



Consolidated Financial Statements

Sunshine Coast Credit Union

December 31, 2014

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# Independent Auditor's Report

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To the Members of  
Sunshine Coast Credit Union

We have audited the accompanying consolidated financial statements of Sunshine Coast Credit Union (the "credit union"), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of earnings and comprehensive income, consolidated statement of changes in members' equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the credit union's preparation and fair presentation of the consolidated 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 credit union'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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sunshine Coast Credit Union as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada  
February 25, 2015

*Grant Thornton LLP*

Chartered Accountants

# Sunshine Coast Credit Union

## Consolidated Statement of Financial Position

December 31 2014 2013

### Assets

Cash and cash equivalents (Note 5)	\$ 22,404,728	\$ 4,822,698
Investments (Note 6)	43,136,279	29,128,168
Loans (Note 7)	375,130,311	351,164,150
Property and equipment (Note 9)	5,602,099	5,676,309
Intangible assets (Note 9)	503,630	331,281
Other assets (Note 10)	856,253	393,293
Deferred income tax asset (Note 14)	5,000	16,000
	<b>\$ 447,638,300</b>	<b>\$ 391,531,899</b>

### Liabilities

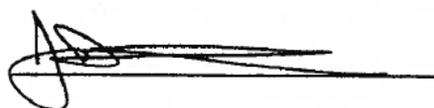
Borrowings (Note 11)	\$ -	\$ 8,010,286
Deposits (Note 12)	414,674,069	351,961,003
Payables and other liabilities	553,707	1,051,245
	<b>415,227,776</b>	<b>361,022,534</b>

### Members' equity

Patronage and investment shares (Note 15)	3,485,758	3,831,799
Retained earnings	28,799,825	26,677,566
Accumulated other comprehensive income (Note 20)	124,941	-
	<b>32,410,524</b>	<b>30,509,365</b>
	<b>\$ 447,638,300</b>	<b>\$ 391,531,899</b>

Commitments (Note 22)

Signed on behalf of the Board of Directors by:

 Director

 Director

# Sunshine Coast Credit Union

## Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2014	2013
Financial income		
Interest on loans	\$ 14,567,074	\$ 13,854,340
Other interest revenue	<u>773,457</u>	<u>655,778</u>
	<b>15,340,531</b>	14,510,118
Financial expense		
Interest on deposits and term loan	<u>5,277,074</u>	<u>4,463,979</u>
Financial margin	<b>10,063,457</b>	10,046,139
Provision on loans (Note 8)	<b>202,019</b>	164,865
Other income (Note 16)	<u>2,950,559</u>	<u>2,587,092</u>
Operating margin	<u><b>12,811,997</b></u>	<u>12,468,366</u>
Operating expenses		
Deposit insurance	<b>254,331</b>	228,355
Depreciation and amortization	<b>690,271</b>	609,031
Director and committee expense	<b>62,861</b>	63,469
Employee salaries and benefits	<b>5,384,852</b>	5,204,336
Other operating and administrative (Note 17)	<b>3,385,661</b>	3,328,640
Lease costs	<b>54,574</b>	56,790
Occupancy	<u><b>477,808</b></u>	<u>428,724</u>
	<u><b>10,310,358</b></u>	<u>9,919,345</u>
Earnings from operations	<b>2,501,639</b>	2,549,021
Distributions to members (Note 15)	<u>7,415</u>	<u>354,936</u>
Earnings before income taxes	<u><b>2,494,224</b></u>	<u>2,194,085</u>
Provision for income taxes (Note 14)		
Current income tax	<b>270,249</b>	483,455
Deferred income tax expense (recovery)	<u><b>11,000</b></u>	<u>(42,000)</u>
	<u><b>281,249</b></u>	<u>441,455</u>
Net earnings for the year	<b>2,212,975</b>	1,752,630
Other comprehensive income		
Change in unrealized gains on available-for-sale investments	-	16,236
Change in unrealized gains on cash flow hedges	<u><b>124,941</b></u>	<u>-</u>
	<u><b>124,941</b></u>	<u>16,236</u>
Total comprehensive income for the year	<u><b>\$ 2,337,916</b></u>	<u>\$ 1,768,866</u>

See accompanying notes to the consolidated financial statements.

# Sunshine Coast Credit Union

## Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2014

	Patronage and Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance on January 1, 2013	\$ 4,019,594	\$ 24,996,764	\$ (16,236)	\$ 29,000,122
Net earnings	-	1,752,630	-	1,752,630
Distributions to members (Note 15)	-	(71,828)	-	(71,828)
Issuance of members' shares	21,625	-	-	21,625
Redemption of members' shares	(209,420)	-	-	(209,420)
Change in unrealized gains on available-for-sale investments	-	-	16,236	16,236
Balance on December 31, 2013	3,831,799	26,677,566	-	30,509,365
Net earnings	-	2,212,975	-	2,212,975
Distributions to members (Note 15)	-	(90,716)	-	(90,716)
Issuance of members' shares	26,200	-	-	26,200
Redemption of members' shares	(372,241)	-	-	(372,241)
Change in unrealized gains on cash flow hedges (Note 20)	-	-	124,941	124,941
<b>Balance on December 31, 2014</b>	<b>\$ 3,485,758</b>	<b>\$ 28,799,825</b>	<b>\$ 124,941</b>	<b>\$ 32,410,524</b>

# Sunshine Coast Credit Union

## Consolidated Statement of Cash Flows

Year ended December 31

2014

2013

Cash derived from (applied to)

### Operating

Net earnings for the year	\$ 2,212,975	\$ 1,752,630
Adjustments for:		
Realized gain from disposal of equipment	675	-
Change in deferred income tax	11,000	(42,000)
Depreciation and amortization	690,271	609,031
Provision on loans	202,019	164,865
Change in other assets	(338,019)	(147,459)
Change in payables and other liabilities	(497,538)	(8,604)
Change in interest accruals, net	793,066	(182,430)

Total cash inflows from operating	<u>3,074,449</u>	<u>2,146,033</u>
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### Investing

Borrowings	(8,010,286)	8,010,286
Investments, net	(14,008,111)	(4,603,867)
Change in member activities, net		
Change in loans	(24,198,405)	(24,862,999)
Change in deposits	61,950,225	12,504,425
Purchase of property and equipment and intangible assets	(789,085)	(565,672)

Total cash inflows (outflows) from investing	<u>14,944,338</u>	<u>(9,517,827)</u>
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### Financing

Change in patronage and investment shares	(346,041)	(187,795)
Dividends	(90,716)	(71,828)

Total cash outflows from financing	<u>(436,757)</u>	<u>(259,623)</u>
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Net increase (decrease) in cash resources	17,582,030	(7,631,417)
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Cash resources, beginning of year	<u>4,822,698</u>	<u>12,454,115</u>
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Cash resources, end of year	<u>\$ 22,404,728</u>	<u>\$ 4,822,698</u>
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### Supplemental cash flow information

Income taxes paid	\$ 450,000	\$ 517,118
Interest paid	4,491,125	4,303,982

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 1. Governing legislation and nature of operations

Sunshine Coast Credit Union (the "credit union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The credit union serves members principally in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, registered retirement savings plans ("RRSPs"), Registered retirement income funds ("RRIFs"), automated banking machines ("ABMs"), debit and credit cards, and internet banking. The credit union's head office is located at 985 Gibsons Way, Gibsons, BC, V0N 1V0.

These consolidated financial statements have been approved and authorized for issue by the board of directors on February 25, 2015.

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### 2. Basis of presentation and statement of compliance

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The credit union's functional and presentation currency is the Canadian dollar.

The preparation of consolidated 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 consolidated financial statements are disclosed in Note 4.

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### 3. Summary of significant accounting policies

#### Basis of consolidation

The consolidated financial statements consolidate those of the credit union and its subsidiary, SunCu Financial Services Inc. The subsidiary is an entity over which the credit union has the power to control the financial and operating policies. All transactions and balances between the credit union and the subsidiary are eliminated on consolidation and amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the credit union. The subsidiary has a reporting date of December 31.

#### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less, and, for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments

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

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through net earnings, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

#### *Financial assets*

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through net earnings;
- held-to-maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in net earnings or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through net earnings are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

#### *Loans and receivables*

All member loans, cash and cash equivalents and receivables 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.

Loans to members are initially measured at fair value, net of loan origination fees. Loans to members 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 for all loans is accounted for on the accrual basis.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### *Loans and receivables (continued)*

If there is objective evidence that an impairment loss on loans to members 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 and for which an impairment loss is or continues to be recognized 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 earnings.

Loans 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 amount is unlikely. Loans 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 earnings.

##### *Financial assets at fair value through net earnings*

Fair value through net earnings financial instruments are measured at fair value and changes in fair value are recognized in net earnings. As of December 31, 2014, the credit union does not have any financial assets at fair value through net earnings (2013 - \$Nil).

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the credit union has the intention and ability to hold them until maturity. The credit union currently holds liquidity term deposits designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in net earnings.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The credit union's available-for-sale financial assets include the credit union's investments in Central 1 Credit Union ("Central 1") shares, and shares in CUPP Services Ltd. and Stabilization Central Credit Union.

The share investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Impairment charges are recognized in net earnings.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within members' equity, except for impairment losses, which are recognized in net earnings. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the members' equity reserve to net earnings and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in net earnings within 'other income'.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in net earnings only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

##### *Derivative financial instruments*

Derivative financial instruments are accounted for at fair value through net earnings except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

##### *Hedges*

The credit union, in accordance with its risk management strategies, 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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### *Hedges (continued)*

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 net earnings;
- 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 floating rate 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 net earnings, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net earnings as cash and cash equivalents and investments income.

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 within other comprehensive income to net earnings 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 earnings within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to net earnings.

##### *Financial liabilities*

The credit union's financial liabilities include deposits, borrowings, payables and other liabilities, and members' shares.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through net earnings that are carried subsequently at fair value with gains or losses recognized in net earnings.

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in net earnings are included within 'other interest revenue' or 'other interest expense'.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### 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 earnings and is provided on a straight-line basis over the estimated useful life of the assets to a maximum as follows:

Buildings and renovations	40 years
Building components	15 - 30 years
Computer hardware	5 years
Furniture and fixtures	10 years
Leasehold improvements	Lease term

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within 'other income' or 'other expenses'.

The carrying amount of property and equipment are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

#### Intangible assets

Intangible assets include acquired computer software used in administration that qualifies for recognition as an intangible asset. Software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over its estimated useful life of not more than 5 years. Residual values and useful lives are reviewed at each reporting date.

Amortization has been included within 'depreciation and amortization'. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

#### Impairment of property and equipment and intangible assets

The carrying amount of property and equipment and intangible assets are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

#### Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Income taxes (continued)

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases; however, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the credit union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the credit union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the credit union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in net earnings.

#### 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.

#### Post-employment benefit and short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'other liabilities', measured at the undiscounted amount that the credit union expects to pay as a result of the unused entitlement.

The credit union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting. Therefore, the credit union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Post-employment benefit and short-term employee benefits (continued)

The credit union also participates in a supplemental retirement plan for eligible employees. This is a defined benefit plan, which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect to the defined benefit plan is the present value of the unfunded defined benefit obligations at the date of the consolidated statement of financial position.

#### Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the credit union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the credit union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset; however, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Members' shares

Members' shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the credit union board of directors, namely patronage and investment shares, the shares are classified as equity.

#### Patronage distributions

Patronage distributions are accrued as per annual budget and/or when approved by the board of directors.

#### Revenue recognition

The accounting treatment for loan fees varies depending on the transaction. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### Leased assets

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Currently, the credit union does not have any finance leases.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the credit union (an "operating lease"), the total rentals payable under the lease are charged to the statement of earnings and comprehensive income on a straight-line basis over the lease term.

#### Foreign currency translation

Foreign currency transactions are translated into the functional currency of the credit union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement of monetary items at year end exchange rates are recognized in net earnings.

#### 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 January 1, 2014, that the credit union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the credit union are:

(a) *Accounting standards issued and effective January 1, 2014*

IAS 19 *Employee Benefits* clarifies that contributions to the defined benefit plan from employees or third parties that are linked to service should be attributed to periods of service using the same attribution method as the gross benefit. This change was made to address concerns about the complexity of applying certain requirements of the standard to simple contributory plans.

IAS 32 *Financial Instruments: Presentation* was amended to address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and clarify that some gross settlement systems may be considered equivalent to net settlement.

(b) *Accounting standards issued and not yet effective*

IFRS 9, *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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#### 4. Estimation uncertainty

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

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. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

#### Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2014, management assesses that the useful lives represent the expected utility of the assets to the credit union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

#### Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques, management makes maximum use of market inputs and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

#### Loans to members loss provision

In determining whether an impairment loss should be recorded in the statement of earnings and 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 loans to members 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.

#### 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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2014

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### 5. Cash and cash equivalents

The credit union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2014 is 1.25% (2013 - 1.74%).

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 18,922,527	\$ 1,526,424
Term deposits and accrued interest	<u>3,482,201</u>	<u>3,296,274</u>
	<u>\$ 22,404,728</u>	<u>\$ 4,822,698</u>

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### 6. Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

	<u>2014</u>	<u>2013</u>
Term deposits and accrued interest	\$ 41,553,867	\$ 27,676,982
Shares		
Central 1 Credit Union	1,476,141	1,344,915
CUPP Services Ltd.	104,043	104,043
Stabilization Central Credit Union	324	324
Other shares and equity investments	<u>1,904</u>	<u>1,904</u>
	<u>\$ 43,136,279</u>	<u>\$ 29,128,168</u>

The credit union must maintain liquidity reserves with Central 1 at 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the credit union's total deposits and debt liabilities 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.

Non-callable term deposits are due between three months and one year. The carrying amounts for deposits approximate fair value due to their having similar characteristics as cash and cash equivalents.

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.

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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2014

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### 6. Investments (continued)

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.

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<b>7. Loans</b>	<b>2014</b>	<b>2013</b>
Personal loans		
Residential mortgages	\$ 266,590,122	\$ 258,466,673
Other loans and lines of credit	17,253,873	17,019,521
Commercial loans		
Mortgages	86,435,335	70,653,928
Other loans and lines of credit	5,475,958	5,821,855
	<b>375,755,288</b>	351,961,977
Accrued interest receivable	<b>540,690</b>	570,914
	<b>376,295,978</b>	352,532,891
Allowance for impaired loans (Note 8)	<b>(1,165,667)</b>	(1,368,741)
Net loans to members	<b>\$ 375,130,311</b>	\$ 351,164,150

### Terms and conditions

Loans to members can have either a variable or fixed rate of interest with a maturity date of up to 7 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 8%. The credit union's prime rate at December 31, 2014 was 3.00%.

The interest rate offered on fixed rate loans being advanced at December 31, 2014 ranges from 3.04% to 9.75%.

Personal loans that are comprised of 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 that comprised of other loans and lines of credit consist of term loans and lines of credit that are non-real estate secured and 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 mortgages, term loans and operating lines of credit 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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 7. Loans (continued)

#### Average yields to maturity

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

	2014		2013	
	Principal	Yield	Principal	Yield
Variable rate	\$ 75,752,079	4.27%	\$ 71,305,476	4.25%
Fixed rate due less than one year	88,046,905	4.03%	64,605,419	4.16%
Fixed rate due between one and seven years	211,956,304	3.70%	216,051,082	3.83%
	\$ 375,755,288	3.89%	\$ 351,961,977	3.98%

#### Fair value

The fair value of loans to members at December 31, 2014, was \$378,745,000 (December 31, 2013 - \$355,203,000).

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.

#### Concentration of risk

The credit union has an exposure to groupings of individual loans which concentrate risk and create exposure to geographic concentration risk.

#### Transfers of mortgage and mortgage loan receivables

The credit union enters into arrangements to fund mortgage growth by selling loans to unrelated third parties. The credit union reviews these securitization arrangements in order to determine whether they should result in transferred mortgage and mortgage loans being derecognized from the consolidated statement of financial position.

The amount of residential mortgage and mortgage loans, including accrued interest, that were transferred at December 31, 2014 was \$4,795,540 (2013 - \$Nil). The credit union has transferred substantially all of the risks and rewards of ownership to the third party and the full balance has been derecognized from the consolidated statement of financial position.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 8. Allowance for impaired loans

Total allowance for impaired loans:

	2014	2013
Collective allowance	\$ 241,439	\$ 235,028
Individual specific allowance	924,228	1,133,713
Total allowance	\$ 1,165,667	\$ 1,368,741

Change in individual specific allowance and collective allowance for impairment:

	Beginning Balance	Provision / (Recoveries)	Write-offs	2014 Ending Balance
Residential mortgages	\$ 739,605	\$ (485,003)	\$ 24,372	\$ 239,974
Commercial mortgages	184,211	(78,972)	-	105,239
Personal and commercial loans and lines of credit	444,925	765,994	380,721	830,198
	<u>\$ 1,368,741</u>	<u>\$ 202,019</u>	<u>\$ 405,093</u>	<u>\$ 1,165,667</u>
Percentage of total loans and accrued interest				<u>0.31%</u>
				<u>2013</u>
	Beginning Balance	Provision / (Recoveries)	Write-offs	Ending Balance
Residential mortgages	\$ 694,540	\$ 102,216	\$ 57,151	\$ 739,605
Commercial mortgages	116,000	68,211	-	184,211
Personal and commercial loans and lines of credit	739,376	(5,562)	288,889	444,925
	<u>\$ 1,549,916</u>	<u>\$ 164,865</u>	<u>\$ 346,040</u>	<u>\$ 1,368,741</u>
Percentage of total loans and accrued interest				<u>0.39%</u>

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 8. Allowance for impaired loans (continued)

Change in individual specific allowance and collective allowance for impairment: (continued)

*Impaired loans*

Impaired loans and related allowances

	<u>2014</u>		
	<u>Loan Balance</u>	<u>Specific Allowance</u>	<u>Carrying Amount</u>
Residential mortgages	\$ 1,546,990	\$ 200,500	\$ 1,346,490
Commercial mortgages	1,348,444	105,239	1,243,205
Personal and commercial loans and lines of credit	<u>1,369,650</u>	<u>618,489</u>	<u>751,161</u>
	<u>\$ 4,265,084</u>	<u>\$ 924,228</u>	<u>\$ 3,340,856</u>
			<u>2013</u>
	<u>Loan Balance</u>	<u>Specific Allowance</u>	<u>Carrying Amount</u>
Residential mortgages	\$ 2,517,112	\$ 709,743	\$ 1,807,369
Commercial mortgages	963,308	152,046	811,262
Personal and commercial loans and lines of credit	<u>519,193</u>	<u>271,924</u>	<u>247,269</u>
	<u>\$ 3,999,613</u>	<u>\$ 1,133,713</u>	<u>\$ 2,865,900</u>

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding:

	<u>2014</u>		<u>2013</u>	
	<u>Carrying value</u>	<u>Individual Specific Provision</u>	<u>Carrying Value</u>	<u>Individual Specific Provision</u>
Period of delinquency				
Less than 30 days	\$ 94,887	\$ 75,806	\$ 607,949	\$ 125,727
30 to 90 days	53,430	54,213	101,210	56,797
Over 90 days	<u>1,157,816</u>	<u>246,320</u>	<u>1,808,289</u>	<u>711,231</u>
Total loans in arrears	1,306,133	376,339	2,517,448	893,755
Total loans not in arrears	<u>374,449,155</u>	<u>547,889</u>	<u>349,444,529</u>	<u>239,958</u>
Total loans	<u>\$ 375,755,288</u>	<u>\$ 924,228</u>	<u>\$ 351,961,977</u>	<u>\$ 1,133,713</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 8. Allowance for impaired loans (continued)

#### Key assumptions in determining the allowance for impaired loans collective provision

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience.

For purposes of the collective allowance loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

	<u>2014</u>	<u>2013</u>
Residential mortgage	\$ 29,730	\$ 29,862
Personal loans and lines of credit	180,630	173,001
Commercial loans and lines of credit	<u>31,079</u>	<u>32,165</u>
	<u>\$ 241,439</u>	<u>\$ 235,028</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 9. Property and equipment and intangible assets

	Property and Equipment						Intangible Assets
	Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Total	Total
<b>Cost</b>							
Balance on December 31, 2013	\$ 962,157	\$ 5,952,643	\$ 240,306	\$ 816,245	\$ 1,994,375	\$ 9,965,726	\$ 1,169,105
Additions	-	-	-	157,975	156,051	314,026	475,059
Disposals	-	-	-	(15,807)	(128,896)	(144,703)	(123,778)
<b>Balance on December 31, 2014</b>	<b>\$ 962,157</b>	<b>\$ 5,952,643</b>	<b>\$ 240,306</b>	<b>\$ 958,413</b>	<b>\$ 2,021,530</b>	<b>\$ 10,135,049</b>	<b>\$ 1,520,386</b>
<b>Accumulated depreciation</b>							
Balance on December 31, 2013	\$ -	\$ 1,794,496	\$ 240,306	\$ 749,337	\$ 1,505,278	\$ 4,289,417	\$ 837,824
Depreciation expense	-	174,869	-	76,862	135,830	387,561	302,710
Disposals	-	-	-	(15,807)	(128,221)	(144,028)	(123,778)
<b>Balance on December 31, 2014</b>	<b>\$ -</b>	<b>\$ 1,969,365</b>	<b>\$ 240,306</b>	<b>\$ 810,392</b>	<b>\$ 1,512,887</b>	<b>\$ 4,532,950</b>	<b>\$ 1,016,756</b>
<b>Net book value</b>							
<b>December 31, 2014</b>	<b>\$ 962,157</b>	<b>\$ 3,983,278</b>	<b>\$ -</b>	<b>\$ 148,021</b>	<b>\$ 508,643</b>	<b>\$ 5,602,099</b>	<b>\$ 503,630</b>

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 9. Property and equipment and intangible assets (continued)

	Property and Equipment						Intangible Assets
	Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Total	Total
<b>Cost</b>							
Balance on December 31, 2012	\$ 962,157	\$ 5,944,692	\$ 240,306	\$ 792,911	\$ 1,668,694	\$ 9,608,760	\$ 1,000,099
Additions	-	7,951	-	23,334	325,681	356,966	208,706
Disposals	-	-	-	-	-	-	(39,700)
Balance on December 31, 2013	<u>\$ 962,157</u>	<u>\$ 5,952,643</u>	<u>\$ 240,306</u>	<u>\$ 816,245</u>	<u>\$ 1,994,375</u>	<u>\$ 9,965,726</u>	<u>\$ 1,169,105</u>
<b>Accumulated depreciation</b>							
Balance on December 31, 2012	\$ -	\$ 1,597,150	\$ 240,306	\$ 671,693	\$ 1,373,533	\$ 3,882,682	\$ 675,228
Depreciation expense	-	197,346	-	77,644	131,745	406,735	202,296
Disposals	-	-	-	-	-	-	(39,700)
Balance on December 31, 2013	<u>\$ -</u>	<u>\$ 1,794,496</u>	<u>\$ 240,306</u>	<u>\$ 749,337</u>	<u>\$ 1,505,278</u>	<u>\$ 4,289,417</u>	<u>\$ 837,824</u>
Net book value December 31, 2013	<u>\$ 962,157</u>	<u>\$ 4,158,147</u>	<u>\$ -</u>	<u>\$ 66,908</u>	<u>\$ 489,097</u>	<u>\$ 5,676,309</u>	<u>\$ 331,281</u>

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

<b>10. Other assets</b>	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 291,165	\$ 193,990
Income tax receivable	378,660	143,335
Other accounts receivable	186,428	55,968
	<u>\$ 856,253</u>	<u>\$ 393,293</u>

<b>11. Borrowings</b>	<u>2014</u>	<u>2013</u>
Operating line	\$ -	\$ 2,210,286
Term loan	-	5,800,000
	<u>\$ -</u>	<u>\$ 8,010,286</u>

The credit union has authorized lines of credit with Central 1 totaling \$20,000,000; however, \$1,500,000 is held as security for secured letters of credit. Of the line of credit, \$500,000 is denominated in U.S. dollars. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the credit union.

Term loan has an interest rate of 1.88% with no specified terms of repayment.

<b>12. Deposits</b>	<u>2014</u>	<u>2013</u>
Chequing	\$ 68,769,449	\$ 61,238,371
Savings	102,481,511	94,931,929
Term	169,697,434	128,988,777
Registered saving plans	34,365,963	34,307,668
Registered retirement income funds	15,573,188	13,148,655
Registered education savings	1,132,130	940,537
Registered disability savings plan	131,659	102,015
Tax free savings account	19,562,483	16,116,521
Accrued interest and dividends	2,465,807	1,702,965
Members' shares (Note 15)	494,445	483,565
	<u>\$ 414,674,069</u>	<u>\$ 351,961,003</u>

### Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.10% at December 31, 2014.

Savings deposits are due on demand and bear interest at a variable rate up to 1.10% at December 31, 2014. Interest is calculated daily and paid on the accounts monthly.

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 12. Deposits (continued)

#### Terms and conditions (continued)

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 issued on December 31, 2014 range from 0.30% to 2.30%.

The registered retirement savings plans ("RRSPs") 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 rates up to 1.10% at December 31, 2014.

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.

Included in deposits is an amount of \$4,724,114 (2013 - \$5,461,268) denominated in U.S. dollars.

#### Average yields to maturity

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

	2014		2013	
	Principal	Yield	Principal	Yield
Non-interest sensitive	\$ 85,269,554	0.00%	\$ 76,951,876	0.00%
Variable rate	99,426,482	1.07%	95,227,000	1.05%
Fixed rate due less than one year	109,162,313	1.86%	58,971,598	1.67%
Fixed rate due between one and five years	118,349,913	2.13%	119,107,564	1.92%
	412,208,262	1.36%	350,258,038	1.22%
Accrued interest and dividends payable	2,465,807	0.00%	1,702,965	0.00%
	<b>\$ 414,674,069</b>	<b>1.36%</b>	<b>\$ 351,961,003</b>	<b>1.22%</b>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 12. Deposits (continued)

#### Fair value

The fair value of member deposits at December 31, 2014 was \$414,280,721 (2013 – \$351,371,589)

The estimated fair value of the variable rate deposits is assumed to be equal to book value as the interest rates on these 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 at current market rates for products with similar term and credit risks.

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### 13. Pension plan

The credit union makes contributions to the BC Credit Union Employees' Pension Plan which is a multi-employer plan, on behalf of members of its staff. Central 1 administers the plan including the payment of the pension benefits on behalf of employers and employees in accordance with the BC Credit Union Employees' Pension Plan Rules. The pension is based on years of service, contributions and average earnings at retirement. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The credit union is only one of a number of employers that participates in the plan and the financial information provided to the credit union on the basis of the contractual agreements is usually insufficient to measure reliably the credit union's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2014 was \$530,908 (2013 - \$405,080). The contributions were made for current service and these have been recognized in net earnings. As at December 31, 2013 (date of the most recent valuation), the plan actuary reported a deficit. The next valuation report will be performed as at December 31, 2015.

In addition to the plan mentioned above, the credit union has established a supplemental retirement plan for eligible employees, whereby the credit union and the employees are not required to make contributions in respect of the benefits described in this plan. However, the credit union, in its sole discretion, has the option to fund or make contributions to the plan. Both the pension expense, in respect of contributions paid into this plan in 2014, and accrued liability at end of year are nominal.

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### 14. Income taxes

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	<u>2014</u>	<u>2013</u>
Allowance for credit losses	\$ 50,000	\$ 78,000
Premises and equipment	<u>(45,000)</u>	<u>(62,000)</u>
Net deferred income tax asset	<u>\$ 5,000</u>	<u>\$ 16,000</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 14. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.0% (2013 - 26.0%) are as follows:

	<u>2014</u>	<u>2013</u>
Combined federal and provincial statutory income tax rate	26.0 %	26.0 %
Rate reduction	(10.0)%	(4.5)%
Other	(5.0)%	(1.5)%
	<u>11.0 %</u>	<u>20.0 %</u>

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### 15. Members' shares

Members' shares issued and outstanding are included in deposit balances (see Note 12).

Patronage and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of BC.

#### Terms and conditions

##### *Membership shares*

Membership shares are a requirement for membership in the credit union and are redeemable on withdrawal from membership. They are considered voting shares and have minimum deposit requirements based on age of member, and a maximum of 1,000 shares.

##### *Patronage shares*

Patronage shares were issued as part of patronage refunds and dividends. These shares are non-voting, redeemable at the option of the board of directors of the credit union and have a maximum of 1,000 shares.

##### *Investment shares*

Investment shares are non-voting, can be issued only to members of the credit union, and pay dividends at the discretion of the directors in the form of cash or additional shares. They are subject to a maximum of 5,000 shares and are redeemable only at the option of the board of directors of the credit union.

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 15. Members' shares (continued)

#### Distributions to members

	2014		2013	
	Net Earnings	Net Equity	Net Earnings	Net Equity
Membership distributions	\$ -	\$ -	\$ 350,000	\$ -
Dividends on patronage shares	-	10,424	-	9,436
Dividends on investment shares	-	96,426	-	82,205
Dividends on membership shares	7,415	-	4,936	-
Less related income taxes	-	(16,134)	-	(19,813)
	<u>\$ 7,415</u>	<u>\$ 90,716</u>	<u>\$ 354,936</u>	<u>\$ 71,828</u>

### 16. Other income

	2014	2013
Account service fees	\$ 1,119,279	\$ 1,092,377
Foreign exchange	248,674	170,990
Loan administration fees	484,268	415,883
Commissions	905,337	778,985
Other	193,001	128,857
	<u>\$ 2,950,559</u>	<u>\$ 2,587,092</u>

### 17. Other operating and administrative expenses

	2014	2013
Advertising and member relations	\$ 340,280	\$ 320,543
Data processing	607,423	571,037
Clearing and processing charges	623,086	559,600
Office and general	811,927	795,752
Professional fees	739,239	787,815
Regulatory costs	263,706	293,893
	<u>\$ 3,385,661</u>	<u>\$ 3,328,640</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 18. Related party transactions

The credit union's related parties include key management personnel. Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, as well as the directors of the credit union, and close family members. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

(a) The credit union entered into the following transactions with key management personnel.

	<u>2014</u>	<u>2013</u>
Compensation		
Salaries and other short-term employee benefits	\$ 694,268	\$ 693,334
Total pension and other post-employment benefits	<u>86,344</u>	<u>62,107</u>
	<u>\$ 780,612</u>	<u>\$ 755,441</u>
Loans to key management personnel		
Aggregate value of loans advanced	\$ 2,472,398	\$ 1,990,044
Interest received on loans advanced	81,342	68,273
Total value of lines of credit advanced	487,015	520,832
Interest received on lines of credit advanced	20,065	21,551
Unused value of lines of credit	389,985	195,668

The credit union's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

	<u>2014</u>	<u>2013</u>
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 2,143,312	\$ 1,813,513
Total interest paid on term and savings deposits	34,530	34,527

The credit union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

(b) Remuneration to directors was \$48,500 (2013 - \$55,400).

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 19. 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 quarterly reports from the credit union's executive 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 resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the credit union. Credit risk primarily arises from loans receivable. Management and the board of directors reviews and updates the credit risk policy annually. The maximum exposure of the credit union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the credit union due to its primary service area being the Sunshine Coast and surrounding areas.

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 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 delinquent loans and overdraft utilization. The board of directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 19. Financial instrument risk management general objectives, policies and processes (continued)

#### Liquidity risk

Liquidity risk is the risk that the credit union cannot meet a demand for cash or fund its obligations as they come due. The credit union's management oversees the credit union's liquidity risk to ensure the credit union has access to enough readily available funds to cover its financial obligations as they come due. The credit union's business requires such capital for operating and regulatory purposes.

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.

The credit union is required to maintain a prudent amount of liquid assets in order to meet member withdrawals. Where the statutory requirement is set at a minimum liquidity ratio of 8%, the credit union has set an acceptable range between 10 to 13%.

The credit union manages liquidity risk by:

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

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.

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.

#### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the credit union segregates market risk into two categories: fair value risk and interest rate risk. The credit union is not significantly exposed to currency risk or other price risk.

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 19. Financial instrument risk management general objectives, policies and processes (continued)

#### Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The credit union incurs fair value risk on its loans, term deposits and investments held. The credit union does not hedge its fair value risk.

The fair value hierarchy establishes three levels to classify the significance of inputs to valuation techniques used in making fair value measurements.

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are based on unobservable market data.

The following table presents the financial instruments carried on balance sheet by asset class and by level within the valuation hierarchy:

	(\$'000)					
	Level 1	Level 2	Level 3	Total Fair Value		
<b>Asset class 2014</b>						
<b>Financial assets</b>						
Available-for-sale assets	\$ -	\$ 1,582	\$ -	\$ -	\$ -	\$ 1,582
Derivative financial instruments	-	130	-	-	-	130
<b>Financial liabilities</b>						
Derivative financial instruments	\$ -	\$ 125	\$ -	\$ -	\$ -	\$ 125
<b>Asset class 2013</b>						
<b>Financial assets</b>						
Available-for-sale assets	\$ -	\$ 1,451	\$ -	\$ -	\$ -	\$ 1,451
Derivative financial instruments	-	-	-	-	-	-
<b>Financial liabilities</b>						
Derivative financial instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 19. Financial instrument risk management general objectives, policies and processes (continued)

#### Fair value risk (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

	(\$'000)			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Asset class 2014</b>				
<b>Assets</b>				
Loans and receivables	\$ 3,482	\$ 18,923	\$ 379,601	\$ 402,006
Held-to-maturity investments	41,554	-	-	41,554
<b>Liabilities</b>				
Borrowings	\$ -	\$ -	\$ -	\$ -
Deposits	-	414,281	-	414,281
Payables and other liabilities	-	504	-	504
<b>Asset class 2013</b>				
<b>Assets</b>				
Loans and receivables	\$ 3,296	\$ 1,526	\$ 356,059	\$ 360,881
Held-to-maturity investments	27,677	-	-	27,677
<b>Liabilities</b>				
Borrowings	\$ -	\$ 8,010	\$ -	\$ 8,010
Deposits	-	351,372	-	351,372
Payables and other liabilities	-	1,051	-	1,051

Where available, the fair value of loans and receivables is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques.

#### Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit union incurs interest rate risk on its loans, deposits and other interest bearing financial instruments.

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.

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 19. Financial instrument risk management general objectives, policies and processes (continued)

#### Interest rate risk (continued)

The credit union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

As at December 31, 2014, the credit union had entered into interest rate swap contracts for a total of \$10 million of notional principal (2013 - \$Nil) maturing at various times in 2019. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a predetermined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The credit union's goal is to manage the interest rate risk of the statement of financial position to a target level. The credit union continually monitors the effectiveness of its interest rate mitigation activities.

The following tables do not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

	(\$'000)					
	Interest sensitive balances				Non-interest rate sensitive	Total
	Average rates	Within 3 months	4 months to 1 year	Over 1 to 7 years		
<b>Assets</b>						
Cash and investments	1.36%	\$ 22,437	\$ 23,145	\$ 18,317	\$ 1,642	\$ 65,541
Loans	3.90%	94,998	68,801	211,956	(625)	375,130
Other	0.36%	-	-	-	6,981	6,981
		<u>\$ 117,435</u>	<u>\$ 91,946</u>	<u>\$ 230,273</u>	<u>\$ 7,998</u>	<u>\$ 447,652</u>
<b>Liabilities</b>						
Deposits and shares	1.39%	\$ 81,141	\$ 84,127	\$ 118,328	\$ 131,078	\$ 414,674
Other	0.00%	-	-	-	32,978	32,978
		<u>\$ 81,141</u>	<u>\$ 84,127</u>	<u>\$ 118,328</u>	<u>\$ 164,056</u>	<u>\$ 447,652</u>
<b>Derivatives</b>						
Assets		\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
Liabilities		10,000	-	-	-	10,000
		<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Interest sensitivity position 2014</b>		<u>\$ 26,294</u>	<u>\$ 7,819</u>	<u>\$ 121,945</u>	<u>\$ (156,058)</u>	<u>\$ -</u>

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

### 19. Financial instrument risk management general objectives, policies and processes (continued)

#### Interest rate risk (continued)

	Average Rates	Interest sensitive balances			Non-interest rate sensitive	Total
		Within 3 months	4 months to 1 year	Over 1 to 7 years		
(\$'000)						
<b>Assets</b>						
Cash and investments	1.74%	\$ 5,534	\$ 5,103	\$ 21,502	\$ 1,812	\$ 33,951
Loans	3.98%	89,724	46,186	216,052	(798)	351,164
Other	0.84%	-	-	-	6,274	6,274
		<u>\$ 95,258</u>	<u>\$ 51,289</u>	<u>\$ 237,554</u>	<u>\$ 7,288</u>	<u>\$ 391,389</u>
<b>Liabilities</b>						
Deposits and shares	1.23%	\$ 115,108	\$ 39,090	\$ 118,599	\$ 82,996	\$ 355,793
Other	0.44%	8,018	-	-	27,578	35,596
		<u>\$ 123,126</u>	<u>\$ 39,090</u>	<u>\$ 118,599</u>	<u>\$ 110,574</u>	<u>\$ 391,389</u>
<b>Derivatives</b>						
Assets		\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities		-	-	-	-	-
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest sensitivity position 2013		<u>\$ (27,868)</u>	<u>\$ 12,199</u>	<u>\$ 118,955</u>	<u>\$ (103,286)</u>	<u>\$ -</u>

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity.

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 earnings of \$400,000 while a decrease in interest rates of 1% could result in a decrease to net earnings of \$389,000.

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.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 19. Financial instrument risk management general objectives, policies and processes (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.

As at December 31, 2014, the credit union has \$4,771,336 (2013 - \$5,426,920) of U.S. dollars included in cash and equivalents, and deposits of \$4,724,542 (2013 - \$5,461,268) denominated in U.S. dollars.

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### 20. Derivative financial instruments

As at December 31, 2014, the credit union had entered into interest rate swap contracts for a total of \$10 million (2013 - \$Nil) of notional principal where the credit union has agreed to pay at floating interest rates based on banker's acceptance rates and receive at fixed interest rates. These swaps contracts have fixed interest rates ranging from 2.000% to 2.010% and mature from June 20, 2019 to September 10, 2019. The agreements are secured by a general security agreement covering all assets of the credit union.

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### 21. Capital management

The credit union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the credit union included retained earnings, accumulated other comprehensive income, and equity shares totaling \$31.4 million (2013 - \$30.5 million).

The credit union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The credit union's current capital base is equal to approximately 20% (2013 - 21%) of the total value of risk weighted assets.

The credit union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the board of directors. The Capital Appreciation Plan forecasts the credit union's capital position over a five year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the board of directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the credit union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2014.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 21. Capital management (continued)

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by the internal target. Capital adequacy ratio is driven by the risk weighting of the credit union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the credit union's assets are analyzed by management to determine their effect on the credit union's capital adequacy ratio.

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### 22. Commitments

#### Loans to members

The credit union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit:

Unadvanced loans	\$	3,468,205
Unused lines of credit		39,157,377
Letters of credit		1,498,958

#### Contractual obligations

##### *Premises lease*

The credit union leases land and building for the Pender Harbour branch. The commitments for the next five years are as follows:

2015	\$	60,000
2016		-
2017		-
2018		-
2019		-

##### *IT outsourcing services*

The credit union is committed to acquiring outsourced IT and network services until December 31, 2017 at an approximate cost of \$320,000 per year. IT and network service charges are a flat fee with annual increases occurring only up to the level of Consumer Price Index increases for the prior year.

##### *Data processing services*

The credit union is committed to purchasing online data processing services until December 31, 2015 at an approximate cost of \$355,000. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2014

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### 22. Commitments (continued)

#### Off balance sheet

##### *Letters of credit*

In the normal course of business, the credit union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

At December 31, 2014, the credit union has outstanding letters of credit on behalf of members in the amount of \$1,498,958 (2013 - \$1,763,887). These letters of credit have various levels of security.

##### *Funds under administration*

Off balance sheet funds under administration by the credit union are comprised of loans that have been syndicated, sold mortgages to other credit unions and are administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is \$7,190,335 (2013 - \$3,161,240).

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### 23. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

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### 24. Comparative amounts

Certain prior period balances have been reclassified to conform to the financial statements presentation in the current period.

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