

Financial statements of

**Thorold Community  
Credit Union Limited**

September 30, 2016

# Thorold Community Credit Union Limited

September 30, 2016

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## Independent Auditor's Report

To the Members of  
Thorold Community Credit Union Limited

We have audited the accompanying financial statements of Thorold Community Credit Union Limited, which comprise the statement of financial position as at September 30, 2016, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Thorold Community Credit Union Limited as at September 30, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP.*

Chartered Professional Accountants  
Licensed Public Accountants  
November 16, 2016

# Thorold Community Credit Union Limited

## Statement of comprehensive income

year ended September 30, 2016

(In Canadian dollars)

	2016	2015
	\$	\$
<b>Interest income (Note 4)</b>	<b>819,201</b>	769,738
Investment income (Note 5)	39,645	45,076
	<b>858,846</b>	814,814
Interest expense (Note 6)	171,896	165,888
Net interest income	<b>686,950</b>	648,926
Provision for impaired loans (Note 12)	16,522	22,500
Net interest margin	<b>670,428</b>	626,426
Other operating income (Note 7)	143,815	133,208
	<b>814,243</b>	759,634
Administration	66,412	68,529
Advertising and communications	12,581	16,490
Computer network expenses	89,864	81,141
Depreciation (Note 13)	64,254	62,415
Member security	41,977	41,563
Occupancy	56,464	50,522
Other expenses	23,715	25,289
Personnel expenses	360,099	359,712
	<b>715,366</b>	705,661
Interest rebates on personal loans	14,100	14,615
Income before income taxes	<b>84,777</b>	39,358
Income tax expense (Note 15)	9,189	7,795
Net income	<b>75,588</b>	31,563
Other comprehensive income, net of income taxes (Note 8)	978	3,137
<b>Total comprehensive income for the year, net of income taxes</b>	<b>76,566</b>	34,700

The accompanying notes to the financial statements are an integral part of this financial statement.

# Thorold Community Credit Union Limited

## Statement of changes in members' equity

year ended September 30, 2016

(In Canadian dollars)

	Membership shares	Retained earnings	Accumulated other comprehensive income	Total
	\$	\$	\$	\$
As at October 1, 2014	102,287	1,955,455	43,246	2,100,988
Total comprehensive income	-	31,563	3,137	34,700
Issuance of membership shares	4,560	-	-	4,560
Redeemed membership shares	(8,015)	-	-	(8,015)
As at September 30, 2015	98,832	1,987,018	46,383	2,132,233
Total comprehensive income	-	<b>75,588</b>	<b>978</b>	<b>76,566</b>
Total dividends declared on membership shares	-	<b>(4,900)</b>	-	<b>(4,900)</b>
Issuance of membership shares	<b>3,420</b>	-	-	<b>3,420</b>
Redeemed membership shares	<b>(4,868)</b>	-	-	<b>(4,868)</b>
<b>As at September 30, 2016</b>	<b>97,384</b>	<b>2,057,706</b>	<b>47,361</b>	<b>2,202,451</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# Thorold Community Credit Union Limited

## Statement of financial position

as at September 30, 2016

(In Canadian dollars)

	2016	2015
	\$	\$
<b>Assets</b>		
Cash and cash equivalents (Note 9)	3,847,323	4,082,597
Investments (Note 10)	1,643,482	625,320
Loans to members (Notes 11 and 12)	17,090,125	15,990,171
Prepaid expenses and sundry receivables	7,077	9,104
Current income taxes recoverable	-	6,021
Property and equipment (Note 13)	308,583	353,418
Deferred income tax assets (Note 15)	43,878	36,858
	<b>22,940,468</b>	<b>21,103,489</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	39,446	30,090
Current income taxes payable	16,250	-
Dividend and loan interest rebate payables	19,000	14,615
Deposits from members (Note 14)	20,663,321	18,926,551
	<b>20,738,017</b>	<b>18,971,256</b>
<b>Members' equity</b>		
Membership shares (Note 16)	97,384	98,832
Retained earnings	2,057,706	1,987,018
Accumulated other comprehensive income	47,361	46,383
	<b>2,202,451</b>	<b>2,132,233</b>
	<b>22,940,468</b>	<b>21,103,489</b>

Approved by the Board

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

# Thorold Community Credit Union Limited

## Statement of cash flows

year ended September 30, 2016

(In Canadian dollars)

	2016	2015
	\$	\$
<b>Operating activities</b>		
Net income	75,588	31,563
Adjustments for		
Provision for impaired loans (Note 12)	16,522	22,500
Interest and investment income	(858,846)	(814,814)
Interest expense	171,896	165,888
Depreciation (Note 13)	64,254	62,415
Income tax expense	9,189	7,795
	(521,397)	(524,653)
Changes in operating assets/liabilities		
Change in loans to members	(1,116,476)	(1,038,320)
Change in deposits from members	1,730,943	2,595,507
Change in other operating assets	2,027	6,268
Change in other operating liabilities	13,741	(12,788)
	108,838	1,026,014
Cash provided by operating activities before interest and taxes		
Interest received	858,849	820,667
Interest paid	(166,069)	(154,261)
Income tax received	10,205	-
Income tax paid	(4,323)	(18,073)
	807,500	1,674,347
<b>Investing activities</b>		
Proceeds from sale of investments	416,365	874,357
Purchase of investments	(1,433,372)	(416,365)
Purchase of property and equipment	(19,419)	(1,783)
	(1,036,426)	456,209
<b>Financing activities</b>		
Issuance of membership shares	3,420	4,560
Redemption of membership shares	(4,868)	(8,015)
Dividends on membership shares	(4,900)	-
	(6,348)	(3,455)
Net change in cash and cash equivalents	(235,274)	2,127,101
Cash and cash equivalents, beginning of year	4,082,597	1,955,496
<b>Cash and cash equivalents, end of year</b>	<b>3,847,323</b>	<b>4,082,597</b>

The accompanying notes to the financial statements are an integral part of this financial statement.



# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 1. Reporting entity

Thorold Community Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act, 1994 (Ontario), (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union was incorporated on September 21, 1948 and was then organized for the benefit of the members that reside or are employed within the Regional Municipality of Niagara. The Credit Union provides financial services including residential mortgages and loans and deposit taking to its members.

The registered office of the Credit Union is at 63 Front St, Thorold, Ontario L2V 1W8.

### 2. Basis of preparation

#### *Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

The financial statements for the year ended September 30, 2016 were authorized for issue by the board of directors on November 16, 2016.

#### *Basis of preparation*

These financial statements are presented in Canadian dollars which is the Credit Union's functional currency. They are prepared on the historical cost basis except for available-for-sale ("AFS") investments which are stated at their fair value.

#### *Use of significant accounting judgments, estimates and assumptions*

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on these financial statements and estimates with a significant risk of material adjustment in the next year are discussed below. The Notes to the Financial Statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements such as:

#### a) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity. The valuation of financial instruments is described in more detail in Note 21.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 2. Basis of preparation (continued)

*Use of significant accounting judgments, estimates and assumptions (continued)*

#### b) Impairment losses on loans

The Credit Union reviews its individually significant loans at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as historical recovery rates, bankruptcy indicators and credit ratings, and actual results may differ, resulting in future changes to the allowance.

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 collective assessment takes into account data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans is disclosed in more detail in Note 11 and Note 12.

#### c) Impairment of available-for-sale investments

The Credit Union reviews its equity instruments classified as available-for-sale at each statement of financial position date to assess whether they are impaired.

The Credit Union records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

#### d) Deferred tax asset

A deferred tax asset is recognized in respect of tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of a deferred tax asset that can be recognized, based upon the likely timing and level of future taxable income, together with future tax planning strategies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ from those reported.

#### *New standards and interpretations not yet adopted*

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB, but are not yet effective for the year ended September 30, 2016, and have not been applied in preparing these financial statements:

#### a) Financial instruments

In July 2014, the IASB issued IFRS 9 – Financial Instruments (“IFRS 9”), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”).

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 2. Basis of preparation (continued)

*New standards and interpretations not yet adopted (continued)*

#### a) Financial instruments (continued)

Classification and measurement – Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities are classified in a similar manner to under IAS 39 except that for financial liabilities measure at fair value, fair value changes due to changes in the Credit Union's credit risk are presented in other comprehensive (loss) income instead of profit or loss unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect their actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. The Credit Union is assessing the potential impact of this standard.

#### b) Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and IFRIC 13 – *Customer Loyalty Programmes*, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. It will be applied retrospectively for annual periods beginning on or after January 1, 2018. The Credit Union is assessing the potential impact of this standard.

#### c) Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), which replaces IAS 17, *Leases* ("IAS 17") and related interpretations. This new standard includes a comprehensive model for the identification and treatment of lease arrangements in the financial statements of both the lessee and lessor. From a lessee perspective, this new Standard eliminates the classification of leases as operating or finance leases, and instead requires the recognition of all leases on the balance sheet, subject to limited exceptions. From an income statement perspective, depreciation and interest expense will be recorded for leases in a manner similar to that for current finance leases. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the potential impact of this standard.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Credit Union to all periods presented in these financial statements.

#### *Financial instruments*

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

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments. Settlement date accounting is used.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

The Credit Union is required to classify all financial assets either as fair value through profit or loss ('FVTPL'), available-for-sale, held-to-maturity, or loans and receivables and, financial liabilities are classified as either fair value through profit or loss, or other financial liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated, and other liabilities.

#### a) Classification

<u>Financial asset/liability</u>	<u>Classification</u>
Cash and cash equivalents	Loans and receivables
Investments - debt securities	
Discount deposits	Held to maturity
Guaranteed investment certificates (GICs)	Loans and receivables
Accrued interest on investments	Loans and receivables
Investments - equity instruments	
Investment in Central 1 shares	Available-for-sale (cost)
CUCO Co-op - Class B Investment shares	Available-for-sale (fair value)
Loans to members	Loans and receivables
Sundry receivables	Loans and receivables
Accounts payable and other liabilities	Other financial liabilities
Dividend and loan interest rebate payables	Other financial liabilities
Deposits from members	Other financial liabilities

#### b) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intent and ability to hold to maturity, other than those that the entity upon initial recognition designates as at fair value through profit or loss or available for sale.

Subsequent to initial recognition, held-to-maturity financial assets such as discount deposits are measured at amortized cost using the effective interest method, net of impairment losses.

#### c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Investments in Central 1 - Class A & E shares and CUCO Co-op - Class B investment shares held by the Credit Union that are not traded in an active market are classified as available-for-sale.

Available-for-sale equity investments are recorded at fair value with changes in fair value recorded through other comprehensive income. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Interest income is recognized in income using the effective interest method. Foreign exchange gains or losses on debt securities are recognized immediately in income and is included in the 'other operating income' line item in the statement of comprehensive income.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables including cash and cash equivalents, GICs, accrued interest receivable, loans to members and sundry receivables, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

##### e) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the asset/liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

##### f) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced through the use of an allowance account. When a loan to a member is considered uncollectible, it is written off against the allowance for impaired loans. Subsequent recoveries of amounts previously written off are credited against the allowance for impaired loans. Changes in the carrying amount of the allowance for impaired loans are recognized in income.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The Credit Union has established percentages for the allowance for doubtful accounts which are based on historical collection trends for each payer type and age of the receivables. Accounts that are considered to be uncollectible are reserved for in the allowance until they are written off or collected.

For financial assets other than available-for-sale equity instruments, 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 through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### *g) Derecognition of financial assets*

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union continues to recognize the transferred asset to the extent of the Credit Union's continuing involvement in that asset. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in income.

On derecognition of a financial asset other than in its entirety (e.g. when the Credit Union) retains an option to repurchase part of a transferred asset or retains a residual interest that neither results in the retention nor transfer of substantially all the risks and rewards of ownership, the Credit Union allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in income.

##### *h) Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

##### *i) Derecognition of financial liabilities*

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

##### *j) Transaction costs*

Transaction costs related to financial assets and liabilities at fair value through profit and loss are expensed as incurred. Transaction costs include fees and commissions paid to agents, advisors, broker and dealers and levies by regulatory agencies related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative costs.

##### *k) Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. As at September 30, 2016, the Credit Union does not have any embedded derivatives that require separation.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits held with Central 1 and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are used by the Credit Union in the management of its short term commitments.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered to be equivalent to fair value due the short term nature of these assets.

#### *Loans to members*

Loans to members including personal non-mortgage loans and residential mortgage loans, are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

#### *Allowance for impaired loans*

The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and a collective provision, established for groups of loans with similar risk characteristics. Each component of the allowance for impairment losses is reviewed at least on the reporting date.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal does not result in a carrying amount of a financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in income.

Specific allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. All individually significant loans are individually assessed for impairment. The specific allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's effective interest rate computed at initial recognition.

The collective allowances are established to absorb any potential credit losses. The collective allowances are determined by estimating future cash flows for an asset group on the basis of historical loss experience for assets with similar credit risk characteristics to the group. Historical loss experience is adjusted on the basis of current observable data so that it is consistent with current conditions. Any individual loans assessed individually and determined not to be impaired are included in the collective assessment of impairment. When losses can be attributable to individual loan facilities, specific allowances are recorded.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly (i.e. back tested).

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Property and equipment*

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The residual values, useful lives and depreciation methods are reviewed each year end and changed if necessary. Cost includes expenditures that are directly attributable to bring the asset into working condition for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in income.

#### *Depreciation*

Depreciation is recognized in income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

Depreciation of property and equipment for the current and comparative periods is based on their estimated useful life using the straight line method at the following annual rates:

Building	2%
Building - improvements	8%
Parking area	10%
Office furniture and equipment	20%
Computer equipment	33%

Depreciation methods, useful lives and residual values are reviewed at each statement of financial position date.

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

#### *a) The Credit Union as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

#### *b) The Credit Union as lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.



# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Deposits from members*

Deposits from members include member's chequing accounts, demand deposits, term deposits, registered deposits and tax-free savings accounts and are the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

#### *Employee benefits – short term*

Short term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short term employee benefits are expensed as the related service is provided.

#### *Membership shares*

Membership shares issued by the Credit Union are only classified as equity to the extent that they do not meet the definition of a financial liability.

Type of shares	Classification
Membership shares	Equity

The Credit Union's membership shares are presented in the statement of financial position as equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. Payments of dividends on membership shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the board of directors.

#### *Revenue recognition*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other fees and commission income include account service fees, investment management fees, and insurance fees, which are recognized over the period the services are performed.

#### *Income taxes*

Income tax expense represents the sum of the current taxes payable and deferred income taxes.

#### Current tax

Current tax is based on taxable income in the period. Taxable income may differ from income as reported in the statement of comprehensive income because of the items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Credit Union's current income tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the fiscal year.

#### Deferred tax

Deferred tax is recognized on temporary differences between the carrying values of assets and liabilities in the statement of financial position and the corresponding tax base used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Income taxes (continued)*

#### *Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the fiscal year. The measurement of the deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Credit Union expects, at the end of the fiscal year, to recover or settle the carrying value of its assets and liabilities.

#### *Foreign currency translation*

The financial statements are presented in Canadian dollars ("CDN dollars" or "\$").

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into Canadian dollars at the rate of exchange at the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation gains and losses are recognized immediately in income and are included in the 'other operating income' line item in the statement of comprehensive income.

### 4. Interest income

	2016	2015
	\$	\$
Personal non-mortgage loans	226,481	230,851
Residential mortgages	592,720	538,887
	<b>819,201</b>	<b>769,738</b>

Included within the various line items under interest income for the year ended September 30, 2016 is a total of \$Nil (2015 - \$Nil) accrued on impaired financial assets.

Total interest income reported above is calculated using the effective interest method, and relates to financial assets not carried at FVTPL.

### 5. Investment income

	2016	2015
	\$	\$
Deposits with Central 1	23,084	20,010
Liquidity reserve deposit with Central 1	6,729	8,711
Other investments	6,965	11,437
Share dividends with Central 1	2,867	4,918
	<b>39,645</b>	<b>45,076</b>

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 6. Interest expense

	2016	2015
	\$	\$
Demand deposits (non-chequing)	32,618	38,246
Term deposits	57,303	50,211
Registered retirement savings plans	50,404	50,294
Registered retirement income funds	14,091	12,382
Tax free savings accounts	17,480	14,755
	<b>171,896</b>	<b>165,888</b>

Total interest expense reported above is calculated using the effective interest method, and relates to financial liabilities not carried at FVTPL.

### 7. Other operating income

	2016	2015
	\$	\$
Commissions and fees	74,709	66,484
Administration charges	41,661	38,475
Rental income	7,300	7,100
Foreign exchange (loss)/gains	(273)	2,723
Other	20,418	18,426
	<b>143,815</b>	<b>133,208</b>

All other operating income items detailed above relate to financial assets and liabilities that are not at FVTPL and do not include any amounts used in determining the effective interest rate.

### 8. Components of other comprehensive income

	2016	2015
	\$	\$
Items that may be reclassified subsequently to net income:		
Unrealized gain on CUCCO Co-op - Class B Investment Shares	1,157	3,712
Income tax relating to unrealized gains	179	575
Other comprehensive income for the year, net of income taxes	<b>978</b>	<b>3,137</b>

### 9. Cash and cash equivalents

	2016	2015
	\$	\$
Cash on hand	2,526,303	2,813,057
Central 1 - liquidity reserve deposit	1,321,020	1,269,540
	<b>3,847,323</b>	<b>4,082,597</b>

The average yield on the above accounts as at September 30, 2016 is 0.82% (2015 - 0.79%).

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 9. Cash and cash equivalents (continued)

#### *Central 1 Credit Union - liquidity reserve deposit*

As a condition of maintaining membership with Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the total assets as at each month end. At maturity, these deposits are re-invested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central 1.

#### *Lines of credit*

The Credit Union has available lines of credit with Central 1 in the amounts of \$380,000 Cdn and \$10,000 US dollars. These lines of credit were unutilized as at September 30, 2016 and 2015.

These lines of credit are secured by Central 1 General Security Agreement.

### 10. Investments

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

	2016	2015
	\$	\$
Debt securities - loans and receivables		
Canadian Western Bank GIC, 1.6%, due May 10, 2017	123,200	216,365
Equitable Bank GIC, 1.76%, due May 10, 2017	100,000	100,000
Home Trust Company GIC, 1.8%, due May 10, 2017	100,000	100,000
Peoples Trust GIC, 1.75%, due May 10, 2017	100,000	-
Debt securities - held to maturity		
Central 1 discount deposit, 1.235%, due March 31, 2017	500,000	-
Central 1 discount deposit, 1.575%, due April 02, 2018	500,000	-
	<b>1,423,200</b>	416,365
Accrued interest on investments	<b>2,853</b>	2,855
	<b>1,426,053</b>	419,220
Equity instruments - available for sale		
Central 1 - Class A shares	76,593	66,421
Central 1 - Class E shares	86,600	86,600
CUCO Co-op - Class B Investment Shares	54,236	53,079
	<b>217,429</b>	206,100
Carrying value	<b>1,643,482</b>	625,320

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 10. Investments (continued)

#### *Shares in Central 1 Credit Union*

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1. These shares are dividend bearing. No market exists for shares of Central 1 except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with Central 1 by-law providing for the redemption of its share capital. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

In addition to the above, Central 1 Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

The Credit Union classified these shares as available-for-sale. As no market exists for shares of Central 1 and the fair value of these shares cannot be reliably measured, the Credit Union holds these shares at cost, subject to a review for impairment. The Credit Union has no intention of withdrawing from membership in Central 1.

#### *Credit Union Central of Ontario Cooperative Association ("CUCO Co-op")*

The Credit Union classified CUCO Co-op Class B Investment Shares as available for sale and is measured at fair value. As no market exists for these investment shares, the fair value is determined based on an independent valuation performed on the underlying investments of the CUCO Co-op, utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the statement of financial position date. The Credit Union continues to monitor the investment on a go forward basis. Possible changes that could have a material impact on the future value of the assets held by CUCO Co-op include the following: (i) current economic conditions; and (ii) future developments related to the liquidity of the underlying assets.

### 11. Loans to members

	2016	2015
	\$	\$
Personal non-mortgage loans	<b>2,202,909</b>	2,281,989
Residential mortgage loans	<b>14,881,817</b>	13,708,640
	<b>17,084,726</b>	15,990,629
Add: accrued interest on member loans	<b>34,399</b>	29,550
Less: allowance for impaired loans (Note 12)	<b>(29,000)</b>	(30,008)
Net loans to members	<b>17,090,125</b>	15,990,171

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 installments over a maximum term of five years based on a maximum amortization period of twenty-five years. Residential mortgage loans are secured by residential properties.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 11. Loans to members (continued)

Personal non-mortgage loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

#### *Credit quality of loans*

A breakdown of the security held on a portfolio basis is as follows:

	2016	2015
	\$	\$
Unsecured loans	2,202,909	2,281,989
Loans secured by real property	12,404,595	10,839,322
Mortgages insured by CMHC	2,477,222	2,869,318
	<b>17,084,726</b>	<b>15,990,629</b>

#### *Concentration of risk*

The Credit Union has exposure to groupings of individual loans, which concentrate risk and create exposure to particular segments as noted below. The maximum exposure to credit risk of loans to members at September 30 is as follows:

	2016	2015
	\$	\$
Residential mortgages		
First mortgages	12,276,565	11,130,018
Meritlines of credit	2,605,252	2,578,622
Personal non-mortgage loans		
Personal loans	2,166,923	2,241,319
Lines of credit	35,986	40,670
	<b>17,084,726</b>	<b>15,990,629</b>

#### *Loan commitments*

The Credit Union has authorized additional lines of credit loans, which are unutilized at September 30, 2016, for a sum of \$2,045,052 (2015 - \$2,031,997). See Note 22 for additional disclosures related to management's policies and procedures to manage its credit risk.

As at September 30, 2016, the Credit Union was committed to the issuance of new residential mortgage loans and personal non-mortgage loans to members of \$409,900 (2015 - \$259,930).

# Thorold Community Credit Union Limited

Notes to the financial statements

September 30, 2016

(In Canadian dollars)

## 12. Allowance for impaired loans

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

			2016	2015
	Personal loans	Residential mortgages	Total	Total
	\$	\$	\$	\$
Balance, beginning of year	30,008	-	30,008	29,000
Collection of loans previously written-off	6,748	-	6,748	6,053
Loans written-off as uncollectible	(24,278)	-	(24,278)	(27,545)
Provision for impaired loans	16,522	-	16,522	22,500
Balance, end of year	29,000	-	29,000	30,008
Aggregate impaired loans, end of year	7,348	-	7,348	37,227

Credit quality of loans to members is summarized as follows:

			2016	2015
	Personal loans	Residential mortgages	Total	Total
	\$	\$	\$	\$
Neither past due <sup>(1)</sup> nor impaired	2,126,499	14,845,089	16,971,588	15,700,791
Past due but not impaired	69,062	36,728	105,790	252,611
Impaired	7,348	-	7,348	37,227
	2,202,909	14,881,817	17,084,726	15,990,629
Less: specific allowance	-	-	-	(26,326)
	2,202,909	14,881,817	17,084,726	15,964,303
Less: collective allowance	(29,000)	-	(29,000)	(3,682)
	2,173,909	14,881,817	17,055,726	15,960,621

<sup>(1)</sup> A loan is considered to be past due when the counterparty has not made a payment the day of the contractual payment date

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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

Loans to members past due but not impaired:

	2016		2015
	Personal loans	Residential mortgages	Total
	\$	\$	\$
Past due but not impaired			
Under 30 days	69,062	36,728	105,790
30 to 89 days	-	-	-
	69,062	36,728	105,790
			87,479
			165,132
			252,611

Note: Includes fully secured loans for which, in the opinion of management, there is no reasonable doubt as to ultimate collectability of the principal or interest.

### 13. Property and equipment

	2016						
	Land	Building	Building improvements	Parking area	Office furniture & equipment	Computer equipment	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	2,554	226,474	654,465	37,348	145,199	28,373	1,094,413
Additions	-	-	11,526	-	-	7,893	19,419
Disposals	-	-	-	-	-	-	-
Balance, end of year	2,554	226,474	665,991	37,348	145,199	36,266	1,113,832
Accumulated depreciation							
Balance, beginning of year	-	203,551	341,664	23,965	145,040	26,775	740,995
Depreciation expense	-	4,625	52,511	3,735	159	3,224	64,254
Balance, end of year	-	208,176	394,175	27,700	145,199	29,999	805,249
Net book value,							
September 30, 2016	2,554	18,298	271,816	9,648	-	6,267	308,583
Net book value,							
September 30, 2015	2,554	22,923	312,801	13,383	159	1,598	353,418

### 14. Deposits from members

	2016	2015
	\$	\$
Member's chequing accounts	4,620,417	3,985,477
Demand deposits (non-chequing)	7,704,238	7,544,650
Term deposits	3,618,343	3,071,805
Registered retirement savings plans	2,854,011	2,722,073
Registered retirement income funds	534,557	522,436
Tax free savings accounts	1,253,183	1,007,365
	20,584,749	18,853,806
Add: accrued interest on deposits from members	78,572	72,745
	20,663,321	18,926,551



# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 14. Deposits from members (continued)

#### *Term deposits*

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

#### *Registered retirement plans*

Concentra Trust is the trustee for the registered retirement plans offered to 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 the parties designated by them, by the Credit Union, on behalf of the trust company.

### 15. Income taxes

The following are major components of the income tax expense:

	2016	2015
	\$	\$
Current tax		
Current tax expense in respect of the current year	16,389	10,995
Deferred tax		
Deferred tax recovery in the current year	(7,200)	(3,200)
<b>Total income tax expense</b>	<b>9,189</b>	<b>7,795</b>

The provision for income taxes reported for the year ended September 30 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2016	2015
	\$	\$
<b>Income before tax</b>	<b>84,777</b>	<b>39,358</b>
Income tax expense based on statutory rate of 15% (2015 - 15.5%)	12,717	6,100
Effect of permanent differences	(735)	-
Income tax rate changes in deferred taxes, return to provision and other	(2,793)	1,695
<b>Total income tax expense</b>	<b>9,189</b>	<b>7,795</b>

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 15. Income taxes (continued)

Temporary differences which give rise to the following deferred income tax asset as at September 30 are as follows:

	2016	2015
	\$	\$
Deferred income tax assets		
Allowance for impaired loans	4,350	575
Property and equipment	42,605	39,248
Available for sale investments	(3,077)	(2,965)
Deferred income tax assets	<u>43,878</u>	<u>36,858</u>

### 16. Members' shares

#### (a) Authorized share capital and classification

##### Membership shares

The Credit Union is authorized to issue an unlimited number of membership shares. Each member is required as a condition of membership to own a minimum of twelve membership shares, except for members under the age of eighteen who must own at least one share, with an issue price of \$5 each. Membership shares are redeemable on termination of membership, subject to the discretion of the Credit Union's Board of Directors, who may impose a sixty day waiting period, and subject to the Credit Union meeting capital adequacy requirements. As at September 30, 2016, there were 19,477 membership shares outstanding (2015 – 19,766). Membership shares are all classified as equity.

#### (b) Dividends and other rebates

Dividends on membership shares are payable at a discretionary rate, as declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in Note 17 to the financial statements. As at September 30, 2016, the Board of Directors declared a dividend payable of \$4,900 on membership shares (2015 - \$Nil).

Personal loan interest rebates on variable rate personal loans is payable at a discretionary rate, as declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory capital requirements of the Act. As at September 30, 2016, the Board of Directors declared a personal loan interest rebate of 10% (2015 - 10%). The personal loan rebate will be paid by way of a credit to the members savings or personal chequing accounts within 90 days of the Credit Union's year end.

### 17. Capital adequacy

#### *Capital management*

The Board approves annually the capital management policy and the annual business plan. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 17. Capital adequacy (continued)

#### Capital management (continued)

The Act requires credit unions to maintain regulatory capital of at least 5% of total assets. The Credit Union is in compliance with its policies and the Act regarding regulatory capital as at September 30 as outlined in the table below.

	2016	2015
	\$	\$
Tier 1 Capital		
Retained earnings	2,057,706	1,987,018
Membership shares	97,384	98,832
<b>Total Tier 1 capital</b>	<b>2,155,090</b>	<b>2,085,850</b>
Tier 2 Capital		
Collective loan provision	29,000	3,682
Accumulated other comprehensive income qualifying as equity	47,361	46,383
<b>Total Tier 2 capital</b>	<b>76,361</b>	<b>50,065</b>
<b>Total capital</b>	<b>2,231,451</b>	<b>2,135,915</b>
	%	%
<b>Leverage ratio</b>	<b>9.73</b>	<b>10.12</b>

### 18. Related party transactions

Key management personnel, directors and their related parties have transacted with the Credit Union during the year as follows:

	2016		2015	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	\$	\$	\$	\$
Loans to members	473,229	430,100	648,438	605,191
Member deposits	n/a	313,993	n/a	286,314
Membership shares	n/a	1,055	n/a	1,013

The interest rates charged on balances outstanding from key management personnel, directors and their related parties are the same as those charged in an arm's length transaction. Loans to members balances are secured as per the Credit Union lending policies.

There was no allowance for impaired loans required in respect of these loans as at September 30, 2016.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 18. Related party transactions (continued)

Key management personnel and their related parties received compensation in the year, which comprised of:

	2016	2015
	\$	\$
Salaries and other short-term employee benefits	80,947	79,008
Pension and other benefits	6,266	6,131
	<b>87,213</b>	<b>85,139</b>

Directors received the following amounts for serving the Credit Union:

	2016	2015
	\$	\$
Directors' remuneration	4,900	4,450
Directors' expenses	2,300	2,120
	<b>7,200</b>	<b>6,570</b>

### 19. Remuneration of officers and employees

In accordance with the requirements of the Act and accompanying Regulations there are no specified officers and employees receiving remuneration of greater than \$150,000 in the year.

### 20. Commitments

#### *Contractual obligation*

The Credit Union entered into an agreement with CGI Information Systems, expiring in 2020. Payments under the CGI Information Systems agreement are dependent on the usage of service. Future minimum payments per annum, as calculated as at September 30, 2016, are approximately \$46,000.

### 21. Fair value of financial instruments

#### *Fair value*

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets that are not considered financial instruments, such as prepaids, property and equipment, income taxes and deferred income taxes.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 21. Fair value of financial instruments (continued)

*Fair value (continued)*

Except as detailed in the following table, the Credit Union considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

			2016	2015
	Fair	Carrying	Total	Total
	value	value	Fair value	Fair value
	\$	\$	over (under)	over (under)
			carrying value	carrying value
	\$	\$	\$	\$
Assets				
Investments	1,643,482	1,643,482	-	-
Loans to members	17,162,923	17,090,125	72,798	6,200
Liabilities				
Deposits from members	20,744,621	20,663,321	81,300	85,280

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

- (i) The fair values of cash and cash equivalents, certain other assets and certain accounts payables and other liabilities are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The fair value of investments is based on quoted market values where available (see Note 10). Where no quoted market price is available, the following assumptions were used to determine the fair value, which was completed as at the statement of financial position date:
  - (a) CUCO Co-op - Class B investment shares - an independent valuation was completed on the underlying investments of CUCO Co-op, utilizing valuation techniques based on discounting expected future cashflows.

The Credit Union has concluded that the fair value cannot be reliably measured, for Class A shares - Central 1 and Class E shares - Central 1, as these investments do not have a quoted market price in an active market and therefore are carried at cost.
- (iii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- (iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 21. Fair value of financial instruments (continued)

#### *Fair value hierarchy*

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Credit Union does not have any financial instruments carried at fair value, other than the CUCO Co-op - Class B investment shares. The table below analyzes financial instruments by valuation method, for financial instruments where the fair value is disclosed in the financial statements:

<b>September 30, 2016</b>				
<b>Fair value measurement using:</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Assets</b>				
Investments - debt securities	-	1,426,053	-	1,426,053
Investments - equity instruments	-	-	217,429	217,429
Loans to members	-	17,162,923	-	17,162,923
	-	18,588,976	217,429	18,806,405
<b>Liabilities</b>				
Deposits from members	-	20,744,621	-	20,744,621

### 22. Nature and extent of risks arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

#### *Credit risk*

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 22. Nature and extent of risks arising from financial instruments (continued)

#### *Credit risk (continued)*

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

#### *Liquidity risk*

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board of Directors, the Credit Union's compliance with the policy and regulatory requirements; reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

Additional details are outlined in the Credit Union's internal policy manual.

The Act requires credit unions to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are outlined in the table below.

	<b>2016</b>	2015
	\$	\$
Cash on hand	<b>2,526,303</b>	2,813,057
Central 1 - liquidity reserve deposit	<b>1,321,020</b>	1,269,540
Investments	<b>500,000</b>	-
	<b>4,347,323</b>	4,082,597

Contractual maturities of financial liabilities are shown under interest rate 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.

# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

### 22. Nature and extent of risks arising from financial instruments (continued)

#### *Market risk*

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board of Directors its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are to be reported to the Board of Directors.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

#### *Interest rate risk*

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's income when maturities of its financial liabilities are not matched with the maturities of its financial assets or which are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates and effective interest rates for the following on statement of financial position financial instruments (in thousands of dollars):

	Variable rate/on demand	Less than one year	One to five years	Non-rate sensitive	Total	2016	2015	
						Effective interest rate	Effective interest rate	
	\$	\$	\$	\$	\$	%	\$	%
Cash and cash equivalents	2,243	1,321	-	283	3,847	0.82	4,083	0.79
Investments	-	923	500	220	1,643	1.30	625	1.11
Loans to members	4,779	6,225	6,052	34	17,090	4.81	15,992	4.92
	7,022	8,469	6,552	537	22,580		20,700	
Deposits from members	12,690	4,424	3,470	79	20,663	0.86	18,927	0.89
Accounts payable and other liabilities	-	-	-	58	58	-	60	-
	12,690	4,424	3,470	137	20,721		18,987	
On-balance sheet gap	(5,668)	4,045	3,082	400	1,860		1,714	

An analysis of the Credit Union's risk due to changes in interest rates determined that a 100bp increase in interest rates, with all other variables held constant, would result in an increase in net income of \$7,500 (2015 - \$53,600) while a 100bp decrease in interest rates, with all other variables held constant, would result in a decrease in net income of \$46,500 (2015 - \$21,900).



# Thorold Community Credit Union Limited

## Notes to the financial statements

September 30, 2016

(In Canadian dollars)

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### 22. Nature and extent of risks arising from financial instruments (continued)

#### *Foreign currency exchange risk*

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets.

Net foreign exchange losses of \$273 (2015 – gains of \$2,723) has been included in other operating income on the statement of comprehensive income for the year ended September 30, 2016.

As at September 30, 2016, the Credit Union has US dollar denominated assets of \$172,882 (2015 - \$134,691) and US dollar denominated liabilities of \$191,149 (2015 - \$142,440).

### 23. Comparative figures

Certain prior year figures have been reclassified to conform to the current year financial statement presentation.