

2016

Annual Report



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2016 Highlights

+3.6%
Assets

\$298K
Back to Members

+4.9%
Avg. Members Savings

+3.6%
Deposits

\$34k
Back to Communities

3.8k
Membership

+11.8%
Loans

136
New Members

1.5k
Members Banking Online



**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

To provide outstanding service and professional advice to enable our members to reach their financial goals.

Values

Honest

Passionate

Holistic

Spiritual

Evolutionary

Simplistic

Inclusive

Board of Directors



Nova MacIsaac
President



Denis McNally
Vice-President



Megan Cheverie



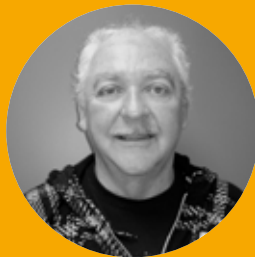
Tammy Daley



Gail Jennings



Shelly Manning



Glen Cameron



Dale Cahill



Walter Bruce

Staff





President's Report

It has truly been a privilege and honour for me to serve as President of the Credit Union and to represent our members on the Board of Directors.

The Board's role is to be responsible for representing the interests of members and incorporating those' interests into the strategic governance of the credit union. In addition to our annual exercise, we have been committed to monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible and to ensure that we are benefiting our fellow members in the best way possible. We have worked with various partners, including Atlantic Central, to keep up with changes to regulation. We have also examined changes in the marketplace and adapted to those changes in order to become even more competitive.

When speaking of successes of the Credit Union, one must first attribute this year's success to our members. Without their support, input and dedication our achievements would be near impossible. In 2016, the Credit Union was devoted to retaining and growing their youth (age 19-25) portfolio. We have seen continued growth in this section of our members and we are constantly improving our services to better meet the needs of this technologically advanced generation. This leads me to praise the advancement the Credit Union has seen this year with our online and mobile payment technology. Our debit cards are now Interac Flash enabled, allowing members to tap and pay. This truly is the fastest, and most convenient way to use your spending account. We also launched Interac Online Payments,

which allow members to pay for their online purchases directly from their account through Member Direct Online banking. No credit card required anymore. It's these small conveniences that our members are coming to expect from their financial institution, they are no longer nice to have, they are necessary if we want to put our members' needs first.

Every year brings some extent of challenges and this year was no exception. With the advancement and success we have had in terms of our mobile connectedness, we are now faced with the task of making these mobile services forefront to our members. We hope to take great strides in 2017 with more members accessing the mobile services and finding them simple to navigate.

Building on the success on 2016, we look to expand our relationship with youth. We recognize that youth are our future, we have dedicated a considerable amount of resources to the development of products, services, and programs that are extremely relevant to today's generation. We want the credit union to be their first choice, well-knowing that we have the best products and services for their needs.

In conclusion, I am happy to present that with the growth we achieved this year we have declared a 0.50% dividend for the fiscal year ended on December 31st, 2016 in addition to the Patronage Dividend to Members based on their business activity. On behalf of the Board of Directors, I would like to thank the staff of the credit union for their friendly and professional service but also their commitment to bettering our community.

Nova MacIsaac

President



Manager's Report

For the fifth year in a row Souris Credit Union again paid out a Patronage Dividend, this year in the amount of approximately \$278,766.00. This figure was made up of a rebate of 15% of the service charges our Members paid, 12% of the interest paid on loans and lines of credit, and increasing the interest paid on investments by 10 %. In the last 5 years Souris Credit Union has returned \$1.6 million dollars back to our Members in the form of dividends.

The Board declared a 0.5 % dividend on share accounts of \$19,764.00 and made charitable donations in the amount of \$33,745.00. In addition to the financial support of our donations, we also provided merchandise and promotional items for benefits, door prizes, and concerts.

Souris Credit Union is a proud partner of our schools, providing 6 scholarships in 2016 in the amount of \$10,800.00. This brought the total scholarships given out since the inception of the bursary program to \$165,300.00.

In actual dollars, Souris Credit Union has given back to the community \$1.82 million dollars in the last 5 years. None of this would be possible without your support, as our success depends 100% on your continued business. I would remind you of the benefits of getting your next car loan, investment, or banking account from us; you get an excellent product or service at a competitive price, you get to participate in our profits in the form of patronage dividends, and you help our community.

The financial services industry is changing rapidly. Who would have thought 5 years ago that banking with your local credit union would allow you to snap a picture of the front and back of a cheque and deposit it instantly, email money to someone immediately, or tap a card to pay for your purchase in seconds. As we go forward changes will be more rapid and frequent, and with the help of our valued partners we will continue to strive to be able to keep pace. Also our operations are being reviewed on a system wide basis to allow for the reduction of administrative burden and allow for our credit union staff to concentrate more on our Members' needs, service, and advice.

In closing I would like to thank you for your business this past year, and we look forward to doing business with you in 2017.

Paul MacNeill

General Manager

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 \$33,745 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.



\$1.8 Million reasons it pays to be a Member.

The Board of Directors of Souris Credit Union Ltd. are pleased to declare a Patronage Dividend for the fiscal year ending December 31st, 2016.

This dividend was calculated based on the following criteria:

- 12% rebate of the interest paid on loans
- 20% rebate of the service charges paid on accounts
- A bonus of 10% on the amount of interest received on the majority of our investment products during the fiscal year ending December 31st, 2016.

This is the 5th year Souris Credit Union returned the majority of its profits back to our Members & community in the form of dividends and donations, for a cumulative total of approximately \$1.8 Million. We invest in our local schools, community groups, and healthcare. This total includes a five year \$50,000.00 commitment to the Eastern Kings Health Foundation supporting the purchase of x-ray equipment for the Souris Hospital.

Souris Credit Union is a full service institution that can meet all your financial needs. It only takes \$ 5.00 invested in a Share account to become a Member, so the next time you wish to invest or borrow consider Souris Credit Union.

The amount of the Patronage Dividend is proportionate to the amount of financial services we provide to you, so the more business with us the more the potential reward.

Where do you bank? Does your bank's profits flow back to you and your community, or are they used to increase the dividend for their corporate shareholders? Are you rewarded for your patronage?

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.

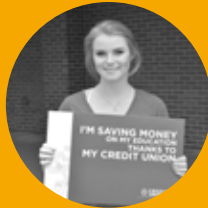
Scholarships

We are pleased to announce 6 Souris Credit Union Scholarship Recipients for 2016. Each scholarship recipient received \$1,800 towards furthering their education. In total, Souris Credit Union distributed \$10,800.

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



Cara Ching



Cassie McMahon



Dawson Grenier



Kate Doiron



Miranda Veld



Nathan Cahill

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

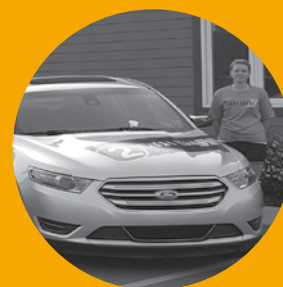
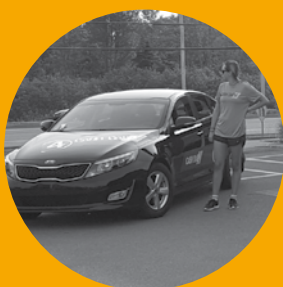
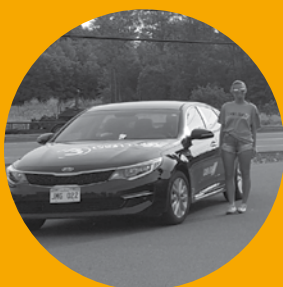


2016 marked an important partnership for the credit union system on PEI as we teamed up with Junior Achievement to bring our financial knowledge into the classroom. Through JA PEI's Economics for Success program, the credit union has been able to instruct over 1,500 students on the fundamentals of financial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

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.

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of Souris Credit Union Limited

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Souris Credit Union Limited as at December 31, 2016 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

MRSB Chartered Professional Accountants

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS


Charlottetown, PE

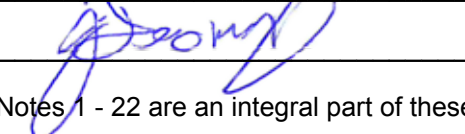
February 21, 2017

SOURIS CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2016

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents (Note 4)	\$ 212,424	\$ 1,547,804
Investments (Note 5)	6,466,626	7,440,139
Accounts receivable (Note 6)	459,652	614,220
Member loans and mortgages (Note 7)	40,495,596	36,217,220
Provision for impaired loans (Note 8)	(570,000)	(600,000)
Prepaid expense	31,960	32,309
Deferred income taxes (Note 10)	36,937	69,344
Property and equipment (Schedule 1)	665,234	679,996
Restricted cash - retirement allowance	296,501	260,275
Deferred pension benefit (Note 12)	-	166,447
	\$ 48,094,930	\$ 46,427,754
Liabilities		
Accounts payable and accrued liabilities	\$ 403,577	\$ 389,863
Employee benefits payable	197,850	205,591
Accrued interest payable	116,059	178,514
Income taxes payable	20,516	5,849
Member deposits (Note 11)	36,698,304	35,418,032
Share deposits	4,577,460	4,268,169
Retirement allowance payable	296,501	260,275
Deferred pension obligation (Note 12)	79,337	-
	42,389,604	40,726,293
Commitments (Note 13)		
Members' equity		
Members' shares (Statement 4)	15,940	15,985
Accumulated other comprehensive income (Statement 4)	432,336	665,836
Undistributed earnings (Statement 4)	5,257,050	5,019,640
	5,705,326	5,701,461
	\$ 48,094,930	\$ 46,427,754

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

Notes 1 - 22 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Statement of Changes in Member's Equity
Year Ended December 31, 2016

	2016	2015 <small>(15 months)</small>
Members' shares (Note 14)		
Balance - beginning of period	\$ 15,985	\$ 16,075
Issuance of members' shares, net of redemption	<u>(45)</u>	<u>(90)</u>
Balance - end of period	<u>15,940</u>	<u>15,985</u>
Accumulated other comprehensive income		
Balance - beginning of period	665,836	346,536
Actuarial gain (loss) on deferred pension plan (Statement 5)	<u>(233,500)</u>	<u>319,300</u>
Balance - end of period	<u>432,336</u>	<u>665,836</u>
Undistributed earnings		
Balance - beginning of period	5,019,640	4,702,103
Net income (Statement 5)	<u>237,410</u>	<u>317,537</u>
Balance - end of period	<u>5,257,050</u>	<u>5,019,640</u>
Members' equity	<u>\$ 5,705,326</u>	<u>\$ 5,701,461</u>

Notes 1 - 22 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Statement of Comprehensive Income
Year Ended December 31, 2016

	2016	2015 (15 months)
Income		
Interest and investment	\$ 2,104,843	\$ 2,576,063
Cost of capital and borrowings (Note 15)	<u>662,075</u>	866,205
Financial margin	1,442,768	1,709,858
Other income (Note 16)	<u>582,187</u>	885,074
	<u>2,024,955</u>	<u>2,594,932</u>
Expenses - by nature		
Advertising and promotions	98,982	120,036
Amortization of property and equipment	35,200	48,109
Automated teller machines	126,509	145,140
Board honorarium	12,290	21,283
Data processing	97,922	111,635
Director training	4,177	1,110
Dues and memberships	2,561	4,609
Insurance	85,669	91,752
Meetings	7,211	4,144
Office	88,013	115,472
Premises	53,306	59,850
Professional fees	31,048	38,010
Provision for impaired loans	9,321	263,174
Service fees	221,771	270,914
Telephone	15,131	16,653
Travel	13,193	10,920
Wages and wage levies	797,558	945,498
	<u>1,699,862</u>	<u>2,268,309</u>
Income before income taxes and other comprehensive income	<u>325,093</u>	<u>326,623</u>
Income taxes (recovery)		
Current (Note 17)	55,276	45,336
Deferred	<u>32,407</u>	<u>(36,250)</u>
	<u>87,683</u>	<u>9,086</u>
Net income	237,410	317,537
Other comprehensive (income) loss		
Actuarial (gain) loss on deferred pension plan	<u>233,500</u>	<u>(319,300)</u>
Net comprehensive income (loss)	<u>\$ 3,910</u>	<u>\$ 636,837</u>

Notes 1 - 22 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED

Statement of Cash Flow

Year Ended December 31, 2016

	2016	2015 (15 months)
Cash flows from operating activities		
Net comprehensive income (loss)	\$ 3,910	\$ 636,837
Items not affecting cash:		
Amortization of property and equipment	35,200	48,109
Deferred income taxes (recovery)	32,407	(36,250)
	<u>71,517</u>	<u>648,696</u>
Changes in non-cash working capital:		
Investments	973,513	(1,309,403)
Accounts receivable	154,568	(376,181)
Prepaid expense	352	947
Accounts payable and accrued liabilities	13,714	9,131
Employee benefits payable	(7,741)	1,579
Accrued interest payable	(62,455)	(29,479)
Income taxes payable	14,664	6,807
	<u>1,086,615</u>	<u>(1,696,599)</u>
	<u>1,158,132</u>	<u>(1,047,903)</u>
Cash flows from investing activities		
Increase in member loans and mortgages	(4,308,376)	(2,272,368)
(Increase) decrease in restricted cash - retirement allowance	(36,226)	62,897
Purchase of property and equipment	(20,438)	(10,334)
Decrease in real estate for resale	-	24,100
	<u>(4,365,040)</u>	<u>(2,195,705)</u>
Cash flows from financing activities		
Increase in member deposits	1,280,272	1,126,716
Increase in share deposits and members' shares	309,246	235,918
Increase (decrease) in deferred pension obligation	245,784	(291,713)
Increase (decrease) in retirement allowance payable	36,226	(62,897)
	<u>1,871,528</u>	<u>1,008,024</u>
Decrease in cash and cash equivalents	<u>(1,335,380)</u>	<u>(2,235,584)</u>
Cash and cash equivalents - beginning of period	<u>1,547,804</u>	<u>3,783,388</u>
Cash and cash equivalents - end of period	<u>\$ 212,424</u>	<u>\$ 1,547,804</u>
Cash flow supplementary information		
Interest received	\$ 2,078,306	\$ 2,469,841
Interest paid	374,649	563,933
Income taxes paid	40,609	38,527

Notes 1 - 22 are an integral part of these financial statements

Notes to the Financial Statements

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

1. DESCRIPTION OF BUSINESS

Souris Credit Union Limited was incorporated under the Companies Act of Prince Edward Island on June 17, 1954 and is governed by the Prince Edward Island Credit Unions Act. Souris Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members in Souris, Prince Edward Island.

These financial statements were authorized for issue by the Board of Directors on February 21, 2017.

All Credit Unions on Prince Edward Island have changed their year end date from September 30 to December 31 in 2015, to coincide with most other Credit Unions in the Atlantic Canada region. Souris Credit Union Limited's financial statements for the period ending December 31, 2015 comprise 15 months compared to 12 months for the year ending December 31, 2016. As a result, the amounts presented in the financial statements are not entirely comparable.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with and are in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in Note 3. These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and cash in financial institutions.

Investments

Investments for which there are quoted prices in an active market are carried at fair value by the Credit Union. Unrealized gains or losses are reported as part of net comprehensive income. Investments for which there is not an active market are carried at amortized cost, except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net comprehensive income.

Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and mortgages

Member loans and mortgages are initially measured at fair value, net of origination fees and inclusive of transaction costs incurred. Member loans and mortgages are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

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

Impairment

Loans and mortgages are considered impaired when there has been deterioration in credit quality. 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 followed by a measurable decrease in the estimated future cash flows from a loan or mortgage. Deterioration of estimated future cash flows is determined considering the financial condition of the borrower, payment history and security pledged.

The Credit Union first assesses whether objective evidence of impairment exists individually for member loans and mortgages. If it is determined that no objective evidence of impairment exists for individual assets, the asset is included in a group of financial assets with similar credit characteristics and that group is assessed collectively for impairment. Assets that are individually assessed for impairment are not included in the collective assessment. The expected cash flows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience, future estimates based on current events, and objective evidence of impairment similar to those in the portfolio.

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

Member loans and mortgages considered uncollectible are written off.

Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the provision for impaired loans. At December 31, 2016, interest accrued on impaired loans and mortgages totals \$Nil (2015 - \$189).

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount.

(continues)

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date and are expected to apply when the liabilities/assets are settled/recovered.

Property and equipment

Property and equipment is stated at cost less accumulated amortization. Property and equipment is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	5%
Furniture & equipment	20%
ATMs	20%
Computer hardware	30%
Pavement	8%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Finance charges

Fees related to the purchase of Index-Linked RRSP units are amortized using the straight-line method over the term of the investment and are netted against the cost of the liability.

(continues)

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee future benefits

The Credit Union records annually the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent periods under the Credit Union's policy.

Liabilities are recorded for employee benefits including salaries and wages, deductions at source, paid annual or sick leave, variable compensation and bonuses that are expected to be settled within 12 months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on the remuneration rate that the Credit Union expects to pay at the financial statement date. The expected cost of variable compensation and bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be estimated reliably.

Benefits such as medical care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Severance benefits are recognized as an expense when the Credit Union is committed demonstrably, without realistic opportunity for withdrawal, to a formal detailed plan to provide severance benefits under certain circumstances. If material benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

Souris Credit Union Limited contributes to a defined benefit plan and a defined contribution plan for employees, which is administered and managed through CUMIS. The Credit Union's defined benefit obligation is calculated by independent actuaries at the reporting date using the Projected Unit Credit Method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, mortality, and retirement age of employees.

Pension expense for the defined benefit plan includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations, and past service costs. The Credit Union recognizes all actuarial gains and losses arising from the defined benefit pension plan immediately in other comprehensive income.

Member deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method. Chequing accounts, call deposits and term deposits are on a call basis and earn interest at various rates.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2016 was 0.5% (2015 - 2.0%), and was based on the average of the lowest monthly share balances.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of \$5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members 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 Corporation.

As at the financial statement date, the Credit Union has 3,188 member shares issued and outstanding with a value of \$15,940 (2015 - 3,197 shares with a value of \$15,985).

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the statement of comprehensive income, as a reduction to income over the expected life of the relevant loans and mortgages.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of net income.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of 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 estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events, and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the provision for impaired loans, measurement of pension and employee benefits, and the estimates of useful lives for depreciation of property and equipment.

Financial instruments

The Credit Union classifies its financial assets and liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM), or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the statement of financial position with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair value of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of available for sale financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the statement of financial position as a separate component of members' equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Credit Union has classified its equity investments as AFS; however, because there is no active market for these investments and their fair value cannot be estimated reliably, the Credit Union has not recorded any other comprehensive income as a result of these.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union has classified its financial instruments as follows:

FVTPL	Cash and cash equivalents
AFS	Investments - shares
HTM	Investments - debentures
L&R	Member loans and mortgages and accounts receivable
OFL	Accounts payable and accrued liabilities, employee benefits payable, accrued interest payable, and member and share deposits

The Credit Union utilizes settlement date accounting for all purchases and sales of financial assets in its investment portfolio. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

Fair value of financial instruments

The determination of the fair value of financial instruments requires the exercise of judgement by management. The fair value of financial instruments traded in active markets at the financial statement date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique which maximizes the use of observable market inputs.

For certain types of equity instruments, fair value is assumed to approximate carrying value where the range of reasonable valuation techniques is significant and the probabilities of such valuation techniques cannot be reasonably assessed. In such instances, fair value may not be reliably measurable due to the equity instruments' unique characteristics, including trading restrictions or that quoted market prices for similar securities are not available.

Changes in accounting standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016 and have not been adopted by the Credit Union in preparing these financial statements. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

The IASB has issued two new standards, IFRS 16 Leases and IFRS 15 Revenue from Contracts with Customers which are effective for annual periods beginning on or after January 1, 2019 and January 1, 2018, respectively. The company is currently assessing the impact of these standards.

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SOURIS CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting standards (continued)

IFRS 9 - Financial Instruments

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way the Credit Union accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets - financial assets will be held at either fair value or amortized cost, except for equity investments not held for trading and certain eligible debt instruments, which may be held at fair value through other comprehensive income;
- Financial liabilities - gains and losses on fair value changes arising on non-derivative financial liabilities designated at fair value through profit or loss will be taken to other comprehensive income;
- Impairment - credit losses expected (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances; and
- Hedge accounting - hedge accounting will be more closely aligned with financial risk management.

In 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Credit Union has not yet been determined.

4. CASH AND CASH EQUIVALENTS

	2016	2015
Cash (overdraft) in financial institutions	\$ (131,657)	\$ 1,130,029
Cash on hand	344,081	417,775
	\$ 212,424	\$ 1,547,804

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

5. INVESTMENTS

	<u>2016</u>	<u>2015</u>
Shares		
Concentra Financial - Class D preferred shares	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares	438,040	410,150
Atlantic Central Credit Union Limited - Class B preferred shares	117,200	117,200
Atlantic Central Credit Union Limited 50,478 Class LSM preferred shares	50,478	50,478
League Data Limited - 1,613 Class B preferred shares	16,130	16,130
Atlantic Central Credit Union Limited - Class PEI shares	800	800
7730543 Canada Inc. - Class A common shares	-	8
	<u>1,122,648</u>	<u>1,094,766</u>
Debentures		
Atlantic Central Credit Union Limited liquidity deposit - 0.83%	3,043,978	2,916,777
Atlantic Central Credit Union Limited term deposit - 1.40%; matures August 8, 2017	1,000,000	1,000,000
Concentra Financial term deposit - 1.10%; matures May 12, 2017	600,000	1,000,000
Atlantic Central Credit Union Limited term deposit - 1.45%; matures August 9, 2018	400,000	500,000
Atlantic Central Credit Union Limited term deposit - 0.83%; matures January 20, 2017	300,000	428,596
Atlantic Central Credit Union Limited term deposit - 1.55%; matured April 24, 2016	-	500,000
	<u>5,343,978</u>	<u>6,345,373</u>
	<u>\$ 6,466,626</u>	<u>\$ 7,440,139</u>

Liquidity deposits are investments placed with Atlantic Central Credit Union Limited to provide protection against cash flow demands. National standards have been established requiring 6% of Souris Credit Union Limited assets to be held on deposit.

6. ACCOUNTS RECEIVABLE

	<u>2016</u>	<u>2015</u>
Accrued interest - loans and mortgages	\$ 356,051	\$ 324,430
Other receivables	93,912	267,755
Accrued interest - investments	9,689	22,035
	<u>\$ 459,652</u>	<u>\$ 614,220</u>

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

7. MEMBER LOANS AND MORTGAGES

2016	Total loans	Specific allowance	Net loans
Commercial	\$ 15,784,840	\$ (420,685)	\$ 15,364,155
Personal	8,475,927	(109,635)	8,366,292
Mortgages	6,317,238	-	6,317,238
LS&M high ratio mortgages	8,251,014	-	8,251,014
Lines of credit and overdrafts	1,666,577	(39,680)	1,626,897
	\$ 40,495,596	\$ (570,000)	\$ 39,925,596
2015	Total loans	Specific allowance	Net loans
Commercial	\$ 14,334,359	\$ (388,551)	\$ 13,945,808
Personal	8,443,842	(162,597)	8,281,245
Mortgages	6,276,950	-	6,276,950
LS&M high ratio mortgages	5,541,654	-	5,541,654
Lines of credit and overdrafts	1,620,415	(48,852)	1,571,563
	\$ 36,217,220	\$ (600,000)	\$ 35,617,220

8. PROVISION FOR IMPAIRED LOANS

	2016	2015
Provision for impaired loans - beginning of period	\$ 600,000	\$ 450,000
Provision for impaired loans - current period	9,321	263,174
Recovery of loans written off	2,242	2,256
Loans written off - current period	(41,563)	(115,430)
Provision for impaired loans - end of period	\$ 570,000	\$ 600,000

Members' loans can have either variable or fixed rate of interest. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders, and the current prime rate.

9. LOANS IN ARREARS

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2016	2015
31 to 60 days	\$ 101,123	\$ 148,650
61 to 90 days	-	133,396
91 to 180 days	-	32,469
91 to 180 days	63,724	-
	\$ 164,847	\$ 314,515

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

10. DEFERRED INCOME TAXES

Deferred income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These deferred income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to deferred income tax assets are as follows:

	<u>2016</u>	<u>2015</u>
Deferred income tax asset		
Property and equipment	\$ 3,277	\$ 3,202
Retirement allowance	33,660	66,142
	<u>\$ 36,937</u>	<u>\$ 69,344</u>

11. MEMBER DEPOSITS

	<u>2016</u>	<u>2015</u>
Call deposits	\$ 10,114,081	\$ 9,739,221
Chequing accounts	9,999,507	8,571,890
Registered Retirement Savings Plan (RRSP) deposits	7,411,147	8,370,341
Term deposits	3,329,431	4,109,659
Registered Retirement Income Fund (RRIF) deposits	3,264,569	2,958,546
Tax Free Savings Account (TFSA) deposits	2,579,569	1,668,375
	<u>\$ 36,698,304</u>	<u>\$ 35,418,032</u>

SOURIS CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2016****12. DEFERRED PENSION PLAN****Defined benefit pension plan**

Souris Credit Union Limited established a final salary defined benefit pension plan for its employees in 2002. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at November, 2014. The next actuarial valuation is scheduled to occur in November, 2017.

Information about the financial position of the Credit Union's defined benefit plan as at period end is as follows:

	<u>2016</u>	<u>2015</u>
Changes in accrued benefit obligation:		
Balance - beginning of period	\$ 2,666,800	\$ 2,612,200
Current service	61,200	84,400
Interest on liabilities	112,100	135,900
Employee contributions	23,400	33,100
Actuarial (gains) losses due to financial experience	225,200	(78,300)
Benefits paid	<u>(163,700)</u>	<u>(120,500)</u>
Balance - end of period	<u>2,925,000</u>	<u>2,666,800</u>
Change in fair value of plan assets:		
Balance - beginning of year	2,833,247	2,486,934
Employer contributions	44,116	61,613
Employee contributions	23,400	33,100
Expected investment return	116,900	131,100
Actual gains (losses) due to financial experience	(8,300)	241,000
Benefits paid	<u>(163,700)</u>	<u>(120,500)</u>
	<u>2,845,663</u>	<u>2,833,247</u>
	<u>\$ 79,337</u>	<u>\$ (166,447)</u>

In determining the accrued pension obligation (benefit), estimates and assumptions from market data and management's best estimates are used. Some of these estimates and assumptions have a high degree of uncertainty and increase the risk that the fair value of plan assets and obligations may change by a material amount in the future. The following actuarial assumptions have been used in the determination of the accrued pension obligation (benefit) and the fair value of plan assets:

Discount rate	3.90 %	4.20 %
Expected return on plan assets	4.2 %	4.2 %
Rate of salary increase	2.0 %	2.0 %
Inflation rate	2.0 %	2.0 %

Assumed retirement age: 62 or earliest unrecorded retirement age if later

Mortality rates: December 31, 2016 - CPM2015-Private Table with Improvement Scale CPM-B

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SOURIS CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2016

12. DEFERRED PENSION PLAN (continued)

	2016	2015
The expense for the Credit Union's defined benefit plan is as follows:		
Current service costs	\$ 61,200	\$ 84,400
Interest on liabilities	112,100	135,900
Expected investment return	(116,900)	(131,100)
	\$ 56,400	\$ 89,200
Pension expense recognized in net income	\$ (233,500)	\$ 319,300
Actuarial gain (loss) in other comprehensive income	\$ (233,500)	\$ 319,300
Cumulative actuarial gains recognized in comprehensive income	\$ 432,200	\$ 665,700

The expected return on plan assets for the defined benefit pension plan is comprised of the estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of the pooled funds that make up the plan assets, additional returns assumed to be achievable due to active equity management, and implicit provision for expenses expected to be paid from the pension fund.

Liabilities at December 31, 2016:

Extrapolated present value of benefit obligation **\$ 2,925,000**

Sensitivity of liabilities at December 31, 2016:

1.0% increase in discount rate **\$ 2,485,600**

1.0% decrease in discount rate **\$ 3,485,400**

1.0% increase in rate of salary increase **\$ 3,077,900**

1.0% decrease in rate of salary increase **\$ 2,790,400**

Maturity profile of liabilities at December 31, 2016:

Weighted average duration of liabilities **17.1 years**

The Credit Union expects employer contributions of approximately \$65,200 to be paid for the next fiscal year.

SOURIS CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2016

13. COMMITMENTS

The Credit Union has entered into a lease agreement for a postage machine. Future minimum annual lease payments as at December 31, 2016 are as follows:

2017	\$	2,262
2018		2,262
2019		1,697

14. MEMBERS' SHARES

	Number of shares	December 31 2016	Number of shares	December 31 2015
Balance - beginning of period	3,197	\$ 15,985	3,215	\$ 16,075
Shares issued, net of redemption	(9)	(45)	(18)	(90)
Balance - end of period	3,188	\$ 15,940	3,197	\$ 15,985

15. COST OF CAPITAL AND BORROWINGS

	2016	2015
Interest and service charges	\$ 363,545	\$ 538,419
Patronage dividends	278,766	256,914
Share dividends	19,764	70,872
	\$ 662,075	\$ 866,205

16. OTHER INCOME

	2016	2015
Commissions	\$ 544,147	\$ 827,894
Miscellaneous	38,040	57,180
	\$ 582,187	\$ 885,074

SOURIS CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2016****17. INCOME TAXES**

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.43% (2015 - 32.50%) to the income for the period and is reconciled as follows:

	<u>2016</u>	<u>2015</u>
Income before income taxes and other comprehensive income	\$ 325,093	\$ 326,623
Income tax expense at the combined basic federal and provincial tax rate	\$ 105,428	\$ 106,152
Increase (decrease) resulting from:		
Small business deduction	(58,765)	(41,580)
Capital cost allowance claimed in excess of amortization	155	386
Non-deductible expenses	(153)	(860)
Tax reserves	8,757	8,775
Provision for loan loss reserve	3,023	10,749
Recovery of loans previously written off	727	733
Loans written off in the current year	(13,481)	(21,232)
Employee future benefits	9,585	(16,203)
Adjustments for October to December 2014 tax provision included in 15 month financial statements	-	(1,584)
Effective tax expense	\$ 55,276	\$ 45,336

The effective income tax rate is 17.00% (2015 - 13.88%).

18. LINE OF CREDIT AVAILABILITY

Souris Credit Union Limited has an approved line of credit with Atlantic Central Credit Union Limited of \$2,000,000 which expires on December 31, 2020 and was not utilized at the year end. The line of credit bears an interest rate of 2.20% and is secured by a general security agreement.

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Souris Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values, and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximates their fair value as they are short-term in nature or are receivable on demand.

Long-term investments in shares in the Credit Union System and others have been classified as available for sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments cannot be measured reliably and therefore measures these investments at cost with no adjustment to other comprehensive income. The Credit Union's investments in system debentures have been classified as held-to-maturity and are required to be measured at amortized cost.

The differences between the book and fair values of the Credit Union's loans and deposits are primarily due to changes in interest rates. The carrying value of the Credit Union's financial instruments are not adjusted to reflect increases or decreases in fair value as a result of interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

20. RELATED PARTY TRANSACTIONS

Souris Credit Union Limited provides financial services to members. These members hold the loans, deposits, and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at period end, some members of the Board of Directors, Credit Committee, management, and employees had loans and mortgages from Souris Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel, and balances due to and from key management personnel are as follows:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 252,933	\$ 308,110
Contributions to a retirement pension plan	26,961	41,750
Mortgages, loan balances, and lines of credit due from key management at December 31	70,695	94,295
Deposit balances due to key management at December 31	5,813	9,590

Short-term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

21. RISK MANAGEMENT

The Credit Union manages significant risks through a comprehensive infrastructure of policies, procedures, methods, oversight, and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate, and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

Credit risk

Credit risk is the risk that a member will fail to meet their obligation to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

21. RISK MANAGEMENT *(continued)*

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage, and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union maintains both specific and collective allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts and the general state of the economy. Senior management regularly monitors credit risk and reports to the Board of Directors on a monthly basis.

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 parties fail to perform their obligations. The principal collateral and other credit enhancements holds as security for loans include a) insurance and mortgages over properties, b) recourse to sell assets such as real estate, equipment, inventory, and accounts receivable and c) recourse to liquid assets, guarantees, and securities.

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 reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities, and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are disclosed in Schedule 2. The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

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SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

21. RISK MANAGEMENT *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

22. CAPITAL MANAGEMENT

Souris Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union amounted to \$40,495,596 at year end.

Consistent with other Prince Edward Island Credit Unions, Souris Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets. This ratio is calculated by adding the undistributed earnings at the end of the previous year plus the operating surplus in the current year and members' shares, divided by the total assets of the Credit Union.

	<u>2016</u>	<u>2015</u>
Members' shares	\$ 15,940	\$ 15,985
Accumulated other comprehensive income	432,336	665,836
Undistributed earnings	<u>5,257,050</u>	<u>5,019,640</u>
Total regulatory equity	5,705,326	5,701,461
Total assets	<u>48,094,930</u>	<u>46,427,754</u>
	<u>11.86 %</u>	<u>12.28 %</u>

(continues)

SOURIS CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

22. CAPITAL MANAGEMENT (continued)

Credit Union bylaws require Souris Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Overall, a minimum liquid asset level of 10% of total assets must be maintained to ensure ongoing cash flow requirements are met.

	<u>2016</u>	<u>2015</u>
Total assets	\$ 48,094,930	\$ 46,427,754
Liquid assets	7,138,702	9,602,163
	<u>14.84 %</u>	<u>20.68 %</u>

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2016

(Schedule 1)

	Cost beginning of year	Cost end of year	Disposals and write downs	Amort beginning of year	Amort in year Reductions	Amort end of year	NBV Dec 31, 2016	NBV Dec 31, 2015
Land	\$ 179,291	\$ 179,291	\$ -	\$ -	\$ -	\$ -	\$ 179,291	\$ 179,291
Building	982,534	999,381	16,847	543,544	22,369	565,913	433,468	438,990
Furniture & equipment	197,342	200,933	3,591	175,512	4,725	180,237	20,696	21,830
ATMs	55,654	55,654	-	40,267	3,078	43,345	12,309	15,387
Computer hardware	132,962	132,962	-	119,020	4,183	123,203	9,759	13,942
Pavement	38,670	38,670	-	28,114	845	28,959	9,711	10,556
	<u>\$1,586,453</u>	<u>\$1,606,891</u>	<u>\$ 20,438</u>	<u>\$ 906,457</u>	<u>\$ 35,200</u>	<u>\$ 941,657</u>	<u>\$ 665,234</u>	<u>\$ 679,996</u>

Notes 1 - 22 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2016

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ (340,543)	\$ -	\$ -	\$ 552,967	\$ 212,424
Effective interest rate	0.44 %	- %	- %	- %	
Investments	5,343,978	-	-	1,122,648	6,466,626
Effective interest rate	1.04 %	- %	- %	- %	
Accounts receivable	-	-	-	459,652	459,652
Personal and commercial loans and mortgages	10,569,928	23,721,452	4,007,319	-	38,298,699
Effective interest rate	5.14 %	4.76 %	5.40 %	- %	
Lines of credit and overdrafts	1,626,897	-	-	-	1,626,897
Effective interest rate	8.10 %	- %	- %	- %	
Prepaid expense	-	-	-	31,960	31,960
Deferred income taxes	-	-	-	36,937	36,937
Property and equipment	-	-	-	665,234	665,234
Restricted cash - retirement allowance	-	-	-	296,501	296,501
	\$ 17,200,260	\$ 23,721,452	\$ 4,007,319	\$ 3,165,899	\$ 48,094,930

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 403,577	\$ 403,577
Employee benefits payable	-	-	-	197,850	197,850
Accrued interest payable	-	-	-	116,059	116,059
Income taxes payable	-	-	-	20,516	20,516
Member deposits	24,288,952	4,858,804	-	7,550,548	36,698,304
Effective interest rate	1.10 %	1.42 %	- %	- %	
Share deposits	4,577,460	-	-	-	4,577,460
Effective interest rate	0.50 %	- %	- %	- %	
Retirement allowance payable	-	-	-	296,501	296,501
Deferred pension obligation	-	-	-	79,337	79,337
Members' shares	15,940	-	-	-	15,940
Effective interest rate	0.50 %	- %	- %	- %	
Accumulated other comprehensive income	-	-	-	432,336	432,336
Undistributed earnings	-	-	-	5,257,050	5,257,050
	\$ 28,882,352	\$ 4,858,804	\$ -	\$ 14,353,774	\$ 48,094,930

The above table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Credit Union'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, personal and commercial loans and mortgages are shown at contractual maturity but certain could prepay earlier.

As at December 31, 2016, Souris Credit Union Limited's net interest spread was 2.82%. 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.

Notes 1 - 22 are an integral part of these financial statements

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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SOURIS

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