



Consolidated Financial Statements

Sunshine Coast Credit Union

December 31, 2013

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# Independent Auditor's Report

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To the Members of  
Sunshine Coast Credit Union

We have audited the accompanying consolidated financial statements of Sunshine Coast Credit Union (the "credit union"), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of earnings and of comprehensive income, consolidated statement of changes in members' equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sunshine Coast Credit Union as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada  
February 26, 2014

*Grant Thornton LLP*

Chartered Accountants

# Sunshine Coast Credit Union

## Consolidated Statement of Financial Position

December 31

2013

2012

### Assets

Cash and cash equivalents (Note 5)	\$ 7,092,378	\$ 12,454,115
Investments (Note 6)	26,858,488	24,524,301
Loans (Note 7)	351,164,150	326,423,589
Property and equipment (Note 9)	5,676,309	5,726,078
Intangible assets (Note 9)	331,281	324,871
Other assets (Note 10)	249,958	229,598
Deferred income tax asset (Note 14)	16,000	-
	<u>\$ 391,388,564</u>	<u>\$ 369,682,552</u>

### Liabilities

Borrowings (Note 11)	\$ 8,010,286	\$ -
Deposits (Note 12)	351,961,003	339,596,581
Payables and other liabilities	907,910	1,059,849
Deferred income tax liability (Note 14)	-	26,000
	<u>360,879,199</u>	<u>340,682,430</u>

### Members' equity

Patronage and investment shares (Note 15)	3,831,799	4,019,594
Retained earnings	26,677,566	24,996,764
Accumulated other comprehensive loss	-	(16,236)
	<u>30,509,365</u>	<u>29,000,122</u>
	<u>\$ 391,388,564</u>	<u>\$ 369,682,552</u>

Commitments (Note 21)

Signed on behalf of the board of directors by:

 Director

 Director

# Sunshine Coast Credit Union

## Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2013	2012
Financial income		
Interest on loans	\$ 13,854,340	\$ 14,010,618
Other interest revenue	<u>655,778</u>	<u>856,598</u>
	<b>14,510,118</b>	14,867,216
Financial expense		
Interest on deposits and term loan	<u>4,463,979</u>	<u>4,396,722</u>
Financial margin	<b>10,046,139</b>	10,470,494
Provision on loans (Note 8)	<b>164,865</b>	185,746
Other income (Note 16)	<u>2,587,092</u>	<u>2,535,143</u>
Operating margin	<u>12,468,366</u>	<u>12,819,891</u>
Operating expenses		
Deposit insurance	228,355	199,145
Depreciation and amortization	609,031	574,997
Director and committee expense	63,469	73,319
Employee salaries and benefits	5,204,336	5,388,135
Other operating and administrative (Note 17)	3,328,640	3,304,635
Lease costs	56,790	60,213
Occupancy	<u>428,724</u>	<u>468,737</u>
	<u>9,919,345</u>	<u>10,069,181</u>
Earnings from operations	<b>2,549,021</b>	2,750,710
Distributions to members (Note 15)	<u>354,936</u>	<u>455,640</u>
Earnings before income taxes	<u>2,194,085</u>	<u>2,295,070</u>
Provision for income taxes (Note 14)		
Current income tax	483,455	538,223
Deferred income tax recovery	<u>(42,000)</u>	<u>(3,000)</u>
	<u>441,455</u>	<u>535,223</u>
Net earnings for the year	<b>1,752,630</b>	1,759,847
Other comprehensive income (net of tax)		
Change in unrealized gains (losses) on available-for-sale investments	<u>16,236</u>	<u>(42,383)</u>
Total comprehensive income for the year	<u>\$ 1,768,866</u>	<u>\$ 1,717,464</u>

See accompanying notes to the consolidated financial statements.

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## Sunshine Coast Credit Union

### Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2013

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	Members' Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance on December 31, 2012	\$ 4,019,594	\$ 24,996,764	\$ (16,236)	\$ 29,000,122
Net earnings	-	1,752,630	-	1,752,630
Distributions to members (Note 15)	-	(71,828)	-	(71,828)
Issuance of members' shares	21,625	-	-	21,625
Redemption of members' shares	(209,420)	-	-	(209,420)
Change in unrealized gains (losses) on available-for-sale investments (net of tax)	-	-	16,236	16,236
<b>Balance on December 31, 2013</b>	<b><u>\$ 3,831,799</u></b>	<b><u>\$ 26,677,566</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 30,509,365</u></b>

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# Sunshine Coast Credit Union

## Consolidated Statement of Cash Flows

Year ended December 31

2013

2012

Cash derived from (applied to)

### Operating

Net earnings for the year	\$ 1,752,630	\$ 1,759,847
Adjustments for:		
Realized loss from disposal of equipment	-	15,947
Change in accumulated other comprehensive income (loss)	16,236	(42,383)
Change in deferred income tax	(42,000)	(3,000)
Depreciation and amortization	609,031	574,997
Provision on loans	164,865	185,746
Change in other assets	(20,360)	82,588
Change in payables and other liabilities	(151,939)	(157,614)
Change in interest accruals	(182,430)	(303,361)

Total cash inflows from operating	<u>2,146,033</u>	<u>2,112,767</u>
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### Investing

Borrowings	8,010,286	-
Investments, net	(2,334,187)	9,956,681
Change in member activities, net		
Change in loans	(24,862,999)	(24,217,571)
Change in deposits	12,504,425	6,378,411
Purchase of equipment	(565,672)	(248,573)

Total cash outflows from investing	<u>(7,248,147)</u>	<u>(8,131,052)</u>
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### Financing

Change in member shares	(187,795)	(149,358)
Dividends	(71,828)	(105,981)

Total cash outflows from financing	<u>(259,623)</u>	<u>(255,339)</u>
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Net decrease in cash resources	(5,361,737)	(6,273,624)
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Cash resources, beginning of year	<u>12,454,115</u>	<u>18,727,739</u>
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Cash resources, end of year	<u>\$ 7,092,378</u>	<u>\$ 12,454,115</u>
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### Supplemental cash flow information

Income taxes paid	\$ 517,118	\$ 528,998
Interest paid	4,303,982	4,695,190



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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 1. Governing legislation and nature of operations

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

These consolidated financial statements have been approved and authorized for issue by the board of directors on February 26, 2014.

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

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

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

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

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the credit union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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### 3. Summary of significant accounting policies

#### Basis of consolidation

The consolidated financial statements consolidate those of the credit union and its subsidiary, SunCu Financial Services Inc. The subsidiary is an entity over which the credit union has the power to control the financial and operating policies. The subsidiary has a reporting date of December 31.

#### Cash and cash equivalents

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2013

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

#### Financial instruments

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

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

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

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

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

#### *Financial assets*

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

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity investments; and
- available-for-sale financial assets.

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

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

#### *Loans and receivables*

Cash and cash equivalents and loans to members have been classified as loans and receivables.

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans to members are initially measured at fair value, net of loan origination fees. Loans to members are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest for all loans is accounted for on the accrual basis.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2013

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

#### Financial instruments (continued)

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

If there is objective evidence that an impairment loss on loans to members carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of expected cash flows discounted at the loans' original effective interest rate; short-term balances are not discounted.

The credit union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Loans are written-off from time to time as determined by management and approved by the board of directors when it is reasonable to expect that the recovery of the amount is unlikely. Loans are written-off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

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

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

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

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

Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

#### Financial instruments (continued)

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

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

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

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

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

##### *Financial liabilities*

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

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

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

#### Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets to a maximum as follows:

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

#### Property and equipment (continued)

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

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

#### Intangible assets

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

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

#### Income taxes

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

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

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

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

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2013

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

#### Income taxes (continued)

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

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

#### Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

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

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

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

#### Provisions

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

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

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

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

#### Members' shares

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

#### Patronage distributions

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

#### Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Mortgage prepayment fees and other administrative fees are recognized in other interest revenue when received.

#### Leased assets

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

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

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

#### Foreign currency translation

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

#### Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the credit union's accounting periods beginning January 1, 2013, that the credit union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the credit union are:

#### a Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
- Defines the principle of control and establishes control as the basis for consolidation;
- Sets out how to apply the principle of control to identify whether an investor controls an investee and, therefore, must consolidate the investee; and
- Sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 and SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of consolidated financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for the following:

- Leasing transactions within the scope of IAS 17 *Leases*;
- Measurements that have some similarities to fair value but that are not fair value, such as value in use in IAS 36 *Impairment Assets*.

#### b Accounting Standards Issued and Not Yet Effective

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



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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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#### 4. Estimation uncertainty

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

#### Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2013, management assesses that the useful lives represent the expected utility of the assets to the credit union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

#### Fair value of financial instruments

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

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

#### Loans to members loss provision

In determining whether an impairment loss should be recorded in the statement of earnings and comprehensive income, the credit union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the credit union uses its judgment to group loans to members with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8.

#### Income taxes

The credit union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the credit union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 5. Cash and cash equivalents

The credit union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2013 is 1.74% (2012: 1.88%).

	<u>2013</u>	<u>2012</u>
Cash and current accounts	\$ 1,526,424	\$ 8,177,849
Term deposits and accrued interest		
Callable or maturing in three months or less	<u>5,565,954</u>	<u>4,276,266</u>
	<u>\$ 7,092,378</u>	<u>\$ 12,454,115</u>

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### 6. Investments

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

	<u>2013</u>	<u>2012</u>
Term deposits and accrued interest callable or maturing in more than three months	\$ 25,407,302	\$ 23,126,161
Shares		
Central 1 Credit Union	1,344,915	1,295,098
CUPP Services Ltd.	104,043	100,814
Stabilization Central Credit Union	324	324
Other shares and equity investments	<u>1,904</u>	<u>1,904</u>
	<u>\$ 26,858,488</u>	<u>\$ 24,524,301</u>

The credit union must maintain liquidity reserves with Central 1 at 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the credit union's total deposits and debt liabilities or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

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

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the board of directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the board of directors.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2013

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### 6. Investments (continued)

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

The credit union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the credit union.

Dividends on these shares are at the discretion of the board of directors of Central 1.

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<b>7. Loans</b>	<b>2013</b>	<b>2012</b>
Personal loans		
Residential mortgages	<b>\$ 258,466,673</b>	\$ 240,366,004
Other loans and lines of credit	<b>17,019,521</b>	16,467,809
Commercial loans		
Mortgages	<b>70,653,928</b>	65,741,873
Other loans and lines of credit	<b>5,821,855</b>	4,869,332
	<b>351,961,977</b>	327,445,018
Accrued interest receivable	<b>570,914</b>	528,487
	<b>352,532,891</b>	327,973,505
Allowance for impaired loans (Note 8)	<b>(1,368,741)</b>	(1,549,916)
Net loans to members	<b>\$ 351,164,150</b>	\$ 326,423,589

### Terms and conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 8%. The credit union's prime rate at December 31, 2013 was 3.00%.

The interest rate offered on fixed rate loans being advanced at December 31, 2013 ranges from 3.10% to 9.75%.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 7. Loans (continued)

#### Terms and conditions (continued)

Personal loans consist of term loans and lines of credit that are non-real estate secured and have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans and operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

#### Average yields to maturity

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

	2013		2012	
	Principal	Yield	Principal	Yield
Variable rate	\$ 71,305,476	4.25%	\$ 80,165,094	4.19%
Fixed rate due less than one year	64,605,419	4.16%	54,438,655	4.53%
Fixed rate due between one and seven years	216,051,082	3.83%	192,841,269	4.14%
	<u>\$ 351,961,977</u>	<u>3.98%</u>	<u>\$ 327,445,018</u>	<u>4.22%</u>

#### Fair value

The fair value of loans to members at December 31, 2013, was \$355,203,000 (December 31, 2012: \$329,584,000).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

#### Concentration of risk

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

### 8. Allowance for impaired loans

Total allowance for impaired loans:

	<u>2013</u>	<u>2012</u>
Collective allowance	\$ 235,028	\$ 264,130
Individual specific allowance	<u>1,133,713</u>	<u>1,285,786</u>
Total allowance	<u>\$ 1,368,741</u>	<u>\$ 1,549,916</u>

Change in individual specific allowance and collective allowance for impairment:

				<u>2013</u>	<u>2012</u>
	Beginning Balance	Provision / (Recoveries)	Write-offs / (Recoveries)	Ending Balance	Ending Balance
Residential mortgages	\$ 694,540	\$ 102,216	\$ 57,151	\$ 739,605	\$ 694,540
Commercial mortgages	116,000	68,211	-	184,211	116,000
Personal and commercial loans and lines of credit	<u>739,376</u>	<u>(5,562)</u>	<u>288,889</u>	<u>444,925</u>	<u>739,376</u>
	<u>\$ 1,549,916</u>	<u>\$ 164,865</u>	<u>\$ 346,040</u>	<u>\$ 1,368,741</u>	<u>\$ 1,549,916</u>

Percentage of total loans and accrued interest

0.39%

0.47%

#### *Impaired loans*

Impaired loans and related allowances

			<u>2013</u>	<u>2012</u>
	Loan Balance	Specific Allowance	Carrying Amount	Carrying Amount
Residential mortgages	\$ 2,517,112	\$ 709,743	\$ 1,807,369	\$ 2,464,917
Commercial mortgages	963,308	152,046	811,262	769,514
Personal and commercial loans and lines of credit	<u>519,193</u>	<u>271,924</u>	<u>247,269</u>	<u>543,943</u>
	<u>\$ 3,999,613</u>	<u>\$ 1,133,713</u>	<u>\$ 2,865,900</u>	<u>\$ 3,778,374</u>

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

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

	2013		2012	
	Carrying value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of delinquency				
Less than 30 days	\$ 607,949	\$ 125,727	\$ 479,364	\$ 140,554
30 to 90 days	101,210	56,797	1,186,689	208,252
Over 90 days	1,808,289	711,231	2,156,150	688,540
Total loans in arrears	2,517,448	893,755	3,822,203	1,037,346
Total loans not in arrears	349,444,529	239,958	323,622,815	248,440
Total loans	\$ 351,961,977	\$ 1,133,713	\$ 327,445,018	\$ 1,285,786

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

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

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

	2013	2012
Residential mortgage	\$ 29,862	\$ 64,005
Personal loans and lines of credit	173,001	147,273
Commercial loans and lines of credit	32,165	52,852
	\$ 235,028	\$ 264,130

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

### 9. Property and equipment and intangible assets

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

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

	Property and Equipment						Intangible Assets
	Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Total	Total
<b>Cost</b>							
Balance on December 31, 2011	\$ 962,157	\$ 5,891,031	\$ 240,306	\$ 775,405	\$ 1,666,550	\$ 9,535,449	\$ 1,061,971
Additions	-	65,606	-	42,032	87,223	194,861	53,712
Disposals	-	(11,945)	-	(24,526)	(85,079)	(121,550)	(115,584)
Balance on December 31, 2012	<u>\$ 962,157</u>	<u>\$ 5,944,692</u>	<u>\$ 240,306</u>	<u>\$ 792,911</u>	<u>\$ 1,668,694</u>	<u>\$ 9,608,760</u>	<u>\$ 1,000,099</u>
<b>Accumulated depreciation</b>							
Balance on December 31, 2011	\$ -	\$ 1,401,781	\$ 240,306	\$ 582,771	\$ 1,351,572	\$ 3,576,430	\$ 627,670
Depreciation expense	-	195,369	-	112,185	104,527	412,081	162,916
Disposals	-	-	-	(23,263)	(82,566)	(105,829)	(115,358)
Balance on December 31, 2012	<u>\$ -</u>	<u>\$ 1,597,150</u>	<u>\$ 240,306</u>	<u>\$ 671,693</u>	<u>\$ 1,373,533</u>	<u>\$ 3,882,682</u>	<u>\$ 675,228</u>
<b>Net book value</b>							
December 31, 2012	\$ 962,157	\$ 4,347,542	\$ -	\$ 121,218	\$ 295,161	\$ 5,726,078	\$ 324,871



# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

<b>10. Other assets</b>	<u>2013</u>	<u>2012</u>
Prepaid expenses	\$ 193,990	\$ 168,171
Other accounts receivable	<u>55,968</u>	<u>61,427</u>
	<u>\$ 249,958</u>	<u>\$ 229,598</u>

<b>11. Borrowings</b>	<u>2013</u>	<u>2012</u>
Operating line	\$ 2,210,286	\$ -
Term loan	<u>5,800,000</u>	<u>-</u>
	<u>\$ 8,010,286</u>	<u>\$ -</u>

The credit union has authorized lines of credit with Central 1 totaling \$19,300,000; however, \$1,500,000 is held as security for secured letters of credit. Of the line of credit, \$500,000 is denominated in U.S. dollars. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the credit union.

Term loan has an interest rate of 1.79% with no specified terms of repayment.

<b>12. Deposits</b>	<u>2013</u>	<u>2012</u>
Chequing	\$ 61,238,371	\$ 54,681,403
Savings	94,931,929	88,653,860
Term	128,988,777	131,798,357
Registered saving plans	34,307,668	35,367,821
Registered retirement income funds	13,148,655	12,866,375
Registered education savings	940,537	804,074
Registered disability savings plan	102,015	81,216
Tax free savings account	16,116,521	13,021,861
Accrued interest and dividends	1,702,965	1,842,968
Members' shares (Note 15)	<u>483,565</u>	<u>478,646</u>
	<u>\$ 351,961,003</u>	<u>\$ 339,596,581</u>

### Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.10% at December 31, 2013.

Savings deposits are due on demand and bear interest at a variable rate up to 1.10% at December 31, 2013. Interest is calculated daily and paid on the accounts monthly.

# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

### 12. Deposits (continued)

#### Terms and conditions (continued)

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2013 range from 0.30% to 2.45%.

The registered retirement savings plans ("RRSPs") accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.10% at December 31, 2013.

Registered retirement income funds ("RRIFs") consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in deposits is an amount of \$5,461,268 (2012: \$4,676,535) denominated in U.S. dollars.

#### Average yields to maturity

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

	2013		2012	
	Principal	Yield	Principal	Yield
Non-interest sensitive	\$ 76,951,876	0.00%	\$ 69,376,683	0.00%
Variable rate	95,227,000	1.05%	117,831,420	1.34%
Fixed rate due less than one year	58,971,598	1.67%	80,696,084	1.82%
Fixed rate due between one and five years	119,107,564	1.92%	69,849,426	1.99%
	350,258,038	1.22%	337,753,613	1.32%
Accrued interest and dividends payable	1,702,965	0.00%	1,842,968	0.00%
	<b>\$ 351,961,003</b>	<b>1.22%</b>	<b>\$ 339,596,581</b>	<b>1.32%</b>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 13. Pension plan

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

The amount contributed to the plan for 2013 was \$405,080 (2012: \$331,641). The contributions were made for current service and these have been recognized in net income.

As at December 31, 2012 (date of the most recent valuation), the plan actuary reported a deficit. The next valuation report will be performed as at December 31, 2015.

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### 14. Income taxes

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

	<u>2013</u>	<u>2012</u>
Allowance for credit losses	\$ 78,000	\$ 71,000
Premises and equipment	<u>(62,000)</u>	<u>(97,000)</u>
Net deferred income tax asset (liability)	<u>\$ 16,000</u>	<u>\$ (26,000)</u>

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.0% (2012: 25.0%) are as follows:

	<u>2013</u>	<u>2012</u>
Combined federal and provincial statutory income tax rate	26.0 %	25.0 %
Rate reduction	(4.5)%	(1.0)%
Other	<u>(1.5)%</u>	<u>(1.0)%</u>
	<u>20.0 %</u>	<u>23.0 %</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 15. Members' shares

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

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

#### Terms and conditions

##### *Membership shares*

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

##### *Patronage shares*

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

##### *Investment shares*

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

#### Distributions to members

	2013		2012	
	<u>Net Earnings</u>	<u>Net Equity</u>	<u>Net Earnings</u>	<u>Net Equity</u>
Membership distributions	\$ 350,000	\$ -	\$ 450,000	\$ -
Dividends on patronage shares	-	9,436	-	12,594
Dividends on investment shares	-	82,205	-	125,043
Dividends on membership shares	4,936	-	5,640	-
Less related income taxes	-	(19,813)	-	(31,656)
	<u>\$ 354,936</u>	<u>\$ 71,828</u>	<u>\$ 455,640</u>	<u>\$ 105,981</u>

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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<b>16. Other income</b>	<u>2013</u>	<u>2012</u>
Account service fees	\$ 1,092,377	\$ 1,139,907
Foreign exchange	170,990	143,193
Loan administration fees	415,883	482,554
Commissions	778,985	619,951
Realized loss from disposal of property and equipment	-	(15,947)
Other	128,857	165,485
	<u>\$ 2,587,092</u>	<u>\$ 2,535,143</u>

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<b>17. Other operating and administrative expenses</b>	<u>2013</u>	<u>2012</u>
Advertising and member relations	\$ 320,543	\$ 343,359
Data processing	571,037	626,458
Clearing and processing charges	559,600	485,684
Office and general	795,752	769,426
Professional fees	787,815	760,764
Regulatory costs	293,893	318,944
	<u>\$ 3,328,640</u>	<u>\$ 3,304,635</u>

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### **18. Related party transactions**

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 18. Related party transactions (continued)

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

	<u>2013</u>	<u>2012</u>
Compensation		
Salaries and other short-term employee benefits	\$ 693,334	\$ 584,139
Total pension and other post-employment benefits	<u>62,107</u>	<u>45,622</u>
	<u>\$ 755,441</u>	<u>\$ 629,761</u>
Loans to key management personnel		
Aggregate value of loans advanced	\$ 1,990,044	\$ 1,515,309
Interest received on loans advanced	68,273	57,819
Total value of lines of credit advanced	520,832	466,230
Interest received on lines of credit advanced	21,551	19,311
Unused value of lines of credit	195,668	217,770

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

	<u>2013</u>	<u>2012</u>
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 1,813,513	\$ 2,202,416
Total interest paid on term and savings deposits	34,527	34,869

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

b Consulting fees paid to related parties was \$Nil (2012: \$104,328).

c Remuneration to directors was \$55,400 (2012: \$23,500).

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

The board of directors has overall responsibility for the determination of the credit union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the credit union's finance function. The board of directors receives quarterly reports from the credit union's executive through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

#### *Credit risk*

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

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

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the credit union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The credit union's credit risk management principles are guided by its overall risk management principles. The board of directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The credit union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including board of director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the credit union's lending activities.

With respect to credit risk, the board of directors receives monthly reports summarizing delinquent loans and overdraft utilization. The board of directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

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December 31, 2013

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

#### *Liquidity risk*

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

The assessment of the credit union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

The credit union is required to maintain a prudent amount of liquid assets in order to meet member withdrawals. The credit union has set a minimum liquidity ratio of 8%.

The credit union manages liquidity risk by:

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

The board of directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the credit union's liquidity framework. The credit union was in compliance with the liquidity requirements throughout the fiscal year.

The maturities of liabilities are shown below under market risk. The credit union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### *Market risk*

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

#### *Fair value risk*

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

#### *Interest rate risk*

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit union incurs interest rate risk on its loans and other interest bearing financial instruments. The credit union does not hedge its interest rate risk.



# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

*Market risk (continued)*

Interest rate risk (continued)

The credit union's position is measured quarterly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

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

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

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

	Average Rates	Interest sensitive balances				Non-interest Rate Sensitive	Total
		Within 3 Months	4 Months to 1 year	Over 1 to 7 Years			
<b>Assets</b>							
Cash and investments	1.74%	\$ 5,534	\$ 5,103	\$ 21,502	\$ 1,812	\$ 33,951	
Loans	3.98%	89,724	46,186	216,052	(798)	351,164	
Other	0.84%	-	-	-	6,274	6,274	
		<u>\$ 95,258</u>	<u>\$ 51,289</u>	<u>\$ 237,554</u>	<u>\$ 7,288</u>	<u>\$ 391,389</u>	
<b>Liabilities</b>							
Deposits and shares	1.23%	\$ 115,108	\$ 39,090	\$ 118,599	\$ 82,996	\$ 355,793	
Other	0.44%	8,018	-	-	27,578	35,596	
		<u>\$ 123,126</u>	<u>\$ 39,090</u>	<u>\$ 118,599</u>	<u>\$ 110,574</u>	<u>\$ 391,389</u>	
<b>Interest sensitivity position 2013</b>		<u>\$ (27,868)</u>	<u>\$ 12,199</u>	<u>\$ 118,955</u>	<u>\$ (103,286)</u>	<u>\$ -</u>	
Interest sensitivity position 2012		<u>\$ (14,715)</u>	<u>\$ (34,107)</u>	<u>\$ 140,982</u>	<u>\$ (92,160)</u>	<u>\$ -</u>	

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union can use interest rate swaps to assist in managing this rate gap, but currently does not.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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

#### *Market risk (continued)*

##### Interest rate risk (continued)

An analysis of the credit union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of \$260,080 while a decrease in interest rates of 1% could result in a decrease to net income of \$288,920.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

##### *Currency risk*

Currency risk relates to the credit union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The credit union's foreign exchange risk is related to United States dollar deposits.

As at December 31, 2013, the credit union has \$5,426,920 (2012: \$3,739,342) of U.S. dollars included in cash and equivalents, and deposits of \$5,461,268 (2012: \$4,676,535) denominated in U.S. dollars.

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### 20. Capital management

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

In the management of capital, the credit union included retained earnings, accumulated other comprehensive income, and equity shares totaling \$31.0 million (2012: \$29.0 million).

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

The credit union's current capital base is equal to approximately 21% (2012: 21%) of the total value of risk weighted assets.

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

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 20. Capital management (continued)

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the board of directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the credit union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2013.

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

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

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### 21. Commitments

#### Loans to members

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

Unadvanced loans	\$ 1,874,873
Unused lines of credit	37,935,267
Letters of credit	1,763,887

#### Contractual obligations

##### *Premises lease*

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

2014	\$ 60,000
2015	60,000
2016	60,000
2017	60,000
2018	60,000

##### *IT outsourcing services*

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

##### *Data processing services*

The credit union is committed to purchasing online data processing services until December 31, 2014 at an approximate cost of \$335,000. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

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# Sunshine Coast Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2013

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### 21. Commitments (continued)

#### Off balance sheet

##### *Letters of credit*

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

At December 31, 2013, the credit union has outstanding letters of credit on behalf of members in the amount of \$1,763,887 (2012: \$2,665,180). These letters of credit have various levels of security.

##### *Funds under administration*

Off balance sheet funds under administration by the credit union are comprised of loans that have been syndicated and are administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is \$3,161,240 (2012: \$1,804,258).

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### 22. Post-reporting date events

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

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