

2016

Annual Report



TIGNISH

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2016 Highlights

+12%
Assets

\$1.3m
Back to Members

+15%
Avg. Members Savings

+13%
Deposits

\$49k
Back to Communities

4k
Members Banking Online

+9.8%
Loans

249
New Members

7k
Membership



**Credit unions are built on fairness, trust,
equality and independence.**

**We provide honest banking and make a
local impact in our communities.**

Your money stays and works here.



Mission

The mission of Tignish Credit Union is to provide competitive financial services tailored to meet the needs of our owners and their communities.

We pride ourselves in directing the organization we control and in the equality of services provided.

Tignish Credit Union is a community minded Co-operative that helps build through its involvement, its leadership, and the retention of financial resources in the community.

Values

Honest

Passionate

Holistic

Spiritual

Evolutionary

Simplistic

Inclusive

Board of Directors



Clifford Doucette
President



Janet Hackett
1st Vice-President



Walter Callaghan
2nd Vice-President



Mona Jeffery
Secretary



Karen Gaudet-Gavin



Michael Gaudet



Wendy Profit



Cletus Dunn



Ann Marie McInnis



Staff



President's Report

It is my pleasure to report to you on behalf of the Board of Directors of Tignish Credit Union, for the year ending December 31, 2016.

Your credit union continues to enjoy favorable growth, with our assets now at \$164,000,000 after growth of almost 12%. The board is pleased to declare a share dividend rate of 1%, which remains above the competitive rate in today's marketplace. As a result of our positive bottom line, we are in a position to declare rebates on loans, deposits and services totaling \$850,000.

As financial co-operatives, credit unions throughout the world operate from the common philosophy of (1) democratic structure, (2) service to members, and (3) social goals. This common thread sets our financial system apart from others within the international marketplace. Tignish Credit Union strives to be a key player within the community, a provider of top financial products and services, a good corporate citizen, and a significant employer.

The Board remains ultimately responsible to you, the owners who elect us, for the success of the credit union. From the year-end reports presented, owners are able to judge whether or not the Board controlled the business successfully within its authority and responsibility.

Your Board holds regular monthly meetings, committee and other meetings. Each year we hold a strategic planning session with Management to review the direction where we are headed and to discuss the opportunities and challenges that your credit union faces. Our General Manager, who is the only employee of the Board, is then tasked with managing the day to day business in line with our strategic plan and keeping the board informed of the progress being made. He has a good team that reports to him

and assists him. They make sure their employees are prepared to assist members with your financial success. Although they report to our General Manager, your Board of Directors see the results of their efforts and therefore I want to recognize Arlene Hackett, John McArthur, John Chisholm, Donna MacKay, Coralee Stewart and Laura Perry for the important roles that they play in managing our credit union's success.

Janet Hackett, Anne Marie McInnis, Louis Shea, and John Chisholm represented our credit union at the Atlantic Central AGM in Halifax last spring as I was unable to attend. I attended the semi-annual meeting this past October with Louis Shea and Arlene Hackett. These opportunities allow us to hear what is happening in other areas of the financial services industry and to meet with like minded credit union individuals to plan how we, as a larger group, can improve our levels of services. Technology allows access to our accounts and products that are ever changing so we must work as part of a large system because our competition is universal.

We want to recognize that our credit union is just one part of a large Provincial, National and International system that allows the credit union to offer owners the strength and connectivity of a multinational organization. This network of partners will continue to be important in the future as we see changes to the financial services industry. Atlantic credit unions continue to look for ways to share back office duties to keep costs lower while allowing you to receive similar service regardless of which office you are in.

Tignish Credit Union continues to be active and supportive of organizations in the West Prince area. I would like to recognize and thank the staff for giving their time to support different

organizations. We try to support activities that impact our communities and larger groups of people in ways that will carry forth into the future. The community report explains our community involvement in more detail and highlights other assistance given. Please share this report with other owners so they too can take pride in their organization.

Once again, your credit union has experienced a successful year. This success can be attributed to a number of things or people. The manager and staff including the Credential Financial Services (CFS) team have contributed greatly to the success and the Board thanks them for the fine service they offer. All members of the Board of Directors take their role very seriously and it has made the role of President a much easier one.

Your Board, for the first time since 1985 needed to deal with replacing its General Manager. We want to recognize and thank Louis for his leadership and service over the years. We knew that it would be not be easy to replace someone with so many years of service and a history of dedication to the credit union. We appreciate that he shared our goal of finding the best replacement available and with his help and the support of the Atlantic Central Consulting group, we feel very excited that we have been able to hire Ted Pahl as our new General Manager. Ted has the experience within the credit union system and the commitment to community that makes him a good fit for us. Maybe the most comforting aspect of the transition is that Louis tells us he is very comfortable handing the reins of the credit union over to Ted.

You will hear from Ted shortly as he presents the report on operations and the financial results. He will give a breakdown of how the roughly \$1.75 million operating earnings is being distributed. In total almost \$1.3 million is being returned directly to owners. This is done because you, as owners, should benefit from the extra income without the financial health of your credit

union being put at risk.

As has been said so many times by Past Board Chairs, the credit union exists because of its owners. It is successful when owners support it. Thank you for your support this year and please be proud of your business.

Respectfully submitted,

Clifford Doucette

President





Manager's Report

As the General Manager of Tignish Credit Union it is my pleasure to speak to this past fiscal year and the continued trend of success the credit union has seen.

This year we have seen continued growth in our mobile services and our ability to be the most convenient banking choice. With help from Atlantic Central and other credit unions in the Atlantic region we have been able to collaboratively remain competitive in a broader marketplace. Working with other credit unions has allowed us to keep up with consumer demands and to deliver new technologies. As we continue to compete with banks, our ability to adapt to newer technologies has allowed us to remain user-friendly but to also provide our members with the advice and information they need, when they need it.

I want to review the financial statements with you to highlight the changes or items of significance and hopefully make the statements more than just a bunch of numbers. You should be very pleased with the financial growth of our credit union. From the Statement of Financial Position (Balance Sheet) we find;

- Assets have reached \$164.2 million level at year-end, which is growth of \$17.5 million or 11.75% annualized.
- Cash & equivalents which are mainly deposits with Atlantic Central have increased by \$3.5 million and this amount varies on a daily basis.
- The fixed assets have increased by just over 50% to 1.75 million which of course comes mainly from the extension to move the commercial department back to the main branch and to allow for the drive-thru ATM.

- Loans increased by \$10.2 million and are at 70% of assets and that means we can still grow our portfolio and make better use of the funds held on deposit.

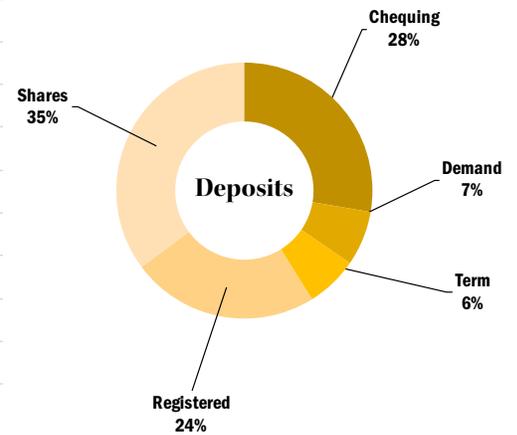
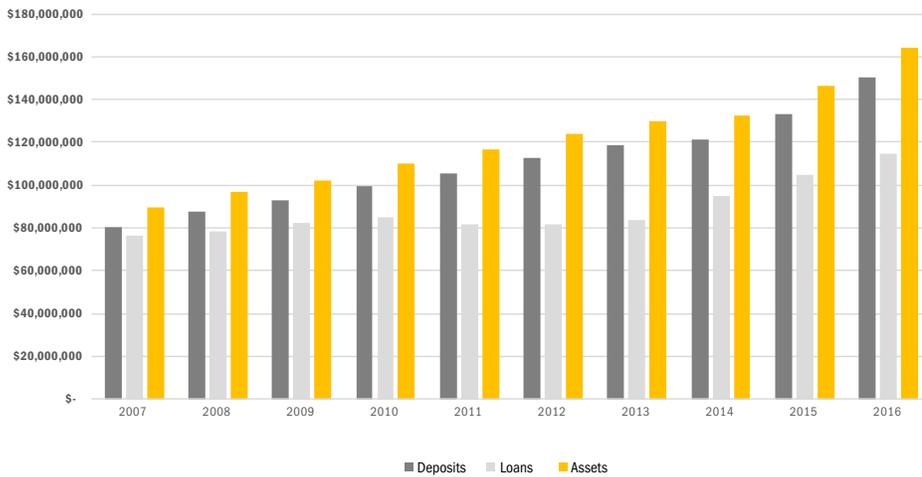
- Member Deposits grew by \$17.2 million or 12.95% this year: Deposits make up 91.75 % of assets. Between direct deposit products and what is offered through Sharon Gallant with Credential Financial Strategies, the credit union can provide any investment option needed.

- Since our deposits continue to increase faster than our loans, we have put more money into investments with our partners through term deposits with Atlantic Central, League Savings and Concentra Financial. Our main effort however continues to be in increasing our loans to members. The returns from loans of course are better than you can expect from demand or term savings.

- Undistributed Income increased by \$352,808. This is the income remaining after dividends, interest rebates and taxes for the year. Based on the strength of the credit union, we felt we could return those dollars to you.

When reviewing the Income Statement, remember that the comparison is for 15 months because we changed our year end last year. We prorated the numbers for our own benefit in order to give you a fair comparison as follows;

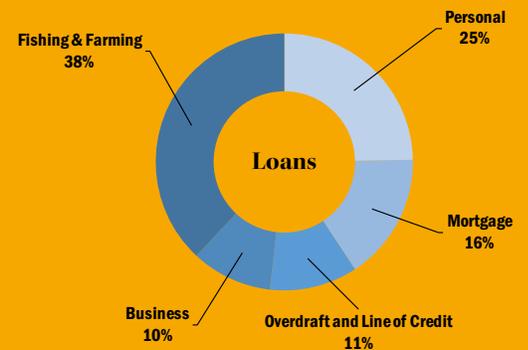
- Even looking at Loan Interest taking into consideration the number of months, the earnings are down based on total loan balances and the main reason comes from the lower interest rates that we are charging. That benefits our borrowers which is good overall.



- Investment income is down again based on interest rates we receive plus the timing of the dividends from Central last year. We ended up posting 2014 and 2015 in the 2015 year.
- Commission income is mainly impacted by the return that we received from the company formed by some credit unions to purchase the PEI central loan portfolio when it amalgamated. The income of the company was paid out in 2015.
- Changes in cost of capital and dividends under expenses come from the interest rates paid.

There are really no other significant changes to income or expenses during the past year for a credit union of our size. The loan risk shows a positive number this year partially caused by reporting risk on the three month period to last December and we took advantage of that to make an adjustment to the values showing in Foreclosed properties. The net result is that we are able to pay back \$850,000 to you our members in the form of rebates. These rebates will be paid to loan and savings interest and chequing service charges. In total, this means that your credit union has paid almost \$1.2 million to you that could have gone to bank shareholders or executive bonuses.

We have the right products and services to answer all of your financial services needs and we are committed to assisting you to be successful financially. To that end, we will continue to identify which products and services are best for you individually and to making sure that we will tell you about them. We also invite you to be proactive and to ask our employees at any time about what they might have to share with you that will help you reach your goals. We will continue to do things with other credit unions throughout our region where it helps us to control costs because those savings can again be passed along to you. You see much of the success of the last year can be contributed to our members. Without your constant support and input we would not be able to easily achieve our set goals for the year. It is your business and you should be using as many of its services as you can while encouraging others



to do the same. As much as your credit union is able to do, just imagine what it could accomplish if 100% of its members did 100% of their business with it.

Much like our members, we are heavily reliant on our staff and they have been nothing short of exceptional. The work of the staff has been influential on the credit union, from their positive attitudes to their adaptability to change in this ever growing market. We are very fortunate to also have the expertise of our numerous board members. Their willingness to volunteer their time has been essential to our success as a financial institution. Again this year, we will lose the guidance that we have relied on for the past nine years from board members who are retiring and we are most thankful to them. We are confident though that you will replace them with others who will provide different but just as important feedback just as you have every time that we lose excellent board members.

Respectfully submitted,

Ted Pahl
General Manager

Report of Community Involvement

Tignish Credit Union continued to be strong supporters of our communities this past year and this report will cover a few of the highlights 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 \$48,834.00 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, 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: 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 the 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 10th 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 Family Services, we were able to provide Xmas dinners and gifts for 4 families. Unfortunately, the annual IWK Fun Day community fundraiser wasn't held this year but our staff did go ahead with our 50-50 draw and were able to donate \$2,014.00 to the IWK.

Staff at both locations participated in their community's annual parades - the Irish Moss Festival and The Prince County Exhibition.



We had 2 staff members participate in the Shave for the Brave campaign in June. Louis Shea and John Chisholm had their heads shaved and raised \$7,700 in the process.

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, \$5,000 to the Assn. for Community Living, \$2500 to Kids West for their Healthy Snack Program, \$5,000 to the Alberton Skate Park, \$5,000 to the Tignish Splash Pad just to name a few. Throughout the year over \$76,000 was donated. To date, \$600,000 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 from Royal Star and over \$5,500 was raised.

The credit union presented 4 x \$1000 bursaries at Westisle again this year. Congratulations to the recipients – Nonie Lyon, Drew Murphy, Sadie Knox and Jasmin Myers. 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.

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.

Building a Community Together

Being supportive and involved with our members along with the community is, as always, of great importance to credit unions. Our high standard for social responsibility means that we strive to serve our community as best as possible. One of the most significant ways in which we support the community is through donations, sponsorships and volunteering.

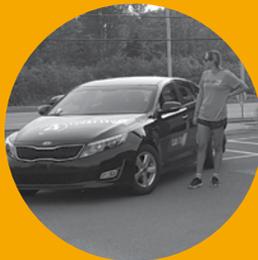
This year, we invested over \$48,834.00 in donations and sponsorships benefiting not only community groups but also numerous local families alike.

As a financial co-operative, our motive is to always assist our members with their financial goals, while also positively impacting our community.



Cash Dash 2.0

The Cash Dash, our amazing-race styled event, returned this year with added challenges for participants. Instead of a single day event across PEI, the four teams of two raced for two days across three provinces—PEI, New Brunswick, and Nova Scotia. This year the tasks and services focused on the cooperative movement, with activities like balancing ledgers and earning community support. Teams competed against each other for the grand prize of \$5,000. Our following built upon last year's success, with a tremendous response to both interest and overall online social interactions.



The Do Good Project

As a cooperative financial institution, credit unions truly believe in giving back and bettering the communities they serve. In 2016, we launched The Do Good Project, which gave the public the opportunity to decide how to make a positive impact within their neighborhood. In addition to coming up with the ideas, the public also chose the two winning projects based on popular vote.

We had an overwhelming response to this contest; eight plans submitted and close to two thousand votes cast.

The top two finalists, Lynn Thompson and Lewie Sutherland, earned \$2,500 each to make their community plans a reality. Lynn Thompson will be using the money to enhance the outdoor play-space at Morell Early Learning Centre, and Lewie Sutherland will be improving the Alysha Toombs Memorial Park in Kensington.

A decade of Relay For Life

2016 marked our tenth and final year as the proud provincial event sponsor for the Canadian Cancer Society's Relay for Life. Since 2006, PEI credit unions have together contributed over \$500,000 towards cancer research - with an impressive 60% being staff raised. Through this partnership, we have increased staff's involvement with the Society, educated our stakeholders about cancer prevention and raised significant funds to assist in the delivery of the Society's programs on PEI.

In June we were honored to be recognized as Outstanding Sponsorship Partner at the 30th Annual Maritime Philanthropy Awards thanks to a nomination by the Canadian Cancer Society. We would like to extend our gratitude to the Society for allowing us to be an active part of this amazing initiative over the past 10 years.



Fill The YuMob

In December our fourth Annual #FilltheYuMob took place, where not one, but TWO, carloads of toys were collected. All toys were given to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 local families in need. Thank you to everyone who participated in this notable cause.

Scholarships

We are pleased to announce 4 Tignish Credit Union Scholarship Recipients for 2016. Each scholarship recipient received \$1,000 towards furthering their education. In total, Tignish Credit Union distributed \$4,000.

We wish all students the best in their studies and future endeavors.



Drew Murphy



Jasmin Myers



Nonie Lyon



Sadie Knox

Investing In People

Investing in People, our primarily social media based campaign, aims to make a small positive financial impact for individuals during their day to day lives. From paying for car services, to helping furnish a student's new apartment, we have helped Islanders from tip to tip. Since its inception in 2015, over one hundred individuals have benefited, which we hope to grow in the upcoming year.

For 2016, we tried to change things up for the holiday season by launching Investing in Cheer. Three individuals were each given \$500 to spread some much needed Christmas cheer to deserving groups. These groups included the QEH pediatrics unit, Boys and Girls Club Charlottetown, and two families in need in the Kinkora area.



Inspire Learning Centre

Credit unions on PEI were proud to partner with the new and innovative Inspire Learning Centre in 2016. Located in Summerside the state-of-the-art regional learning centre is a bustling hub for job seekers, entrepreneurs, study groups and people of all ages!

The Inspire Learning Centre, dubbed the “library of tomorrow” offers state of the art facilities including semi-private reading pods, collaborative workstations and borrowable media in every category! Credit Unions look forward to the year ahead with the Inspire Learning Centre and the impact it will make on the community and surrounding areas.



Junior Achievement



2016 marked an important partnership for the credit union system on PEI as we teamed up with Junior Achievement to bring our financial knowledge into the classroom. Through JA PEI's Economics for Success program, the credit union has been able to instruct over 1,500 students on the fundamentals of financial literacy and the significance of budgeting.

As a result of the successful and well-received programming, credit union employee, Kate Ryan was awarded JA PEI's Volunteer of the Year award in 2016. Credit Unions will continue their partnership with JA for the upcoming year with 500 students already enrolled for the programs upcoming semester.



Credential Financial Services

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 credit union 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 22 years of experience in the Financial Planning Industry and specializes in the following areas:

Estate Planning

Retirement Planning

Life Insurance

Education Savings Plan

Mutual Funds

Disability Savings Plan

Investment Planning

RRSP/RRIF

Group RRSP's for Businesses

Group Health Plans for Businesses

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. We would also like to welcome Julie Ramsay to the Credential team. Julie is the Co-ordinator/Assistant for Sharon with Credential, and Julie brings years of credit union experience.

Financial Statements



Member of The AC Group of Independent Accounting Firms

February 20, 2017

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 December 31, 2016, and the statements of comprehensive income, changes in members' equity and cash flows for the 12 month period 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 December 31, 2016, and the results of its operations and its cash flows for the 12 month period then ended in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Professional Accountants

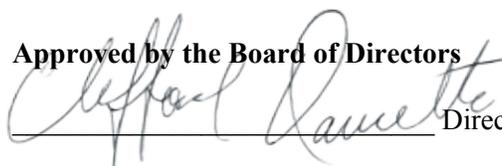
Tignish Credit Union Ltd.

Statement of Financial Position

As at December 31, 2016

	2016 \$	2015 \$
Assets		
Cash and cash equivalents	22,405,271	18,752,798
Accounts receivable	168,596	220,430
Loans and mortgages (notes 7 and 18)	114,753,830	104,508,700
Prepaid expenses and other (notes 7 and 8)	102,656	154,251
Property and equipment (note 9)	1,757,108	1,154,124
Investments (note 10)	25,163,571	21,838,708
Deferred income taxes (note 14)	104,000	104,000
	<u>164,455,032</u>	<u>146,733,011</u>
Liabilities		
Member deposits (notes 7, 11 and 13)	150,916,639	133,421,536
Accrued liabilities	1,751,087	1,940,362
Other liabilities	810,739	793,501
Income taxes payable	126,234	50,592
	<u>153,604,699</u>	<u>136,205,991</u>
Members' Equity		
Undistributed income	<u>10,850,333</u>	<u>10,527,020</u>
	<u>164,455,032</u>	<u>146,733,011</u>

Approved by the Board of Directors



Director



Director

Tignish Credit Union Ltd.

Statement of Changes in Members' Equity

For the 12 month period ended December 31, 2016

	(12 months) December 31, 2016 \$	(15 months) December 31, 2015 \$
Undistributed income - Beginning of period	10,527,020	9,373,445
Net earnings for the period	323,313	1,153,575
Undistributed income - End of period	<u>10,850,333</u>	<u>10,527,020</u>

Tignish Credit Union Ltd.
Statement of Comprehensive Income
For the 12 month period ended December 31, 2016

	(12 months) December 31, 2016 \$	(15 months) December 31, 2015 \$
Revenue		
Loan interest (note 18)	4,973,742	6,191,462
Investment	437,442	1,147,020
Service fees	802,472	1,032,915
Commissions	502,382	925,390
Other income	65,711	81,287
	<u>6,781,749</u>	<u>9,378,074</u>
Expenses		
Staff (note 16)	2,159,997	2,572,689
Premises	168,337	183,422
Insurance	227,178	256,350
Office	118,660	170,291
Service fees	1,048,045	1,283,546
General	405,720	488,793
Cost of capital	859,686	1,247,106
Amortization	80,239	92,909
	<u>5,067,862</u>	<u>6,295,106</u>
Operating earnings	<u>1,713,887</u>	<u>3,082,968</u>
Other expense (income)		
Share dividends	439,068	741,941
Provision for (recovery of) loan losses (note 7)	(9,008)	222,697
Loan interest rebate	550,000	550,000
Interest bonus on savings	250,000	250,000
Service charge rebate	50,000	50,000
Write-down on foreclosed properties	55,000	16,365
	<u>1,335,060</u>	<u>1,831,003</u>
	<u>378,827</u>	<u>1,251,965</u>
Provision for (recovery of) income taxes		
Current (note 14)	55,514	104,590
Deferred income taxes (note 14)	-	(6,200)
	<u>55,514</u>	<u>98,390</u>
Net earnings for the period	<u>323,313</u>	<u>1,153,575</u>

Tignish Credit Union Ltd.

Statement of Cash Flows

For the 12 month period ended December 31, 2016

	(12 months) December 31, 2016 \$	(15 months) December 31, 2015 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	323,313	1,153,575
Items not affecting cash		
Amortization	80,239	92,909
Write-down on foreclosed properties	55,000	16,365
Deferred income taxes (recovery)	-	(6,200)
Provision for (recovery of) loan losses	(9,008)	222,697
	449,544	1,479,346
Net change in non-cash working capital items		
Increase in loans and mortgages	(10,236,122)	(9,826,062)
Decrease (increase) in accounts receivable	51,834	(151,051)
Increase in prepaid expenses and other	(3,405)	(42,995)
Increase in member deposits	17,495,103	11,826,342
Increase (decrease) in accrued interest payable	(189,275)	942,915
Increase in other liabilities	17,238	144,721
Increase in income taxes payable	75,642	47,958
	7,660,559	4,421,174
Investing activities		
Purchase of property and equipment	(683,223)	(68,575)
Increase in investments	(3,324,863)	(6,022,020)
	(4,008,086)	(6,090,595)
Increase (decrease) in cash and cash equivalents	3,652,473	(1,669,421)
Cash and cash equivalents - Beginning of period	18,752,798	20,422,219
Cash and cash equivalents - End of period	22,405,271	18,752,798
Supplementary disclosure		
Interest received	5,469,760	6,484,243
Interest paid	891,790	1,203,508
Dividends received	-	438,940
Dividends paid	439,068	741,941
Income taxes paid	77,450	125,858

Notes to the Financial Statements

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

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 February 20, 2017.

(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.

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 cash equivalents and investments in the liquidity reserve deposit.

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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 an 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.

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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 accounts receivable and 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 liabilities, 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.

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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 cash equivalents

Cash and cash 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.

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(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 December 31, 2016.

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

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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.

(i) 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.

(j) Standards issued but not yet effective

As at December 31, 2016, 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.

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.

(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.

Tignish Credit Union Ltd.

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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:

	December 31, 2016	December 31, 2015
	\$	\$
Cash and equivalents	22,405,271	18,752,798
Accounts receivable	168,596	220,430
Loans and mortgages	114,753,830	104,508,700
Investments	25,163,571	21,838,708
	<u>162,491,268</u>	<u>145,320,636</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.

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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:

	December 31, 2016	December 31, 2015
	\$	\$
Cash and equivalents	<u>22,405,271</u>	<u>18,752,798</u>

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 December 31, 2016.

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

	Under 1 year	Over 1 to 5 years	Over 5 years	December 31, 2016 Total
	\$	\$	\$	\$
Member deposits	75,851,162	22,015,452	-	97,866,614
Share accounts	53,050,025	-	-	53,050,025
Accrued interest payable	1,751,087	-	-	1,751,087
Other liabilities	810,739	-	-	810,739
	<u>131,463,013</u>	<u>22,015,452</u>	<u>-</u>	<u>153,478,465</u>

	Under 1 year	Over 1 to 5 years	Over 5 years	December 31, 2015 Total
	\$	\$	\$	\$
Member deposits	66,798,969	22,024,476	-	88,823,445
Share accounts	44,598,091	-	-	44,598,091
Accrued interest payable	1,940,362	-	-	1,940,362
Other liabilities	793,501	-	-	793,501
	<u>114,130,923</u>	<u>22,024,476</u>	<u>-</u>	<u>136,155,399</u>

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.

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(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 December 31, 2016 \$	Net interest income change December 31, 2015 \$
Before tax impact of		
1% increase in interest rates	106,784	246,117
1% decrease in interest rates	(404,464)	(420,918)

(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.

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(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 December 31, 2016, the equity level for regulatory purposes is as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Ownership shares (note 13)	39,820	37,605
Members' equity	10,850,333	10,527,020
Total regulatory equity	<u>10,890,153</u>	<u>10,564,625</u>
Total assets	<u>164,455,032</u>	<u>146,733,011</u>
Equity level	<u>6.6%</u>	<u>7.2%</u>
	#	2016 \$
Opening, January 1, 2016	7,521	37,605
Issued	893	4,465
Redeemed	(450)	(2,250)
Closing, December 31, 2016	<u>7,964</u>	<u>39,820</u>

Tignish Credit Union Ltd.

Notes to Financial Statements

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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:

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Assets carried at fair value				
Financial assets held for trading				
- Cash	22,405,271	22,405,271	18,752,798	18,752,798
Liquidity reserve deposit (note 10)	9,675,273	9,675,273	8,529,704	8,529,704
	<u>32,080,544</u>	<u>32,080,544</u>	<u>27,282,502</u>	<u>27,282,502</u>
Assets carried at amortized cost				
Accounts receivable	168,596	168,596	220,430	220,430
Loans and mortgages	114,753,830	114,753,830	104,508,700	104,508,700
Investments - held to maturity (note 10)	13,452,644	13,452,644	11,439,000	11,439,000
Investments - available for sale (note 10)	2,035,654	2,035,654	1,870,004	1,870,004
	<u>130,410,724</u>	<u>130,410,724</u>	<u>118,038,134</u>	<u>118,038,134</u>
Liabilities carried at amortized cost				
Member deposits	150,916,639	150,916,639	133,421,536	133,421,536
Accrued interest payable	1,751,087	1,751,087	1,940,362	1,940,362
Other liabilities	810,739	810,739	793,501	793,501
	<u>153,478,465</u>	<u>153,478,465</u>	<u>136,155,399</u>	<u>136,155,399</u>

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

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7 Loans and mortgages

(a) Summary

			December 31, 2016	December 31, 2015
	Total \$	Impaired Loans \$ (included in total)	Net \$	Net \$
Personal	28,378,323	267,233	28,265,600	28,271,331
Business	12,567,633	3,174,070	11,073,686	8,143,460
Mortgages	18,342,331	408,365	18,207,602	17,698,025
Lines of credit and overdrafts	12,713,511	76,487	12,713,511	12,225,168
Farming and fishing	43,628,383	230,114	43,526,044	37,441,386
Accrued loan interest	967,387	254,496	967,387	729,330
	<u>116,597,568</u>	<u>4,410,765</u>	<u>114,753,830</u>	<u>104,508,700</u>

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 3.0% - 6.75% (2015 - 3.1% - 6.75%). The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 2.7% - 18.7% (2015 - 2.7% - 18.0%) on personal, business, farming and fishing loans and 0% - 21% (2015 - 0% - 21%) on lines of credit and overdrafts. These 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 December 31, 2016 was 2.7% (2015 - 2.7%).

(b) Continuity of allowance for impaired loans

	\$
Balance - December 31, 2015	2,002,682
Decrease in allowance for 2016	(9,008)
Amounts written off during the period	<u>(149,936)</u>
Balance - December 31, 2016	<u>1,843,738</u>

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(c) Provision for loan losses

	December 31, 2016	December 31, 2015
	\$	\$
Increase (decrease) in allowance)	(9,008)	277,160
Loans directly written off	-	5,398
Recoveries of loans previously written off	-	(59,861)
	<u>(9,008)</u>	<u>222,697</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:

	\$
December 31, 2016	1,048,912
December 31, 2015	1,250,953

(e) Foreclosed properties

During the year, the Credit Union did not foreclose on any mortgages (2015 - nil). Expenses related to the upkeep of the foreclosed properties are added to the cost of the properties. In 2016, management wrote-down the foreclosed properties to a carrying value of nil. At December 31, 2016, the Credit Union has nil (2015 - \$55,000) in foreclosed properties that are included in prepaid expenses and other on the Statement of Financial Position.

8 Prepaid expenses and other

	December 31, 2016	December 31, 2015
	\$	\$
Prepaid expenses	102,656	99,251
Assets held for sale	-	55,000
	<u>102,656</u>	<u>154,251</u>

Tignish Credit Union Ltd.

Notes to Financial Statements

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9 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computer \$	Pavement \$	Leasehold improvements \$	Total \$
Cost						
Balance - Beginning of period	231,058	1,427,581	809,044	120,294	40,388	2,628,365
Additions	-	683,223	-	-	-	683,223
Balance - End of period	231,058	2,110,804	809,044	120,294	40,388	3,311,588
Accumulated amortization						
Balance - Beginning of period	-	701,263	667,419	65,171	40,388	1,474,241
Current year amortization	-	46,242	29,717	4,280	-	80,239
Balance - End of period	-	747,505	697,136	69,451	40,388	1,554,480
Carrying value						
December 31, 2015	231,058	726,318	141,625	55,123	-	1,154,124
December 31, 2016	231,058	1,363,299	111,908	50,843	-	1,757,108

10 Investments

	December 31, 2016 \$	December 31, 2015 \$
Financial assets		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	9,675,273	8,529,704
<i>Held to maturity:</i>		
Term deposits	13,452,644	11,439,000
<i>Available for sale:</i>		
Atlantic Central shares	1,739,120	1,573,470
League Data shares	38,010	38,010
League Savings & Mortgage shares	255,930	255,930
Co-operative membership	2,530	2,530
CU PEI Investment Corp.	64	64
Total investments	25,163,571	21,838,708

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

December 31, 2016

11 Member deposits

	December 31, 2016 \$	December 31, 2015 \$
Ownership shares and share accounts (note 13)	53,050,025	44,598,091
Savings	11,239,826	10,480,400
Chequing accounts	42,575,240	35,390,446
Term deposits	14,891,123	13,479,078
RRSP and RRIF	29,160,425	29,473,521
	<u>150,916,639</u>	<u>133,421,536</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 2015 was 1.0% (2015 - 1.5%) based on the average minimum monthly share account balance throughout the year.

Savings are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0.15% - 1.25% (2015 - 0% - 1.25%).

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% - 3.25% (2015 - 0% - 3.25%)

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.

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

12 Contingent liability

	December 31, 2016 \$	December 31, 2015 \$
Outstanding guarantees on behalf of members	200,000	200,000

13 Share accounts

Unlimited membership shares, are available for issuance with a par value of \$5 per share. 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.

Share accounts are included with Member Deposits on the Statement of Financial Position.

14 Income taxes

(a) Tax rate reconciliation

	December 31, 2016 \$	December 31, 2015 \$
Income before income taxes	378,827	1,251,965
Taxes at statutory rates - 31% (2015 - 31%)	117,436	388,109
Impact of the 16% (2015 - 15.5%) small business deduction - current tax	(60,612)	(194,055)
Permanent differences and other	(1,310)	67,382
Impact of non-taxable dividends of nil (2015 - \$525,958)	-	(163,046)
	<u>55,514</u>	<u>98,390</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% (2015 - 15.5%), as follows:

	December 31, 2016 \$	December 31, 2015 \$
Balance - Beginning of period	104,000	97,800
Comprehensive income statement expense	-	6,200
Balance - End of period	<u>104,000</u>	<u>104,000</u>

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

Deferred income tax assets are attributable to the following items:

	December 31, 2016	December 31, 2015
	\$	\$
Deferred income tax assets		
Property and equipment	10,200	10,600
Allowance for impaired loans	27,600	29,000
Retirement allowance	66,200	64,400
	<u>104,000</u>	<u>104,000</u>

15 Line of credit availability

In 2016, the Credit Union had an approved line of credit with Atlantic Central of \$3,000,000. As of December 31, 2016, 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 \$76,870 (2015 - \$91,131) 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

	(12 months) December 31, 2016	(15 months) December 31, 2015
	\$	\$
Salaries and short-term employee benefits	422,308	537,922
Accrued retirement benefit obligations	8,320	9,651

(b) Directors' remuneration

	(12 months) December 31, 2016	(15 months) December 31, 2015
	\$	\$
Honorariums	8,750	10,550
Payment for expenses while on credit union business	6,043	3,028

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

(c) Loans to directors and key management personnel

	(12 months) December 31, 2016 \$	(15 months) December 31, 2015 \$
Loans outstanding - Beginning of period	567,539	581,188
Add: loans issued during the period	278,012	221,870
new director balances on appointment	34,697	-
Less: loan repayments during the period	(266,224)	(235,519)
transfers out of Directors	(218,782)	-
	<hr/>	<hr/>
Loans outstanding - End of period	395,242	567,539
Interest income earned	15,638	15,120

No provisions have been recognized in respect of loans to key management (2015 - nil). The loans issued to directors and existing loans to new directors and key management personnel and close family members during the year of \$312,709 (2015 - \$221,870) are repayable over 5 - 20 years and have interest rates ranging from 3.70% to 6.75% (2015 - 4.25% to 6.75%).

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 \$1,999,487 (2015 - \$1,610,169) in loans to CU PEI Investment Corp. The loans to CU PEI Investment Corp. bear interest at 1% with no set terms of repayment.

Included in loan interest is \$15,051 (2015 - \$25,140) of interest income and nil (2015 - \$525,958) of dividend income received from CU PEI Investment Corp.

The Credit Union is a shareholder in CU PEI Investment Corp.

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

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 \$	December 31, 2016 Total \$
Assets					
Cash and equivalents	20,522,508	-	-	1,882,763	22,405,271
Effective interest rate	0.78%				
Accounts receivable	-	-	-	168,596	168,596
Investments	20,763,571	4,400,000	-	-	25,163,571
Effective interest rate	1.17%	1.76%			
Loans and mortgages	106,221,465	8,532,365	-	-	114,753,830
Effective interest rate	4.65%	4.16%			
Prepaid expenses and other	-	-	-	102,656	102,656
Property and equipment	-	-	-	1,757,108	1,757,108
Deferred income tax	-	-	-	104,000	104,000
Total assets	147,507,544	12,932,365	-	4,015,123	164,455,032
Liabilities and surplus					
Member deposits	128,901,187	22,015,452	-	-	150,916,639
Effective interest rate	0.73%	2.01%			
Accrued liabilities	-	-	-	1,751,087	1,751,087
Income taxes payable	-	-	-	126,234	126,234
Other liabilities	-	-	-	810,739	810,739
Undistributed earnings	-	-	-	10,850,333	10,850,333
Total liabilities and surplus	128,901,187	22,015,452	-	13,538,393	164,455,032
Interest rate sensitivity gap	18,606,357	(9,083,087)	-	(9,523,270)	-

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	December 31, 2015 Total \$
Assets					
Cash and equivalents	16,795,296	-	-	1,957,502	18,752,798
Effective interest rate	0.78%				
Accounts receivable	-	-	-	220,430	220,430
Investments	21,438,708	400,000	-	-	21,838,708
Effective interest rate	1.23%	4.65%			
Loans and mortgages	90,529,394	13,249,976	-	729,330	104,508,700
Effective interest rate	4.92%	3.53%			
Prepaid expenses and other	-	-	-	154,251	154,251
Property and equipment	-	-	-	1,154,124	1,154,124
Deferred income tax	-	-	-	104,000	104,000
Total assets	128,763,398	13,649,976	-	4,319,637	146,733,011
Liabilities and surplus					
Member deposits	111,397,060	22,024,476	-	-	133,421,536
Effective interest rate	0.98%	2.19%			
Accrued liabilities	-	-	-	1,940,362	1,940,362
Income taxes payable	-	-	-	50,592	50,592
Other liabilities	-	-	-	793,501	793,501
Undistributed earnings	-	-	-	10,527,020	10,527,020
Total liabilities and surplus	111,397,060	22,024,476	-	13,311,475	146,733,011
Interest rate sensitivity gap	17,366,338	(8,374,500)	-	(8,991,838)	-

As at December 31, 2016, the Credit Union's net interest spread was 2.94% (2015 - 3.31%). 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 December 31, 2016 amounting to \$6,815,078 (2015 - \$8,535,471).

Tignish Credit Union Ltd.

Notes to Financial Statements

December 31, 2016

21 Change in year end

Tignish Credit Union Ltd., in conjunction with the other Prince Edward Island member credit unions, changed its year end from September 30 to December 31 so that the members have the same year end as Atlantic Central Credit Union.

On the change in year end, Tignish Credit Union Ltd. chose to report on a 15 month period from October 1, 2014, the date of the prior year end, to December 31, 2015. These 2015 financial statements include a statement of comprehensive income, change in members' equity and cash flows for a 15 month period. The corporation balances for December 31, 2016 include results for a 12 month period and are therefore not for the same reporting period.

We're more than a bank. We make a local impact—your money stays here and works here.

You are more than a customer, you're a member.

We provide expert financial advice and services, but we also invest in our members and their communities. We don't answer to distant shareholders, we answer to you.

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