 31, 2015.

On February 23, 2016, the Board of Directors of the Credit Union passed a resolution to issue approximately \$1 million Class B Affinity Shares to members of record as at December 31, 2015.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2015

24. Mortgage Securitizations and Transfers

During the year the Credit Union securitized residential mortgages of \$53,205,319 (2014 - \$27,140,572). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities.

Transferred Financial Assets that are recognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred loans to members that are recognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the Statement of Financial Position.

Carrying amount of assets:	
Loans to members	\$ 87,341
Other securitization assets (Note 10)	1,518
Carrying amount of associated liabilities:	<u>(87,430)</u>
Net position	<u>\$ 1,429</u>

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.