Heritage Savings & Credit Union Inc.
Financial Statements
For the year ended December 31, 2016

Heritage Savings & Credit Union Inc.
Table of Contents
For the year ended December 31, 2016

Management's Responsibility

To the Members of Heritage Savings & Credit Union Inc.:

The accompanying financial statements of Heritage Savings & Credit Union Inc. are the responsibility of management and have been approved by the Board of Directors.

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

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

The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

January 21, 2017

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CEO

Independent Auditors' Report

To the Members of Heritage Savings & Credit Union Inc.:

We have audited the accompanying financial statements of Heritage Savings & Credit Union Inc., which comprise the statement of financial position as at December 31, 2016, the statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Heritage Savings & Credit Union Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

January 21, 2017 — Licensed Public Accountants

Heritage Savings & Credit Union Inc.
Statement of Financial Position

As at December 31, 2016

In $	***2016***	*2015*
Assets		
Cash	**4,762,374**	3,316,716
Investments *(Note 6)*	**2,209,099**	2,083,495
Member loans *(Note 7)*	**23,620,370**	23,199,735
Other assets *(Note 8)*	**92,210**	57,280
Property and equipment *(Note 9)*	**412,860**	422,772
	31,096,913	29,079,998
Liabilities		
Member deposits *(Note 11)*	**28,506,259**	26,590,777
Other liabilities *(Note 12)*	**135,247**	167,553
Membership shares *(Note 14)*	**11,809**	11,360
	28,653,315	26,769,690
Commitments *(Note 17)*		
Members' Equity		
Contributed surplus	**132,351**	132,351
Retained earnings	**2,271,316**	2,138,026
Accumulated other comprehensive income	**39,931**	39,931
	2,443,598	2,310,308
	31,096,913	29,079,998

Approved on behalf of the Board

Director **Director**

The accompanying notes form part of the financial statements

Heritage Savings & Credit Union Inc.

Statement of Income

For the year ended December 31, 2016

In $	***2016***	*2015*
Interest income		
Member loans	**1,084,927**	1,059,260
Investments	**41,098**	53,720
	1,126,025	1,112,980
Interest expense		
Member deposits	**224,723**	200,921
Net interest income	**901,302**	912,059
Provision for impaired loans *(Note 7)*	**42,363**	24,344
Net interest income after provision impaired loans	**858,939**	887,715
Other income	**177,419**	174,413
Net interest and other income	**1,036,358**	1,062,128
Operating expenses		
Salaries and benefits	**380,157**	417,893
Other administrative expenses *(Schedule)*	**489,495**	555,707
Depreciation *(Note 9)*	**9,912**	30,490
	879,564	1,004,090
Income before income taxes	**156,794**	58,038
Income taxes *(Note 13)*		
Current	**24,404**	3,151
Deferred	**(900)**	5,800
	23,504	8,951
Net income	**133,290**	49,087

The accompanying notes form part of the financial statements

Heritage Savings & Credit Union Inc.

Statement of Comprehensive Income

For the year ended December 31, 2016

In $	***2016***	*2015*
Net income for the year	**133,290**	49,087
Other comprehensive income		
Unrealized gain on available for sale investments	**-**	4,622
Income tax relating to other comprehensive income	**-**	(716)
Total other comprehensive income for the year	**-**	3,906
Total comprehensive income for the year	**133,290**	52,993

The accompanying notes form part of the financial statements

Heritage Savings & Credit Union Inc.

Statement of Changes in Members' Equity

For the year ended December 31, 2016

In $	**Accumulated other comprehensive income**	**Contributed surplus**	**Retained earnings**	**Total**
Balance, December 31, 2014	36,025	132,351	2,088,939	2,257,315
Net income for the year	-	-	49,087	49,087
Unrealized gain on available for sale investments	4,622	-	-	4,622
Income tax relating to other comprehensive income	(716)	-	-	(716)
Balance, December 31, 2015	**39,931**	**132,351**	**2,138,026**	**2,310,308**
Net income for the year	**-**	**-**	**133,290**	**133,290**
Unrealized gain on available for sale investments	**-**	**-**	**-**	**-**
Income tax relating to other comprehensive income	**-**	**-**	**-**	**-**
Balance, December 31, 2016	**39,931**	**132,351**	**2,271,316**	**2,443,598**

The accompanying notes form part of the financial statements

Heritage Savings & Credit Union Inc.
Statement of Cash Flows
For the year ended December 31, 2016

In $	***2016***	*2015*
Cash provided by (used for) the following activities		
Operating activities		
Net income for the year	**133,290**	49,087
Adjustments for:		
Interest revenue	**(1,126,025)**	(1,112,980)
Interest expense	**224,723**	200,921
Depreciation	**9,912**	30,490
Provision for impaired loans	**42,363**	24,344
Income taxes expense	**23,504**	8,951
Interest received on member loans	**1,091,785**	1,059,260
Interest received on investments	**41,098**	53,720
Interest paid on member deposits	**(211,478)**	(199,705)
Net change in other assets	**19,838**	10,314
Net change in other liabilities	**(51,274)**	75,556
Income taxes paid	**18,801**	(21,213)
	216,537	178,745
Investing activities		
Purchase of computer software	**(77,207)**	-
Net change in member loans	**(469,856)**	(2,221,749)
Net change in investments	**(125,604)**	(59,164)
	(672,667)	(2,280,913)
Financing activities		
Net change in member deposits	**1,902,237**	915,157
Net change in membership shares	**(449)**	(20)
	1,901,788	915,137
Net change in cash during the year	**1,445,658**	(1,187,031)
Cash, beginning of year	**3,316,716**	4,503,747
Cash, end of year	**4,762,374**	3,316,716

The accompanying notes form part of the financial statements

1. Reporting entity information

Entity information

Heritage Savings & Credit Union Inc. (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 318 Merritt Avenue, Chatham, Ontario.

2. Basis of presentation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2016.

These financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on January 20, 2017.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 3.

Functional and presentation currency

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

3. Significant accounting policies

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Cash

Cash includes cash on hand and demand deposits.

Investments

Deposits

Liquidity reserve and term deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Other investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Other assets

Other assets include prepaid expenses and taxes receivable and are stated at amortized cost, and approximate their fair value given the short-term nature of these assets.

3. Significant accounting policies (continued)

Member Loans

Loans are recognized at their amortized cost. Amortized cost is calculated as the loan's principal amount, less any allowance for estimated losses, plus accrued interest, using the effective interest method. Under this method, loan administration fees are incorporated into the effective interest earned by being amortized over the term of the loan. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Impairment of financial assets

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

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. Financial assets are considered impaired when contractual payments are in arrears in excess of 90 days, unless the loan is fully secured. Fully secured loans are classified as impaired after a delinquency period of greater than 180 days. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in current period income.

Financial assets, together with the associated provision for impairment are reported as an impairment loss when there is no expectation of future recovery. Interest income is accrued until the financial asset becomes a credit loss.

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

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, property values or other factors that are indicative of incurred losses in the group and their magnitude.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of an item of property and equipment have different useful lives, they are accounted for as separate items.

3. Significant accounting policies (continued)

Depreciation is provided using the methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Building	declining balance	2.5%
Parking lot	declining balance	5%
Computer equipment	declining balance	30%

The useful lives of items of property and equipment are reviewed on an annual basis and altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

Computer software

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software is charged to the income statement on a straight-line basis over 10 years. The expected useful life of computer software is reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in current period income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in current period income.

Member deposits

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

Membership shares

Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities.

3. Significant accounting policies (continued)

Other liabilities

Other liability include accounts payable and accrued liabilities and deferred income taxes which are stated at amortized cost, and approximates fair value due to the short term nature of these liabilities.

Revenue recognition

Revenue is recognized to the extent that it has been earned and it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income is recognized as interest accrues using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash flows over the expected life of the financial instrument back to the net carrying amount of the financial asset. Other revenue and expenses that relate to the return on a loan or investment are incorporated into the effective interest rate and, thus, amortized to revenue over the life of the loan.

Income taxes

Current and deferred taxes are recognized in net income, other comprehensive income or equity, depending on where the related income or expense is recorded.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities where the Credit Union operates and generates income. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities generally arise where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalent at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the balance sheet date. Exchange translation gains and losses are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

Financial instruments

All financial instruments are initially recognized on the balance sheet at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. For instruments classified as other than fair value through profit and loss, transaction costs related to the acquisition of the instrument are added to the fair value upon initial recognition.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union only has cash classified as fair value through profit or loss.

3. Significant accounting policies (continued)

Financial instruments (continued)

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in other comprehensive income, is recognized in net income. The Credit Union has some investments that are not traded in an active market classified as available for sale.

The financial assets classified as loans and receivables are initially measured at fair value plus transaction costs, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include deposits with Central 1 and member loans.

The financial assets classified as held to maturity are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union does not have any financial instruments classified as held to maturity.

Financial instruments classified as other financial liabilities include member deposits and accounts payable and accrued liabilities. Other financial liabilities are initially measured at fair value and then subsequently carried at amortized cost.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

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

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

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

4. Significant accounting judgements, estimates and assumptions

Use of estimates and judgements

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future year.

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

4. Significant accounting judgements, estimates and assumptions (continued)

In estimating these cash flows, the Credit Union makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The general provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

5. Changes in accounting policies and standards and interpretations issued but not yet effective

Changes in accounting policies

The following new or amended standards and interpretations were applied for the first time during the year.

Annual Improvements to IFRSs 2012 – 2014 Cycle (Amendment)

In September 2014, the International Accounting Standards Board (IASB) issued a series of amendments to IFRSs in response to issues addressed during the 2012-2014 cycle. The amendments are summarized below:

IFRS 7 Financial Instruments: Disclosures: Amendments to clarify how an entity should apply financial instruments "transfer of financial assets" guidance to a servicing contract. In general, servicing contracts meet the definition of "continuing involvement" for the purposes of applying the disclosure requirements.

IAS 19 Employee Benefits: Amendments to clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. In the absence of availability of high quality corporate bond rates, government bonds denominated in the same currency shall be used.

The amendments above are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

IAS 1 Presentation of Financial Statements (Amendment)

In December 2014, the International Accounting Standards Board (IASB) issued amendments to IAS 1, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2015. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their financial statements. The amendments are intended to clarify the following: (1) that entities shall not aggregate or disaggregate information in a manner that obscures useful information; (2) that materiality requirements apply to the statements of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statements of changes in equity, and to the notes; (3) that when a standard requires a specific disclosure, the resulting information shall be assessed to determine whether it is material and consequently whether presentation or disclosure of that information is warranted; (4) that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements; (5) that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will be subsequently reclassified to profit or loss; (6) that entities have flexibility as to the order in which they present the notes, but also emphasize that understandability and comparability should be considered by an entity when deciding that order. These amendments are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

5. Changes in accounting policies and standards and interpretations issued but not yet effective (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendments to IAS 16 and IAS 38, issued by the International Accounting Standards Board (IASB) in May 2014 and incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in July 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective for annual periods beginning on or after January 1, 2016. The amendments did not impact the Credit Union's financial results.

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments (New)

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014), incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015, as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments were made with respect to impairment and hedge accounting. This new standard will also impact disclosures provided under IFRS 7 Financial instrument: disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of this pronouncement on its financial statements.

IFRS 15 Revenue from Contracts with Customers (New)

In May 2014, the International Accounting Standard Board (IASB) issued a new International Financial Reporting Standard (IFRS) on the recognition of revenue from contracts with customers which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Section provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of this pronouncement on its financial statements.

IFRS 15 Revenue from Contracts with Customers (Amendment)

In April 2016, the International Accounting Standard Board (IASB) issued amendments to IFRS 15, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in August 2016, to clarify some requirements and provide additional transitional relief for entities implementing IFRS 15. The amendments also include two additional reliefs to reduce cost and complexity for an entity when it first applies IFRS 15. The amendments are effective for annual periods beginning on or after January 1, 2018. The Credit Union has not determined the impact of these amendments on its financial statements.

5. Changes in accounting policies and standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (New)

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. 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. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union has not determined the impact of these amendments on its financial statements.

IAS 7 Statement of Cash Flows (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. The Credit Union has not determined the impact of these amendments on its financial statements.

IAS 12 Income Taxes (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments also clarify several aspects around the recognition of deferred tax assets for unrealised losses. These amendments are effective for annual periods beginning on or after January 1, 2017. The Credit Union has not determined the impact of these amendments on its financial statements.

6. Investments

In $	***2016***	*2015*
Loans and receivables		
Central 1		
Liquidity reserve deposit	**1,903,201**	1,774,960
Available for sale		
Central 1 Class A shares	**114,318**	106,703
Central 1 Class E shares	**124,000**	124,000
CUCO Cooperative Association Class B shares	**65,940**	76,192
Equity investments in other cooperative organizations	**1,640**	1,640
	305,898	308,535
	2,209,099	2,083,495

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the Credit Union's total assets updated at each month end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

CUCO Cooperative Association Shares

CUCO Cooperative Association ("CUCO Co-op") holds a portfolio of asset backed notes that resulted from the restructuring of non-bank asset backed commercial paper ("ABCP") that was completed in January 2009. The Credit Union holds a 0.1298% interest in CUCO Co-op in proportion to its relative interest in Credit Union Central of Ontario, where the ABCP holdings originated, immediately prior to its merger with Credit Union Central of British Columbia.

The CUCO Co-op is a co-operative corporation governed by a Board of Directors that are elected by the Ontario member credit unions.

The fair value of the investments is directly related to the value of the underlying Asset Backed Notes held. As there is not an active market for the notes, the fair value is estimated. The Credit Union relies on the valuation provided for the entire portfolio to CUCO Co-op from the independent portfolio management firm. The Credit Union has reviewed and agrees with the significant assumptions and estimates in the valuation. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

7. Member loans

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	***2016***
Residential mortgages	**16,490,171**	**-**	**-**	**-**	**16,490,171**
Personal	**6,949,285**	**71,128**	**(53,227)**	**(30,000)**	**6,937,186**
Commercial	**169,016**	**-**	**-**	**-**	**169,016**
Accrued interest	**23,997**	**-**	**-**	**-**	**23,997**
	23,632,469	**71,128**	**(53,227)**	**(30,000)**	**23,620,370**

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	*2015*
Residential mortgages	15,913,220	-	-	-	15,913,220
Personal	6,779,537	94,083	(79,439)	(12,000)	6,782,181
Commercial	473,479	-	-	-	473,479
Accrued interest	30,855	-	-	-	30,855
	23,197,091	94,083	(79,439)	(12,000)	23,199,735

The loan classifications set out above are as defined in the regulations to the Act.

Residential mortgage loans are repayable in monthly blended principal and interest instalments, over a maximum term of five years based on a maximum amortization period of twenty-five years.

Commercial, agricultural and personal loans are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years. Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for residential mortgage loans, are open and, at the option of the borrower, may be paid off at any time without notice.

7. Member loans (continued)

Loan Allowance details

In $	***2016***	*2015*
Balance, beginning of year	**91,439**	185,071
Provision for impaired loans	**42,363**	24,344
	133,802	209,415
Less: accounts written off	**(62,530)**	(128,633)
Add: loans recovered	**11,956**	10,657
Balance, end of year	**83,228**	91,439

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at year-end that are past due but not classified as impaired.

In $	1-30 days	31-60 days	61-90 days	91 days and greater	***2016***
Mortages	**94,842**	**-**	**-**	**-**	**94,842**
Personal	**24,705**	**-**	**-**	**5,710**	**30,415**
	119,547	**-**	**-**	**5,710**	**125,257**

In $	1-30 days	31-60 days	61-90 days	91 days and greater	*2015*
Mortgages	-	-	-	-	-
Personal	9,390	5,737	-	-	15,127
	9,390	5,737	-	-	15,127

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

8. Other assets

In $	***2016***	*2015*
Prepaid expenses and other receivables	**15,003**	33,943
Income taxes receivable	**-**	23,337
Computer software (Note 10)	**77,207**	-
	92,210	57,280

9. Property and equipment

In $	Land	Building	Parking lot	Computer equipment	**2016**
Cost					
Opening balance	**70,817**	**606,179**	**51,060**	**237,791**	**965,847**
Additions	**-**	**-**	**-**	**-**	**-**
	70,817	**606,179**	**51,060**	**237,791**	**965,847**
Accumulated depreciation					
Opening balance	**-**	**(286,818)**	**(18,466)**	**(237,791)**	**(543,075)**
Depreciation	**-**	**(8,196)**	**(1,716)**	**-**	**(9,912)**
	-	**(295,014)**	**(20,182)**	**(237,791)**	**(552,987)**
Net book value at December 31, 2016	**70,817**	**311,165**	**30,878**	**-**	**412,860**

In $	Land	Building	Parking lot	Computer equipment	2015
Cost					
Opening balance	70,817	606,179	51,060	237,791	965,847
Additions	-	-	-	-	-
	70,817	606,179	51,060	237,791	965,847
Accumulated depreciation					
Opening balance	-	(276,684)	(16,750)	(219,149)	(512,583)
Depreciation	-	(10,134)	(1,716)	(18,642)	(30,492)
	-	(286,818)	(18,466)	(237,791)	(543,075)
Net book value at December 31, 2015	70,817	319,361	32,594	-	422,772

10. Computer software

In $	*2016*	*2015*
Cost		
Opening balance	**-**	-
Additions	**77,207**	-
	77,207	-
Accumulated amortization		
Opening balance	**-**	-
Amortization	**-**	-
	-	-
Net book value	**77,207**	-

During the year, no amortization was taken as the asset was not yet available for use by the Credit Union.

11. Member deposits

In $	*2016*	*2015*
Chequing accounts	**11,841,032**	11,321,284
Savings accounts	**3,144,806**	3,057,836
Term deposits	**9,928,790**	8,642,401
Registered deposits	**3,455,724**	3,446,594
	28,370,352	26,468,115
Accrued interest	**135,907**	122,662
	28,506,259	26,590,777

Registered plans

Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

12. Other liabilities

In $	*2016*	*2015*
Accounts payable and accrued liabilities	**106,079**	157,353
Income taxes payable	**19,868**	-
Deferred income taxes (Note 13)	**9,300**	10,200
	135,247	167,553

13. Income tax

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2016	*2015*
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Rate reduction for credit unions	**-11.4%**	-11.4%
Other	**-0.1%**	0.3%
Effective tax rate	**15.0%**	15.4%

The tax effects of temporary differences which give rise to the deferred tax liability reported on the statement of financial position are from differences between accounts deducted for accounting and income tax purposes. The net deferred income tax liability is comprised of the following:

In $	***2016***	*2015*
Deferred tax asset		
Allowance for impaired loans	**5,500**	3,100
Other	**400**	500
Deferred tax liability		
Property and equipment	**(15,200)**	(13,800)
	(9,300)	(10,200)

14. Member shares

The Credit Union is authorized to issue an unlimited number of membership shares. The by-laws of the Credit Union prescribe a minimum of twenty membership shares to be owned by each member.

In addition to membership shares, the Credit Union has the following shares authorized:

i) An unlimited number of Class A non-cumulative, non-voting, non-participating special shares (Class A Investment Shares), issuable in series, and

ii) An unlimited number of Class B non-cumulative, non-voting, non-participating special shares (Class B Investment Shares), issuable in series.

Member shares rank junior to Class A and B shares for priority in the declaration and payment of dividends and in the event of liquidation, dissolution or winding-up of the Credit Union. In addition, Class B shares rank junior to Class A shares. All classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

The Credit Union has 2,305 (2015 – 2,257) members. As a condition of membership, each member must hold 1 share with a par value of $5 each. Shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements.

No Class A or Class B shares are outstanding.

15. Capital management

The Credit Union is subject to the capital requirements set out in the Act. The Act prescribes capital adequacy measures and minimum capital requirements. The Credit Union must comply with a leverage ratio of eligible capital to total assts. The Act also requires a risk weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk adjusted capital and risk weighted assets including off balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk weighted assets is calculated and compared to the standard outlined by the Act.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings and membership shares. Tier 2 capital of the credit union includes eligible accumulated other comprehensive income and the collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets. For eligible capital purposes, Tier 2 capital cannot exceed Tier 1 capital.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the Act regulatory standards to the Credit Union's policy:

	Regulatory standards	**Policy standards**
Total eligible capital to total assets	4%	4.5%
Total eligible capital to risk-weighted assets	8%	8%

As at December 31, 2016, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

Total eligible capital is comprised of Tier 1 and Tier 2 capital as follows:

In $	***2016***	*2015*
Tier 1 capital		
Membership shares	**11,809**	11,360
Retained earnings	**2,271,316**	2,138,026
Contributed surplus	**132,351**	132,351
	2,415,476	2,281,737
Tier 2 capital		
Collective allowance	**30,000**	12,000
Eligible accumulated other comprehensive income - equity investments	**39,931**	39,931
	69,931	51,931
Eligible capital	**2,485,407**	2,333,668
Capital tests		
Eligible capital to total assets	**8.0%**	8.0%
Eligible capital to risk-weighted assets	**20.6%**	19.4%

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

15. Capital management (continued)

The primary capital policies and procedures include the following:

i. Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
ii. Co-ordinate strategic risk management and capital management;
iii. Develop financial performance targets/budgets/goals;
iv. Administer a patronage program that is consistent with capital requirements;
v. Administer an employee incentive program that is consistent with capital requirements;
vi. Develop a planned growth strategy that is coordinated with capital growth; and
vii. Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

16. Related party transactions

Related parties include the key management personnel ("KMP") and directors of the credit union as well as each of their spouses, their children and any entities they control.

KMP consists of the Chief Executive Officer, Manager of Customer Service, and Commercial Loans officer.

Loans made to directors and key management are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits may be subject to tax with the total value of the benefit included in the compensation figures below. Otherwise, transactions with related parties occur under substantially the same terms and conditions as with other members.

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

Related parties include the spouses and children of directors and KMP. There are no benefits or concessional terms and conditions applicable to the family members of directors and KMP. There are no loans that are impaired in relation to the loan balances with spouses and children of directors and KMP.

16. Related party transactions (continued)

The following tables reflect balances with related parties at year end and the value of interest income and expenses recorded in relation to them during the year.

Member loans to related parties at the year end:

In $	**2016**	2015
Loans to related parties	**202,377**	316,930
Approved but unadvanced lines of credit	**78,404**	113,197
	280,781	430,127

Member deposits and shareholdings of related parties:

In $	**2016**	2015
Member deposits	**451,837**	358,919
Membership shares	**80**	105
	451,917	359,024

Interest income and expense recorded with related parties:

In $	**2016**	2015
Interest and other revenue earned on loans	**2,671**	10,841
Interest paid on deposits	**8,342**	3,086

Aggregate compensation of KMP during the year consisted of:

In $	**2016**	2015
Salaries and short-term benefits	**171,466**	179,376
Post-employment benefits	**11,870**	8,601

Board honoraria amounted to $15,600 (2015 - $24,725) and other board and sub-committee expenses totalled $4,244 (2015 - $14,921) for the year.

17. Financial instrument risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

i. Ensure all activities are consistent with the mission, vision and values of the Credit Union;
ii. Balance risk and return;
iii. Manage credit, market and liquidity risk through preventative and detective controls;
iv. Ensure credit quality is maintained;
v. Ensure credit, market, and liquidity risk is maintained at acceptable levels;
vi. Diversify risk in transactions, member relationships and loan portfolios;
vii. Price according to risk taken; and
viii. Using consistent credit risk exposure tools.

In addition to the Board of Directors, the Audit Committee is involved in financial instrument risk management oversight. The risk policies, procedures and objectives have not changed significantly from the prior year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy at least annually. The Credit Union's maximum credit risk exposure, before taking into account any collateral held, is the carrying amount of loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Chatham-Kent and surrounding areas.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

i. Loan security requirements;
ii. Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge.
iii. Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
iv. Borrowing member capacity (repayment ability) requirements;
v. Borrowing member character requirements;
vi. Limits on aggregate credit exposure per individual and/or related parties;
vii. Limits on concentration to credit risk by loan type, industry and economic sector;
viii. Limits on types of credit facilities and services offered;
ix. Internal loan approval processes;
x. Loan documentation standards;
xi. Loan re-negotiation, extension and renewal processes;

17. Financial instrument risk management (continued)

xii. Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
xiii. Control and monitoring processes including portfolio risk identification and delinquency tolerances;
xiv. Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
xv. Collection processes that include action plans for deteriorating loans; and
xvi. Overdraft control and administration processes.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments may expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding commitments subject to credit risk:

In $	***2016***	*2015*
Unadvanced lines of credit	**3,556,620**	3,708,675
Guarantees and standby letters of credit	**-**	2,375
Commitments to extend credit	**-**	264,870

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rate, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

The Credit Union's market risk management policy defines and establishes limits for the types and concentrations of market exposures which the Credit Union is authorized to assume. The policy also establishes criteria for the identification, measurement and the regular reporting to the Board of Directors of impairments and fluctuations in market values, and defines prudent levels of decision making authorities.

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 and member deposits. The Credit Union does not hedge its fair value risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

17. Financial instrument risk management (continued)

Contractual re-pricing and maturity

All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date. The schedule does not identify management's expectation of future events where re-pricing and maturity dates differ from contractual dates.

The table below summarizes amounts by maturity dates and effective interest rates for the following significant financial instruments:

Interest rate re-price

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	***2016***	**Effective yield**
Assets						
Cash	**4,413,532**	**-**	**-**	**348,842**	**4,762,374**	**0.83%**
Investments	**-**	**1,903,080**	**-**	**306,019**	**2,209,099**	**0.50%**
Member loans	**7,282,451**	**2,710,010**	**13,627,909**	**-**	**23,620,370**	**4.41%**
Total	**11,695,983**	**4,613,090**	**13,627,909**	**654,861**	**30,591,843**	
Liabilities						
Member deposits	**15,388,092**	**9,494,600**	**3,623,568**	**-**	**28,506,260**	**0.78%**
Other liabilities	**-**	**-**	**-**	**106,079**	**106,079**	**-%**
Membership shares	**-**	**-**	**-**	**11,809**	**11,809**	**-%**
Total	**15,388,092**	**9,494,600**	**3,623,568**	**117,888**	**28,624,148**	
Net	**(3,692,109)**	**(4,881,510)**	**10,004,341**	**536,973**	**1,967,695**	

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2015*	Effective yield
Assets						
Cash	2,924,890	-	-	391,826	3,316,716	0.79%
Investments	-	1,774,398	-	309,097	2,083,495	0.05%
Member loans	7,618,690	1,936,408	13,644,637	-	23,199,735	3.72%
Total	10,543,580	3,710,806	13,644,637	700,923	28,599,946	
Liabilities						
Member deposits	14,770,648	8,447,970	3,372,159	-	26,590,777	0.74%
Other liabilities	-	-	-	167,553	167,553	-%
Membership shares	-	-	-	11,360	11,360	-%
Total	14,770,648	8,447,970	3,372,159	178,913	26,769,690	
Net	(4,227,068)	(4,737,164)	10,272,478	522,010	1,830,256	

17. Financial instrument risk management (continued)

Based on the current financial instruments, management estimates that a 0.25% increase in the prime interest rate would increase financial margin by approximately $20,000 and a 0.25% decrease in the prime interest rate would decrease financial margin by approximately $16,000.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to meet a demand for cash or fund its obligations as they come due.

The Credit Union's liquidity management policy defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; lines of credit; and regular reporting of actual liquidity levels against policy minimums to the Board of Directors.

The Credit Union has an available credit facility of $1,000,000 CAD and $5,000 USD to cover a shortfall in cash resources due to unanticipated volume in clearings. This facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2016, the facility was not utilized.

The liquidity ratio represents the ratio of assets qualifying as liquid assets to the sum of members' deposits and borrowings. The Credit Union has established an internal policy to maintain a liquidity ratio at no less than 12%. At December 31, 2016, liquid assets amount to 23% (2015 - 19%) of deposits and borrowings, and consist of the following:

In $	***2016***	*2015*
Cash	**4,762,374**	3,316,716
Central 1 liquidity reserve deposit	**1,903,201**	1,774,960
Total	**6,665,575**	5,091,676

18. Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Methods and assumptions:

The following methods and assumptions were used to estimate fair values of financial instruments:

a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value due to their short term nature;

b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments;

c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates;

18. Fair value of financial instruments (continued)

d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits; and

e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

Estimated fair values of significant financial instruments are summarized as follows:

In $	**Fair value**	**Book value**	**2016 Fair value over book value**	Fair value	Book value	2015 Fair value over book value
Financial assets						
Cash	**4,762,374**	**4,762,374**	**-**	3,316,716	3,316,716	-
Investments	**2,209,022**	**2,209,099**	**(77)**	2,083,465	2,083,495	(30)
Member loans	**23,378,058**	**23,620,370**	**(242,312)**	23,039,657	23,199,735	(160,078)
	30,349,454	**30,591,843**	**(242,389)**	28,439,838	28,599,946	(160,108)
Financial liabilities						
Member deposits	**(28,663,605)**	**(28,506,259)**	**(157,346)**	(26,673,105)	(26,590,777)	(82,328)
Other liabilities	**(106,079)**	**(106,079)**	**-**	(167,553)	(167,553)	-
Membership shares	**(11,809)**	**(11,809)**	**-**	(11,360)	(11,360)	-
	(28,781,493)	**(28,624,147)**	**(157,346)**	(26,852,018)	(26,769,690)	(82,328)
Difference	**1,567,961**	**1,967,696**	**(399,735)**	1,587,820	1,830,256	(242,436)

Fair value measurements

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

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

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

The financial instruments measured at fair value on the statement of financial position, other than cash have been classified in the fair value hierarchy as follows:

In $	***2016***	*2015*
Level 2		
Investments	**65,940**	76,192

Heritage Savings & Credit Union Inc.
Schedule of Other Administrative Expenses
For the year ended December 31, 2016

In $	***2016***	*2015*
Other administrative expenses		
Administration and management fees	**5,683**	5,900
Advertising	**22,401**	26,885
Board, committee and management	**26,708**	46,673
Bonding and other insurance	**37,035**	37,210
Data processing	**64,621**	62,037
Deposit insurance	**26,414**	25,457
Miscellaneous	**18,344**	21,934
Office	**28,286**	24,560
Professional fees	**102,963**	109,533
Occupancy	**76,013**	89,473
Lending and collection costs	**16,548**	17,690
Service charges	**64,479**	88,355
	489,495	555,707