

# 2014 ANNUAL REPORT



**CREDIT  
UNION**

TIGNISH

# MISSION

At Tignish Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals. We are a community-minded co-operative that helps build through involvement, leadership, and monetary generosity in the community. We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.

# VALUES

Honest | Passionate | Holistic | Spiritual | Evolutionary | Simplistic | Inclusive

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# 2014 AT A GLANCE

\* We launched all new Spending and Savings Accounts to better serve our members

\* For the 10th consecutive year, we were honoured to be ranked #1 in Customer Service Excellence across the country\*

\* Assets surpassed \$132 Million

\* Gave \$500,000 back to our members through share dividends

\* Launched a universal online scholarship application process for students, including a video scholarship

\*THE IPSOS 2014 BEST BANKING AWARDS ARE BASED ON QUARTERLY CUSTOMER SERVICE INDEX (CSI) SURVEY RESULTS. SAMPLE SIZE FOR THE TOTAL 2014 CSI PROGRAM YEAR ENDED AUGUST 2014 WAS 45,428 COMPLETED SURVEYS YIELDING 68,738 FINANCIAL INSTITUTION RATINGS





**STAFF**



# BOARD OF DIRECTORS

PICTURED LEFT TO RIGHT: WALTER CALLAGHAN | CLIFFORD DOUCETTE | LARRY DROUIN | BRENDA DOYLE | ANN MARIE MCINNIS  
MONA JEFFERY | ROBERT CARRUTHERS | MICHAEL GAUDET | JANET HACKETT



# PRESIDENT'S INTERVIEW



**FOR THOSE THAT ARE UNAWARE OF THE BOARD OF DIRECTORS' ROLE, COULD YOU EXPLAIN THE ROLE OF THE BOARD AND DESCRIBE HOW THE BOARD HAS BEEN FULFILLING THAT ROLE THIS PAST YEAR?**

**A.** It is my pleasure to represent the board and to be able to share some of the work we've been doing and the progress we've been making. The Board's role is to be responsible for representing the interests of members and incorporating those interests into the strategic governance of the credit union. In addition to our annual exercise, we have been committed to monthly meetings. In these meetings, everyone's opinions are valued and we strive to be as progressive as possible and to ensure that we are benefiting our fellow members in the best way possible. In order to remain progressive, we have worked with Atlantic Central to keep up with changes to regulation. We have also examined changes in the marketplace and adapted to those changes in order to become even more competitive.



**WHAT ARE YOU ABLE TO TELL US ABOUT THE BOARD'S DECISION CONCERNING ANNUAL DIVIDENDS?**

**A.** I am happy to present, on behalf of the Board of Directors, that we have declared a 1.5% dividend for the fiscal year ended on September 30, 2014. This percentage is the same as the previous year and was decided by the Board of Directors, based on our financial results.



**WHAT ARE THE BIGGEST CHALLENGES THAT YOUR CREDIT UNION AND BOARD HAVE FACED THIS YEAR?**

**A.** Every year brings some extent of challenges, and this past year was no exception. In recent years, technology dictates what members expect and thus how our industry operates. People expect more 24/7 convenience, and our credit union must keep up with these expectations in all of our services. One specific technology-related challenge has been the struggle to engage with mobile consumers. The mobile segment has been growing rapidly with new applications being developed that impact our core businesses, redefining how consumers source financial advice and how they purchase products. Another big challenge this year was facing increased competition. The banks and others have continued to focus on the Canadian retail market with aggressive promotions and product strategies, staying at the forefront of technology and shaping consumer demands. Low margins and the fact that we have higher operating costs than our competitors continue to present challenges in remaining fiscally competitive.





## WHAT ARE THE MAIN AREAS OF SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?

**A.** I am very pleased to report on this past year's success and am proud of what we have been able to accomplish. We have experienced success in terms of finance this year, as we have reached and exceeded our financial goals for this year. We have maintained our equity well above the national standard. Another area of success has been the launch of new products. This past summer, new Spending Accounts and Savings Accounts were implemented across the Island credit union system. Their implementation was fairly well received as staff explained the changes. This is one way in which we are keeping up with consumer demands and becoming even more competitive in the marketplace. Finally, a main area of success is that our credit union continues to provide industry-leading customer service. This was evidenced by the fact that we were ranked #1 in Customer Service Excellence for the tenth year in a row, recognizing our commitment to making our members happy.



## THINKING AHEAD TO NEXT YEAR, WHAT ARE SOME OF THE GOALS FOR YOUR CREDIT UNION THAT COME TO MIND?

**A.** Well, one of the biggest changes this past year was the shift to risk-based loan interest rates. This change has placed us in a position where we can offer members rates that are very comparable with the competition. In many cases, once the total cost is understood, this allows us to provide borrowers with a better deal than they thought they were getting elsewhere. Our goal over the next year is to grow that awareness with our members.

Another, more general, goal for the upcoming year is to continue building our relationship with youth. Recognizing that youth are our future, we have dedicated a considerable amount of resources to the development of products, services, and programs that are relevant to today's youth. We want the credit union to be their first choice, and one of our youth-related goals is for there to be significant growth of our Spending Accounts for Youth. We have already seen success in this area and hope that this will continue in the upcoming years so whether they remain here or must go away for school or work; they know that we are able to provide for their financial needs.



## IN CONCLUSION, IS THERE ANYTHING YOU WOULD LIKE TO SAY IN REGARD TO THIS PAST FISCAL YEAR THAT YOU HAVEN'T ALREADY HAD THE CHANCE TO SAY?

**A.** Absolutely, I would like to extend my gratitude to a number of people. Any success of the credit union would not be possible without the cooperation and hard work of a number of parties. I would like to thank my fellow directors for their dedication and commitment to the success of our credit union. I would also like to thank the manager and staff for the high quality of service they provide to members. In addition, I also extend my gratitude to Atlantic Central and other partners for their cooperation and support. Of course, I must also thank the members that give us their continuous support and allow us to grow.

**LARRY DROUIN**  
PRESIDENT



# MANAGER'S INTERVIEW



**Q.**

**WHAT DO YOU BELIEVE ARE THE REASONS FOR THE SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?**

**A.** Of course, much of the success can be contributed to our members. Without their support, input, and dedication, we would not have any success. Our success has also been heavily reliant on our staff and all of the time and hard work that they have contributed this past year. The work of staff has been very influential in the implementation of the new Spending and Savings Accounts, and the positive attitude of staff has also been influential in making our credit union an exceptional place to work. The willingness of the board members to volunteer their time and experience is also essential to the success of our credit union. They have contributed greatly to our financial success this year and have also contributed to the fact that we have created new products and are becoming even more consumer-friendly. I would like to extend my thanks to all of these groups that have contributed to a successful year.

**Q.**

**WHAT HAS BEEN DONE TO OVERCOME CHALLENGES?**

**A.** One way we have worked to overcome challenges is by working with Atlantic Central and other credit unions in the Atlantic region. Atlantic Central has consulted with other Canadian and international credit unions in order to keep the Board of Directors abreast of necessary changes. Collaborating with Atlantic Central has allowed us to remain competitive in a broader marketplace that is constantly changing and developing. This collaboration has also helped to combat the challenges of keeping up with new technology and consumer demands. Another way that we have worked to compete with banks and become more user-friendly is by investing in technology that focuses on making decisions easy for members and providing them with the advice and information they need, when they need it.

**Q.**

**LOOKING AT SOME OF YOUR CREDIT UNION'S BIGGEST GOALS FOR THE UPCOMING YEARS, WHAT ARE SOME OF THE PRACTICAL WAYS YOU ARE WORKING TO MEET THOSE GOALS?**

**A.** One of our goals for the near future is to have our credit union continue to have young people turning to us to take care of their financial needs. We have taken on a number of youth-oriented projects to further our engagement with youth in the community, and we hope that this, combined with the efforts of the new Provincial Marketing Department, will create the kind of interest for youth that we would like to see.

Another one of our main goals for the upcoming years is to have the majority of our members see their credit union as their primary financial institution. Each member is an expert in some aspect of business and life and wants to concentrate on that area. They want us to be their partner when it comes to financial matters because that is our area of expertise. You trust my employees because they have always provided you with the product and service that is best suited for you. Each individual product might not be the cheapest but the overall package is designed with your best interest in mind. We will continue to do that because we want you to see us as your partner in reaching your goals. That is our measure of success.

Q ■

## WHAT INFORMATION CAN YOU PROVIDE ABOUT THIS YEAR'S FINANCIAL GROWTH?

**A.** First, I must say that I am very pleased with our financial growth in this past year despite a difficult economy. I would also like to review the financial statements and to highlight and discuss items of significance in order to present our financial growth in a different light and to make our financial results more than just a bunch of numbers. It is my pleasure to announce that, as of September 30, 2014, our assets have reached \$132.6 million, which is a growth of \$2.7 million or 2%. Loans have increased by \$10.7 million and make up 72% of assets. In addition, member deposits have increased by \$3 million or 2.5%, which means that deposits are at 92% of assets. The result of increased loans with a lesser growth in deposits means that we have used some of our liquidity. Undistributed income has also increased by \$404,718, which is the income remaining after dividends and taxes for the year which means that equity has increased and remains over 7%.

All of these positive numbers are signs of the credit union's strength and the work the Board of Directors has been doing to ensure that the credit union continues to grow financially. Because of our financial growth, we are able to extend extra savings to our members instead of building large earnings. This year, we did that by lowering our overall loan rate by more than half of 1% while keeping our saving rates within 1/8 of 1% of the rates of last year and maintaining the 1.5% dividend mentioned by our Board President. In other words, we paid out the interest rebates upfront.

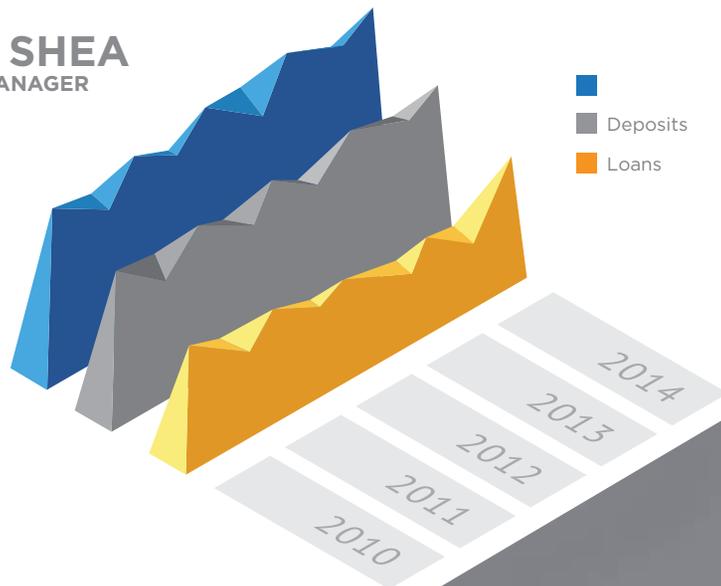
Q ■

## WHAT CHANGES, IF ANY, HAS YOUR CREDIT UNION EXPERIENCED OVER THE PAST FISCAL YEAR?

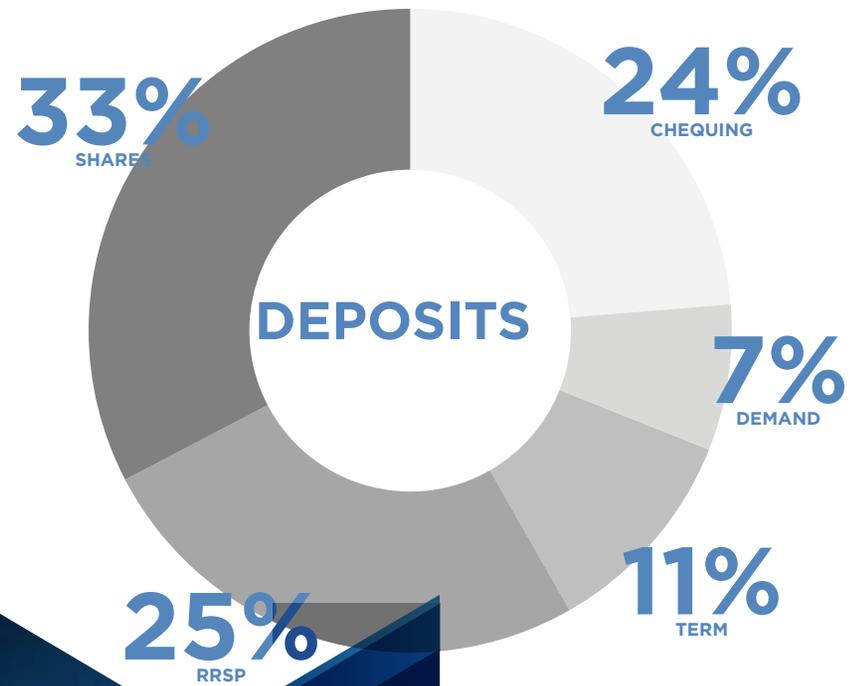
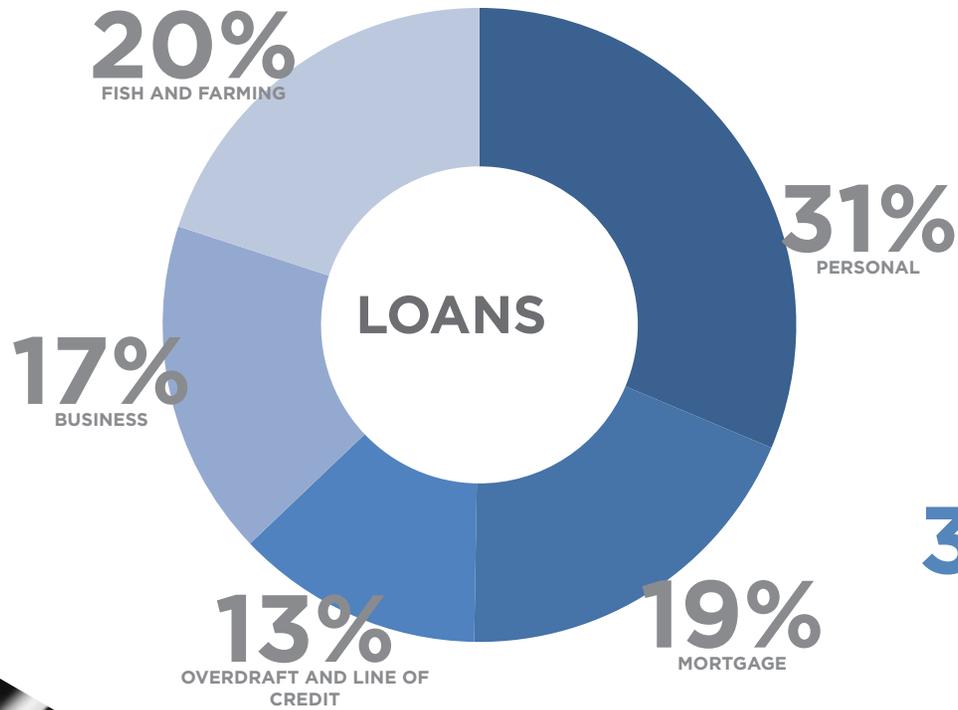
**A.** The biggest change would be the introduction of the new spending and savings accounts. It was a "soft release" meaning we haven't really promoted them to our existing members yet. That will happen in the coming year.

For the last half of the year, due a pregnancy leave and pending retirement, there have been many staff changes. Our members have seen new faces in new places. Much cross training has been taking place and folks are getting used to their new duties and responsibilities. We hope that this has not caused any inconvenience for our members.

**LOUIS SHEA**  
GENERAL MANAGER



# LOANS AND DEPOSITS IN 2014





# REPORT OF COMMUNITY INVOLVEMENT

The staff and Board of Directors of Tignish credit union continued to be strong supporters of our communities this past year and this report will cover a few of the high-lights of that involvement. This report doesn't change very much from year to year but we feel that it's very important to let our members know how much of an impact your credit union continues to have in our communities.

Donations of \$43,000.00 were made during the year. Donations throughout the year were given the same considerations as in the past. Decisions are based on how many members are benefiting from the donation and whether this event will bring people to the area, which in turn benefits local businesses. The Credit Union was a major sponsor for the Red Clay Blue Grass Festival, The Irish Folk Festival, The Tuna Cup Challenge, Alberton Business Assn. Christmas Sponsorship and the Parade Sponsor of the Prince County Exhibition. It also contributed to the St. Louis Bluegrass Festival, Irish Moss Festival and the West Prince Music Festival.

The Credit Union continues to help local organizations such as minor hockey programs, volleyball, golf, curling, & winter carnivals. Donations were made to the following: Tignish Medical Center, Huntington's, CNIB, Special Olympics, Canadian Mental Health, Children's Wish, Autism, Jr. Achievers and Big Brothers-Big Sisters to name a few.

We continued our partnership with Evangeline-Central Credit Union to fund the Amateur Sport Fund. This fund was designed by the West Prince Sports Council to provide funding to athletes who compete at a National Level and has been very successful.

The Credit Unions of P.E.I. also continue to come together to sponsor larger events that affect all of P.E.I. The Island Credit Unions were again this year, Provincial Event Sponsor for Relay for Life. In addition to this monetary funding credit union staff volunteer to work bank nights in their local areas. Our staff attended the Westisle bank night. We also participated in

the relay for life for the 8th year in a row. We had great staff participation this year and again our team raised over \$5,000.

The island Credit Unions are still in partnership with Ronald McDonald House which provides accommodations for families that have a sick child at the IWK Hospital. The island credit unions have agreed to pay the cost of staying at Ronald McDonald house for all its members. This way they can concentrate on their sick child and have one less financial concern to deal with. We also continued our partnership with the 3 other Prince County Credit Unions as the main sponsor for the Prince County Hospital Festival of Lights Campaign.

Staff continued with our own fundraising efforts that have been ongoing for many years. From our casual day Friday's fund, in conjunction with Kids West, we were able to provide Xmas dinners and gifts for 4 families. The second fundraiser is the IWK Fun Day. This fundraiser is a community effort. It was held on Sunday, May 25th. Staff raised money by selling 50-50 tickets and also helped at the Fun Day by selling tickets, barbequing and working in the canteen. This year this community raised over \$8,000.00 for the IWK Children's Hospital.

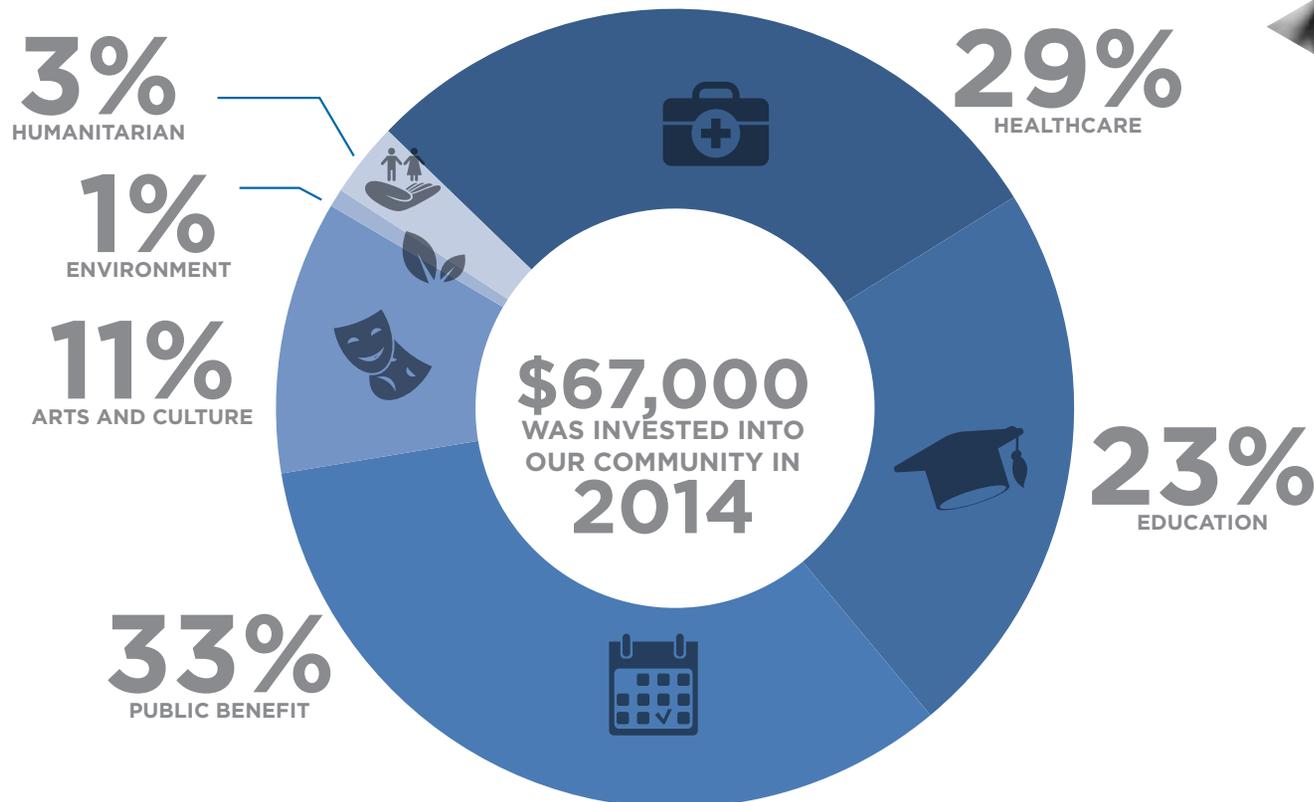
Our weekly 50-50 draw is our largest fundraiser and continues to be a huge success. In keeping with the credit union philosophy, again, this money is given back to the communities in areas that benefit a large number of people. In the past year, the following donations were made: \$5,000 to Tignish & Alberton Minor Hockey Associations, \$1500 to Tignish and Alberton Figure Skating Clubs, \$5,000 to each Fire Department - Alberton, Tignish and Miminegash; \$5,000 to both Tignish & Alberton rinks; \$5000 to the West Prince Caring Cupboard, \$1,000 to each elementary school to help with their lunch programs, \$3,000 to Westisle's breakfast program, \$2,500 to Callaghan's breakfast program, \$4,000 to Relay for Life, \$1,000 to Victoria's Quilts Canada, \$1,000 for the IWK, \$2,000 to the Assn. for Community Living, for a total of \$61,500. To date, over \$460,000 has been donated to our communities through this draw with a similar amount being won by individuals in our communities. A big THANK YOU to all those who take part in this terrific fundraiser.

We continue to offer the school credit union program. The schools involved are Tignish, Alberton and St. Louis Elementary and the French School. We also sponsored a fundraiser for our local Home and School organizations which include St. Louis Elementary, Alberton Elementary, Tignish Elementary and M E Callaghan Jr. High. Tickets were sold for seafood gift certificates that we purchased and almost \$6,000 was raised.

The credit union presented 4 x \$1000 bursaries at Westisle again this year. Congratulations to the recipients - Spencer Gallant, Kelsey Richard, Katie Oliver and Hailey Matthews. Founder awards were presented to graduating students from Tignish, St. Louis, Alberton Elementary and the French schools and M.E. Callaghan Jr. High in addition to prize money given for other grades. This year

we partnered with Consolidated and Evangeline-Central to offer a \$2,000 video scholarship to a graduating student. It was open to all students who were members (or parents were members) of Evangeline-Central, Consolidated or Tignish Credit Union. The video had to be 2 minutes in length and it had to answer the question “what does the credit union mean to me”? They posted their video on PEI Credit Union’s Facebook page and part of the criteria was how many “likes” it received. There was also a panel of judges who reviewed all the videos. It is a great pleasure to announce that Taylor Gaudette from Tignish won the \$2,000 bursary this year. Taylor did a great job of explaining how the Tignish Credit Union contributed to our community and therefore, was very important in her life. We commend her for a job well done.

These are a few of the highlights of our donations and sponsorships and as you can see, our employees take their role as contributors to our communities very seriously. Management provides the time and resources to allow this to happen as it recognizes that as one of the largest businesses in our area, we have to set the standard for others to follow. We asked our staff to provide us with an estimated number of volunteer hours they had during the past year and we were astounded at the number. Over 1000 volunteer hours were given by our staff to our communities this past year. I hope this report outlines for you the social side of the business that our staff and credit union have been involved in over the past year.



# 12 FOCUSED ON OUR YOUTH

Making a positive impact on our youth's financial life is a challenge we have focused on for 2014 and will continue to work towards in the years to come.

## REDEFINED "YOUTH"

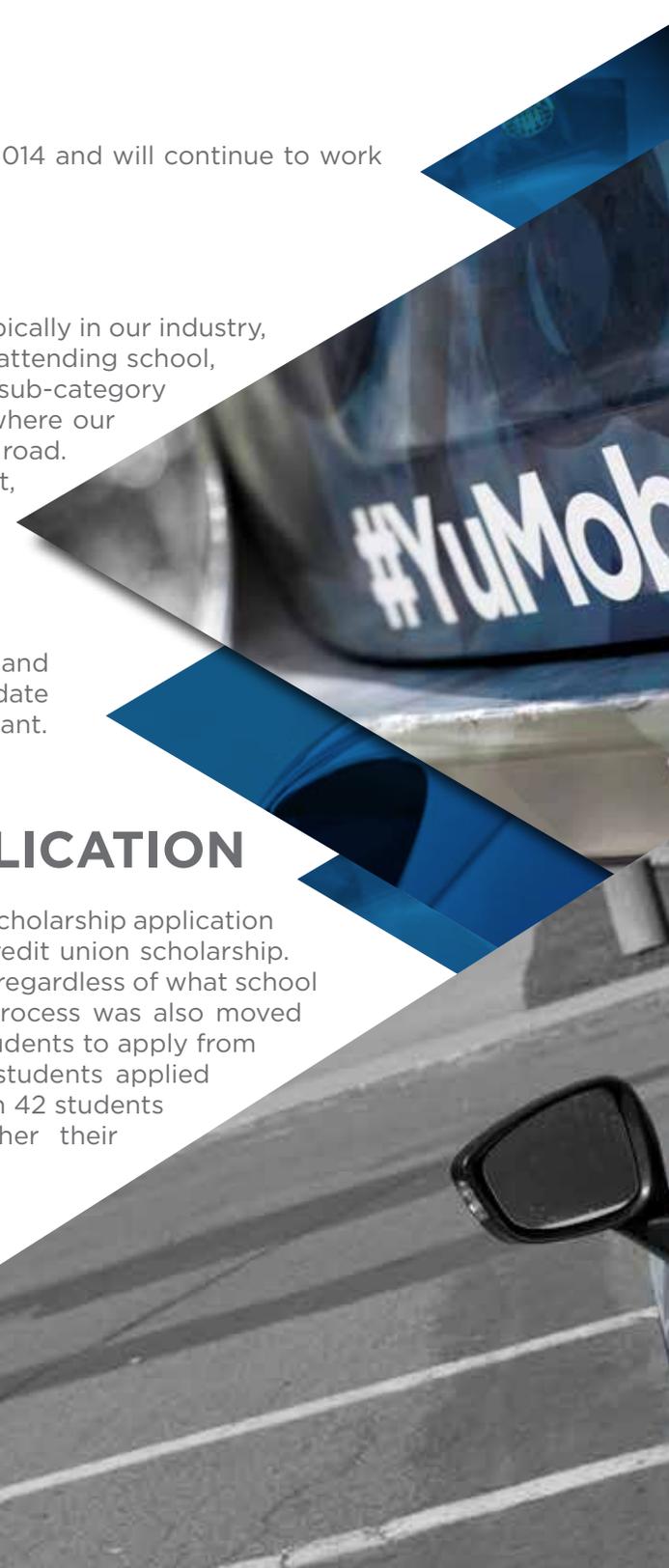
The starting point for our youth strategy was to redefine what we mean when we say Youth. Typically in our industry, a youth is anyone under 18 years of age. Once they surpass 18 years of age and are no longer attending school, we consider them adults. If they are attending a post-secondary school, we place them in a sub-category of Youth called Students. The reality is, leaving the school system and entering the real world is where our members need the greatest support. They need to get a good head start on life to prosper down the road. This is why we have redefined our definition of Youth, and all the cost savings that goes along with it, to all members 25 or under, regardless of their status.

## CREDIT UNIONS ARE NOW ON SOCIAL MEDIA

To better reach our young members, we have joined together with all Credit Unions on PEI and launched a single social media touch point in 2014. This makes connecting and staying up to date with your credit union more streamlined and easy for members, wherever and whenever they want.

## NEW UNIVERSAL SCHOLARSHIP APPLICATION PROCESS

In 2014, Credit Unions on PEI launched a uniform scholarship application process for all students looking to apply for a credit union scholarship. This ensured that all students are treated equally regardless of what school or credit union they belong to. The application process was also moved exclusively online to make it more accessible to students to apply from a computer or mobile device. In total, over 140 students applied for credit union scholarships across the Island, with 42 students sharing over \$42,000 in scholarships to further their education.



\$6K  
IN SCHOLARSHIPS



PICTURED LEFT TO RIGHT: TAYLOR GAUDETTE (VIDEO SCHOLARSHIP WINNER) | HAILEY MATTHEWS | KATIE OLIVER  
KELSEY RICHARD | SPENCER GALLANT

# 2014 SCHOLARSHIP RECIPIENTS

We are pleased to announce 4 Tignish Credit Union Scholarship Recipients and 1 Video Scholarship Recipient for 2014. Each scholarship recipient received \$1,000 towards furthering their education. In total, Tignish Credit Union members recieved \$6,000. We wish everyone the best of luck on their studies and future endeavors.

# TIGNISH CREDIT UNION IN 2014



**2**  
LOCATIONS



**8K**  
MEMBERS



**\$132**  
MILLION IN ASSETS



**\$121**  
MILLION IN DEPOSITS



**\$95**  
MILLION IN LOANS



**317**  
LOCATIONS



**1,740**  
LOCATIONS



**5.32**  
MILLION



**\$165.6**  
BILLION

CANADIAN SYSTEM

**55**

**159**  
LOCATIONS

**8**

CREDIT UNIONS

**14**  
LOCATIONS

POINTS OF SERVICE

**328**  
THOUSAND

**54**  
THOUSAND

MEMBERS

**\$856**  
MILLION

PROVINCIAL SYSTEM

**\$4.9**  
BILLION

REGIONAL SYSTEM



**8.1%**  
BACK TO MEMBERS

**6.0%**  
REINVESTED INTO THE  
CREDIT UNION

**1.0%**  
BACK TO THE  
COMMUNITY

**17.0%**  
GENERAL EXPENSES

**0.7%**  
TAXES

**5.3%**  
LOCATIONS AND OFFICES

**15.6%**  
COST OF CAPITAL

**29.0%**  
STAFF

**17.3%**  
INSURANCE AND FEES

FOR  
EVERY  
\$1  
EARNED  
IN 2014





**ArsenaultBestCameronEllis**  
 CHARTERED ACCOUNTANTS

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October 24, 2014

## Independent Auditor's Report

### To the Members of Tignish Credit Union Ltd.

We have audited the accompanying financial statements of **Tignish Credit Union Ltd.**, which comprise the statement of financial position as at September 30, 2014, 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 in our audit 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 **Tignish Credit Union Ltd.** as at September 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*ArsenaultBestCameronEllis*

Chartered Accountants



**AUDITOR'S REPORT**

**Tignish Credit Union Ltd.**

Statement of Financial Position

As at September 30, 2014

**FINANCIAL POSITION**

	2014 \$	2013 \$
<b>Assets</b>		
Cash and equivalents	20,422,219	34,751,427
Loans and mortgages (notes 7 and 18)	94,949,200	84,222,223
Prepaid expenses and other (notes 7 and 8)	153,135	243,929
Property and equipment (note 9)	1,178,458	1,144,340
Investments (note 10)	15,816,688	9,402,562
Deferred income taxes (note 14)	97,800	89,000
	<u>132,617,500</u>	<u>129,853,481</u>
<b>Liabilities</b>		
Member deposits (notes 7, 11 and 13)	121,595,194	118,558,285
Accrued interest payable	997,447	1,608,812
Other liabilities	648,780	696,958
Income taxes payable	2,634	20,699
	<u>123,244,055</u>	<u>120,884,754</u>
<b>Members' Equity</b>		
<b>Undistributed income</b>	<u>9,373,445</u>	<u>8,968,727</u>
	<u>132,617,500</u>	<u>129,853,481</u>

Approved by the Board of Directors

Larry Brown Director

Falko Caraculacu Director



**Tignish Credit Union Ltd.**Statement of Changes in Members' Equity  
For the year ended September 30, 2014

	2014	2013
	\$	\$
<b>Undistributed income - Beginning of year</b>	8,968,727	8,713,420
Net earnings for the year	404,718	255,307
<b>Undistributed income - End of year</b>	9,373,445	8,968,727

**MEMBERS' EQUITY**

**Tignish Credit Union Ltd.**  
 Statement of Comprehensive Income  
 For the year ended September 30, 2014

	2014 \$	2013 \$
<b>Revenue</b>		
Loan interest (note 18)	5,023,107	5,093,964
Investment	633,929	486,376
Service fees	564,121	499,018
Commissions	513,006	785,341
Other income	58,593	56,943
	<u>6,792,756</u>	<u>6,921,642</u>
<b>Expenses</b>		
Staff (note 16)	1,971,496	2,009,114
Premises	155,395	150,813
Insurance	201,358	198,461
Office	129,076	131,313
Service fees	973,226	937,493
General	429,305	442,990
Cost of capital	1,060,990	1,200,882
Amortization	77,098	78,900
	<u>4,997,944</u>	<u>5,149,966</u>
<b>Operating earnings</b>	<u>1,794,812</u>	<u>1,771,676</u>
<b>Other expense</b>		
Share dividends	548,963	520,061
Provision for loan losses (note 7)	714,174	388,626
Loan interest rebate	-	500,000
Interest bonus on savings	-	100,000
Write-down on foreclosed properties	76,665	-
	<u>1,339,802</u>	<u>1,508,687</u>
	<u>455,010</u>	<u>262,989</u>
<b>Provision for (recovery of) income taxes</b>		
Current (note 14)	59,092	9,482
Deferred income taxes (note 14)	(8,800)	(1,800)
	<u>50,292</u>	<u>7,682</u>
<b>Net earnings for the year</b>	<u>404,718</u>	<u>255,307</u>

**COMPREHENSIVE  
 INCOME**

**Tignish Credit Union Ltd.**

Statement of Cash Flows

For the year ended September 30, 2014

	2014 \$	2013 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	404,718	255,307
Items not affecting cash		
Amortization	77,098	78,900
Write-down on foreclosed properties	76,665	-
Deferred income taxes (recovery)	(8,800)	(1,800)
Provision for loan losses	714,174	388,626
	<u>1,263,855</u>	<u>721,033</u>
Net change in non-cash working capital items		
Increase in loans and mortgages	(11,441,151)	(2,875,114)
Decrease in prepaid expenses and other	14,129	74,683
Decrease in income taxes receivable	-	11,247
Increase in member deposits	3,036,909	5,978,300
Decrease in accrued interest payable	(611,365)	(468,462)
Increase (decrease) in other liabilities	(48,178)	221,736
Increase (decrease) in income taxes payable	(18,065)	20,699
	<u>(7,803,866)</u>	<u>3,684,122</u>
<b>Investing activities</b>		
Purchase of property and equipment	(111,216)	(4,232)
Increase in investments	(6,414,126)	(225,526)
	<u>(6,525,342)</u>	<u>(229,758)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(14,329,208)	3,454,364
<b>Cash and cash equivalents - Beginning of year</b>	34,751,427	31,297,063
<b>Cash and cash equivalents - End of year</b>	<u>20,422,219</u>	<u>34,751,427</u>
<b>Supplementary disclosure</b>		
Interest received	5,433,897	5,669,789
Interest paid	1,103,612	1,244,894
Dividends received	211,929	5,218
Dividends paid	520,061	640,772
Income taxes received	-	82,455
Income taxes paid	77,157	59,991



**CASH FLOWS**

# Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

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## 1 General

The Tignish Credit Union Ltd. (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Tignish, Prince Edward Island.

## 2 Basis of presentation

### (a) Statement of compliance

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

These financial statements have been approved for issue by the Board of Directors on October 24, 2014.

### (b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

NOTES



**3 Summary of significant accounting policies**

## (a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

## (b) Financial instruments

## i) Recognition and measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the Credit Union classifies its financial instruments as follows:

- Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL through the statement of comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and not effective as a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and equivalents and investments in the liquidity reserve deposit.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

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- Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as FVTPL or as available for sale.

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- ◆ Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- ◆ Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal
- ◆ Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Available for sale ("AFS")

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transactions costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income. Available for sale investments are classified as non-current unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

Assets in this category include investments in credit union and co-operative type shares.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

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- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Assets in this category include loans and mortgages.

- Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Liabilities in this category include member deposits, accrued interest payable, and other liabilities.

ii) Impairment of financial assets

The Credit Union assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

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For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a 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.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of loss has been determined. 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 by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in provision for loan loss expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

At each Statement of Financial Position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS security below its costs is considered objective evidence in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed.

- (c) Cash and equivalents

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

- (d) Foreclosed properties

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure of loans that are in default. Foreclosed properties are measured at the lower of the carrying amount and the fair value less the costs to sell.

## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

(e) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the declining balance method at the following annual rates:

Buildings	4%, 5%, 10%
Furniture, equipment and computers	20%, 30%, 45%, 55%
Pavement	8%

Leasehold improvements are amortized using the straight-line method over 16 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at September 30, 2014.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(f) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(h) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

- i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;
- ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or
- iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

**Tignish Credit Union Ltd.**

Notes to Financial Statements

September 30, 2014

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## (i) Standards issued but not yet effective

As at September 30, 2014, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. These changes are not expected to have a material impact on the financial statements.

## (j) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

**4 Critical accounting estimates and judgments**

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

## (a) Provision for loan losses

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

## (b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

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### (c) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments. Where market observable data inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management.

For investments in co-operatives and credit unions, consideration was given as to whether or not par value was equal to redemption value and whether the co-operative or credit union had the right to redeem those shares at their discretion. To the extent that the redemption value of those shares is equal to their par value, then these shares will also be designated as AFS at fair value with fair value equal to (or in the case of potential impairment, less than) par value. In certain cases, the fair value of co-operative or credit union investments exceeds par value when applying a discounted cash flow method of valuation and using market rates of return for similar investments available in public markets. Despite fair value exceeding par value, these investments are reported at par value on the basis that they are not liquid investments and have a limited number of potential purchasers. Where fair value cannot be reliably measured, these investments are recorded at cost.

### (d) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

## 5 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

### (a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

The Credit Union's maximum exposure to credit risk at the reporting date was:

	<b>2014</b>	<b>2013</b>
	\$	\$
Cash and equivalents	20,422,219	34,751,427
Loans and mortgages	94,949,200	84,222,223
Investments	15,816,688	9,402,562
	<u>131,188,107</u>	<u>128,376,212</u>

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	2014	2013
	\$	\$
Cash and equivalents	20,422,219	34,751,427

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at September 30, 2014.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	September 30, 2014 Total \$
Member deposits	58,776,407	23,103,922	-	81,880,329
Share accounts	39,714,865	-	-	39,714,865
Accrued interest payable	997,447	-	-	997,447
Other liabilities	648,780	-	-	648,780
	100,137,499	23,103,922	-	123,241,421

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	September 30, 2013 Total \$
Member deposits	51,551,388	27,033,696	-	78,585,084
Share accounts	39,973,201	-	-	39,973,201
Accrued interest payable	1,608,812	-	-	1,608,812
Other liabilities	696,958	-	-	696,958
	93,830,359	27,033,696	-	120,864,055

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

	Net interest income change 2014 \$	Net interest income change 2013 \$
Before tax impact of		
1% increase in interest rates	157,916	74,900
1% decrease in interest rates	(119,275)	(61,600)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union has agreed to maintain an equity level at least equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At September 30, 2014, the equity level for regulatory purposes is as follows:

	2014 \$	2013 \$
Ownership shares (note 13)	39,685	40,690
Members' equity	9,373,445	8,968,727
Total regulatory equity	<u>9,413,130</u>	<u>9,009,417</u>
Total assets	<u>132,617,500</u>	<u>129,853,481</u>
Equity level	<u>7.1%</u>	<u>6.9%</u>
	#	2014 \$
Opening, October 1	8,138	40,690
Issued	1,123	5,615
Redeemed	<u>(1,324)</u>	<u>(6,620)</u>
Closing, September 30	<u>7,937</u>	<u>39,685</u>

## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

### 6 Financial instruments

#### *Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	September 30, 2014		September 30, 2013	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Assets carried at fair value</b>				
Financial assets held for trading -				
Cash	20,422,219	20,422,219	34,751,427	34,751,427
Liquidity reserve deposit (note 10)	7,912,333	7,912,333	7,540,557	7,540,557
	<u>28,334,552</u>	<u>28,334,552</u>	<u>42,291,984</u>	<u>42,291,984</u>
<b>Assets carried at amortized cost</b>				
Loans and mortgages	94,949,200	94,949,200	84,222,223	84,222,223
Investments - held to maturity	6,000,000	6,000,000	-	-
Investments - available for sale (note 10)	1,904,355	1,904,355	1,862,005	1,862,005
	<u>102,853,555</u>	<u>102,853,555</u>	<u>86,084,228</u>	<u>86,084,228</u>
<b>Liabilities carried at amortized cost</b>				
Member deposits	121,595,194	121,595,194	118,558,285	118,558,285
Accrued interest payable	997,447	997,447	1,608,812	1,608,812
Other liabilities	648,780	648,780	696,958	696,958
	<u>123,241,421</u>	<u>123,241,421</u>	<u>120,864,055</u>	<u>120,864,055</u>

The fair value of financial assets held for trading is determined by their quoted market value at the reporting date.



# Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

## 7 Loans and mortgages

### (a) Summary

			2014	2013
	Total \$	Impaired Loans \$ (included in total)	Specific Provision \$	Net \$
				Net \$
Personal	30,064,437	300,118	39,629	30,024,808
Business	16,449,986	3,488,826	1,529,973	14,920,013
Mortgages	18,161,921	237,635	58,509	18,103,412
Lines of credit and overdrafts	12,112,960	170,095	-	12,112,960
Farming and fishing	19,161,788	197,765	61,760	19,100,028
Accrued loan interest	872,041	184,062	184,062	687,979
	<u>96,823,133</u>	<u>4,578,501</u>	<u>1,873,933</u>	<u>94,949,200</u>
				<u>84,222,223</u>

### *Mortgages and loans*

Mortgage loans are secured by realty mortgages with interest rates of 3.1% - 7.5% (2013 - 3.6% - 8.0%). The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 2.9% - 18.0% (2013 - 3.0% - 18.0%) on personal, business, farming and fishing loans and 0% - 21% (2013 - 0% - 21%) on lines of credit and overdrafts. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

### *The Credit Union's prime lending rate*

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at September 30, 2014 was 3.0% (2013 - 3.0%).

### (b) Continuity of allowance for impaired loans

	\$
<b>Balance - September 30, 2013</b>	1,302,279
Increase in allowance for 2014	748,374
Amounts written off during the year	<u>(176,720)</u>
<b>Balance - September 30, 2014</b>	<u>1,873,933</u>

**Tignish Credit Union Ltd.**

Notes to Financial Statements

**September 30, 2014**

## (c) Provision for loan losses

	<b>2014</b>	<b>2013</b>
	\$	\$
Increase in allowance	748,374	422,139
Recoveries of loans previously written off	(34,200)	(33,513)
	<u>714,174</u>	<u>388,626</u>

## (d) Members' 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 that are past due but not classified as impaired:

	\$
September 30, 2014	1,807,423
September 30, 2013	2,299,368

## (e) Foreclosed properties

During the year, the Credit Union did not foreclose on any mortgages (2013 - \$50,918). Expenses related to the upkeep of the foreclosed properties are added to the cost of the properties and it is management's expectation that the foreclosed properties will be sold in the near future. At September 30, 2014, the Credit Union has \$25,000 (2013 - \$101,665) in foreclosed properties that are included in prepaid expenses and other on the Statement of Financial Position.

**8 Prepaid expenses and other**

	<b>2014</b>	<b>2013</b>
	\$	\$
Prepaid expenses	102,621	109,409
Accrued investment interest receivable	25,514	32,855
Assets held for sale	25,000	101,665
	<u>153,135</u>	<u>243,929</u>



# Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

## 9 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computer \$	Pavement \$	Leasehold improvements \$	Total \$
<b>Cost</b>						
Balance - Beginning of year	231,058	1,342,846	713,988	120,294	40,388	2,448,574
Additions	-	39,900	71,316	-	-	111,216
Balance - End of year	231,058	1,382,746	785,304	120,294	40,388	2,559,790
<b>Accumulated amortization</b>						
Balance - Beginning of year	-	627,061	586,146	53,839	37,188	1,304,234
Current year amortization	-	33,140	36,118	5,316	2,524	77,098
Balance - End of year	-	660,201	622,264	59,155	39,712	1,381,332
<b>Carrying value</b>						
September 30, 2013	231,058	715,785	127,842	66,455	3,200	1,144,340
September 30, 2014	231,058	722,545	163,040	61,139	676	1,178,458

## 10 Investments

	2014 \$	2013 \$
<b>Financial assets</b>		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	7,912,333	7,540,557
<i>Held to maturity:</i>		
Term deposits	6,000,000	-
<i>Available for sale:</i>		
Atlantic Central shares	1,606,520	1,564,170
League Data shares	38,010	38,010
League Savings & Mortgage shares	255,930	255,930
Co-operative membership	2,530	2,530
7730543 Canada Inc. shares	1,365	1,365
Total investments	15,816,688	9,402,562

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 5b). The deposit bears interest at a variable rate.

No market exists for the available for sale share investments. Certain of the available for sale share investments may be surrendered on withdrawal from membership for proceeds equal to the paid-in value.

# Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

## 11 Member deposits

	2014	2013
	\$	\$
Ownership shares and share accounts (note 13)	39,714,865	39,973,201
Savings and Plan 24	8,922,736	8,117,683
Chequing accounts	28,814,095	25,274,068
Term deposits	13,026,218	12,264,776
RRSP and RRIF	31,117,280	32,928,557
	<u>121,595,194</u>	<u>118,558,285</u>

*Ownership shares and share accounts* include the \$5 membership share plus individual members' deposits.

*Share accounts* pay members a dividend at the discretion of the Board. Privileges of the shares are under the authority of the Board. The dividend rate declared and paid for 2014 was 1.5% (2013 - 1.5%) based on the average minimum monthly share account balance throughout the year.

*Savings and Plan 24* are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0.1% - 1.25% (2013 - 0.1% - 1.25%) and 0.25% - 1.0% (2013 - 0.25% - 1.0%), respectively.

*Chequing accounts* are held on a call basis and pay the account holders interest at the Credit Union's stated rates.

*Term deposits* are 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.

Fixed *term deposits* bear interest at various rates and ranging from 0% - 3.45% (2013 - 0% - 4.85%)

### *RRSP and RRIF*

Concentra Financial is the trustee for the registered savings plans offered to owners. Under an agreement with the trust company, owner's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to owners, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates.

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

## 12 Contingent liability

	2014	2013
	\$	\$
Outstanding guarantees on behalf of members	<u>200,000</u>	<u>200,000</u>



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

### 13 Share accounts

Unlimited membership shares, are available for issuance with a par value of \$5 each. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

### 14 Income taxes

#### (a) Tax rate reconciliation

	2014 \$	2013 \$
Income before income taxes	455,010	262,989
Taxes at statutory rates - 31% (2013 - 31%)	141,053	81,527
Impact of the 15.5% (2013 - 17.245%) small business deduction - current tax	(70,527)	(45,352)
Permanent differences and other	8,575	811
Impact of change in small business deduction - deferred income tax	-	(22,767)
Impact of non-taxable dividends	(28,809)	(6,537)
	<u>50,292</u>	<u>7,682</u>

#### (b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 15.5% (2013 - 15.5%), as follows:

	2014 \$	2013 \$
Balance - Beginning of year	89,000	87,200
Comprehensive income statement expense	8,800	1,800
	<u>97,800</u>	<u>89,000</u>

**Tignish Credit Union Ltd.**

Notes to Financial Statements

September 30, 2014

Deferred income tax assets are attributable to the following items:

	2014	2013
	\$	\$
<b>Deferred income tax assets</b>		
Property and equipment	10,290	9,650
Allowance for impaired loans	29,040	20,200
Retirement allowance	58,470	59,150
	97,800	89,000

**15 Line of credit availability**

In 2014, the Credit Union had an approved line of credit with Atlantic Central of \$3,000,000. As of September 30, 2014, the line of credit was not being utilized.

**16 Pension plan**

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the year, the Credit Union expensed \$70,884 (2013 - \$67,288) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

**17 Composition of key management**

Key management includes the board of directors, general manager, manager of operations, manager of financial service and branch manager - Alberton. Compensation awarded to key management included:

## (a) Key management, excluding directors

	2014	2013
	\$	\$
Salaries and short-term employee benefits	421,121	374,633
Accrued retirement benefit obligations	7,426	74,961

## (b) Directors' remuneration

	2014	2013
	\$	\$
Honorariums	7,900	4,200
Payment for expenses while on credit union business	7,000	4,831



## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

(c) Loans to directors and key management personnel

	2014 \$	2013 \$
Loans outstanding - Beginning of year	564,778	325,330
Add: loans issued during the year	331,951	285,735
Less: loan repayments during the year	(35,741)	(46,287)
Loans outstanding - End of year	<u>860,988</u>	<u>564,778</u>
Interest income earned	15,120	15,146

No provisions have been recognized in respect of loans given to key management (2013 - nil). The loans issued to directors and key management personnel and close family members during the year of \$331,951 are repayable over 5 - 20 years and have interest rates ranging from 4.25% to 6.75% (2013 - 5.7% to 7.0%).

### 18 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

The loans and mortgages balance includes \$2,890,246 (2013 - \$3,083,896) in loans to 7730543 Canada Inc. The loans to 7730543 Canada Inc. bear interest at 1% with no set terms of repayment.

Included in loan interest is \$26,457 (2013 - \$28,762) of interest income and \$180,740 (2013 - \$42,308) of dividend income received from 7730543 Canada Inc.

The Credit Union is a shareholder in 7730543 Canada Inc.

## Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

### 19 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	2014 Total \$
<b>Assets</b>					
Cash and equivalents	18,848,667	-	-	1,573,552	20,422,219
Effective interest rate	0.79%				
Investments	13,816,688	2,000,000	-	-	15,816,688
Effective interest rate	1.34%				
Loans and mortgages	81,617,486	12,643,735	-	687,979	94,949,200
Effective interest rate	5.72%	3.63%			
Prepaid expenses and other	-	-	-	153,135	153,135
Property and equipment	-	-	-	1,178,458	1,178,458
Deferred income tax	-	-	-	97,800	97,800
<b>Total assets</b>	<b>114,282,841</b>	<b>14,643,735</b>	<b>-</b>	<b>3,690,924</b>	<b>132,617,500</b>
<b>Liabilities and surplus</b>					
Member deposits	98,491,272	23,103,922	-	-	121,595,194
Effective interest rate	1.06%	2.51%			
Accrued interest payable	-	-	-	997,447	997,447
Income taxes payable	-	-	-	2,634	2,634
Other liabilities	-	-	-	648,780	648,780
Undistributed earnings	-	-	-	9,373,445	9,373,445
<b>Total liabilities and surplus</b>	<b>98,491,272</b>	<b>23,103,922</b>	<b>-</b>	<b>11,022,306</b>	<b>132,617,500</b>
<b>Interest rate sensitivity gap</b>	<b>15,791,569</b>	<b>(8,460,187)</b>	<b>-</b>	<b>(7,331,382)</b>	<b>-</b>



# Tignish Credit Union Ltd.

Notes to Financial Statements

September 30, 2014

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	2013 Total \$
<b>Assets</b>					
Cash and equivalents	33,252,147	-	-	1,499,280	34,751,427
Effective interest rate	0.96%				
Investments	9,402,562	-	-	-	9,402,562
Effective interest rate	1.46%				
Loans and mortgages	79,578,256	3,815,991	-	827,976	84,222,223
Effective interest rate	5.87%	4.44%			
Deferred income tax	-	-	-	243,929	243,929
Prepaid expenses and other	-	-	-	1,144,340	1,144,340
Property and equipment	-	-	-	89,000	89,000
<b>Total assets</b>	<b>122,232,965</b>	<b>3,815,991</b>	<b>-</b>	<b>3,804,525</b>	<b>129,853,481</b>
<b>Liabilities and surplus</b>					
Member deposits	91,524,589	27,033,696	-	-	118,558,285
Effective interest rate	1.09%	2.56%			
Accrued interest payable	-	-	-	1,608,812	1,608,812
Income taxes payable	-	-	-	20,699	20,699
Other liabilities	-	-	-	696,958	696,958
Undistributed earnings	-	-	-	8,968,727	8,968,727
<b>Total liabilities and surplus</b>	<b>91,524,589</b>	<b>27,033,696</b>	<b>-</b>	<b>11,295,196</b>	<b>129,853,481</b>
<b>Interest rate sensitivity gap</b>	<b>30,708,376</b>	<b>(23,217,705)</b>	<b>-</b>	<b>(7,490,671)</b>	<b>-</b>

As at September 30, 2014, the Credit Union's net interest spread was 3.49% (2013 - 3.44%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

## 20 Commitment

The Credit Union has lines of credit, loans and mortgages approved but not disbursed as at September 30, 2014 amounting to \$9,194,682.28 (2013 - \$6,390,585).



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## CREDENTIAL FINANCIAL STRATEGIES

Tignish Credit Union is constantly seeking ways to add quality products, services and convenience to Members' lives. In partnership with Credential Financial Strategies, Tignish Credit Union is very pleased to continue to offer the services of Credential Financial Strategies to our Members.

Sharon Gallant, who is our Representative of Credential Financial Strategies, is available to assist members of Tignish Credit Union with all of your Financial Planning needs. Sharon has over 20 years of experience in the Financial Planning Industry and specializes in the following areas:

**Estate Planning**  
**Life Insurance**  
**Investment Planning**  
**Group RRSP's for Businesses**  
**Group Health Plans for Businesses**

**Retirement Planning**  
**Education Savings Plan**  
**Disability Savings Plan**  
**RRSP/RRIF**  
**Mutual Funds**

Sharon will work with our Members of Tignish Credit Union, and provide this service at no cost to the member. You can reach Sharon at the Alberton Branch of the Tignish Credit Union, at 902 853 6020. Raeanne Gallant, who is Sharon's assistant, would be more than happy to assist you in making an appointment should you decide to discuss any of these financial planning areas.





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