

Consolidated Financial Statements  
(Expressed in thousands of dollars)

**GULF AND FRASER FISHERMEN'S  
CREDIT UNION**

Year ended December 31, 2013

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of Gulf and Fraser Fishermen's Credit Union who are responsible for their reliability, completeness, and integrity. The financial statements were prepared in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with International Financial Reporting Standards.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems provide assurance that all transactions are authorized and proper records are maintained. Internal audit procedures provide management with the ability to assess the adequacy of these controls. In addition, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG LLP, Chartered Accountants, the independent external auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the management and staff of the Credit Union and the Audit Committee of the Board.



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William Kiss  
Co-Chief Executive Officer



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Jeff Shewfelt  
Co-Chief Executive Officer



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Ron Lee  
Vice President, Finance



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**Chartered Accountants**  
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## INDEPENDENT AUDITORS' REPORT

To the Members of Gulf and Fraser Fishermen's Credit Union

We have audited the accompanying consolidated financial statements of Gulf and Fraser Fishermen's Credit Union, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes, comprising 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 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.

### *Auditors' 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 our 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, we consider internal control relevant to the entity'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 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 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 Gulf and Fraser Fishermen's Credit Union as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

February 21, 2014  
Vancouver, Canada

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Financial Position  
(Expressed in thousands of dollars)

As at December 31, 2013, with comparative information for 2012

	Notes	2013	2012
<b>Assets</b>			
Cash and cash equivalents		\$ 20,993	\$ 17,813
Financial investments	5	121,039	93,671
Loans	6, 7	1,043,286	957,405
Assets held-for-sale	8	-	6,116
Premises and equipment	9	6,780	7,705
Intangible assets	9	485	557
Investment property	10	799	800
Deferred income tax asset	11	877	1,317
Other assets		3,311	2,634
		<b>\$ 1,197,570</b>	<b>\$ 1,088,018</b>

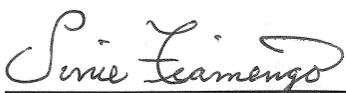
## Liabilities and Members' Equity

Deposits	12	\$ 1,105,640	\$ 999,975
Members' shares	13	3,682	3,734
Borrowings	14	9,975	10,850
Other liabilities	15	2,839	3,420
		<b>1,122,136</b>	<b>1,017,979</b>
Members' equity:			
Retained earnings		75,434	70,039
		<b>\$ 1,197,570</b>	<b>\$ 1,088,018</b>

Commitments 16

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

 Director

 Director

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Comprehensive Income  
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

	Notes	2013	2012
Interest income:			
Interest on loans		\$ 38,830	\$ 38,823
Other interest income		1,480	1,311
		<u>40,310</u>	<u>40,134</u>
Interest expense:			
Interest on deposits		15,354	14,570
Other interest expense		206	210
		<u>15,560</u>	<u>14,780</u>
Net interest income		24,750	25,354
Other income (expense):			
Member services income		5,529	5,327
Other income		423	558
Allowance for impaired loans	7	(500)	(300)
		<u>5,452</u>	<u>5,585</u>
Operating income		30,202	30,939
Operating expenses:			
Salaries and employee benefits		14,805	15,017
Office and other administrative		2,667	2,911
Occupancy		2,663	2,715
Data processing		1,947	1,781
Depreciation		1,269	1,225
Advertising and promotion		898	1,118
Other expenses		1,614	1,405
		<u>25,863</u>	<u>26,172</u>
Income before undernoted		4,339	4,767
Gain on sale of premises		2,372	-
Loss on sale of assets held-for-sale		(84)	-
Gain on sale of general insurance business		-	1,454
Distribution to members		(113)	(112)
Income before income taxes		6,514	6,109
Provision for income taxes	11	941	720
Net income from continuing operations		5,573	5,389
Net loss from assets held-for-sale	8	(178)	(137)
Comprehensive income		<u>\$ 5,395</u>	<u>\$ 5,252</u>

See accompanying notes to consolidated financial statements.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Changes in Members' Equity  
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

	Retained earnings	Members' equity
Balance on January 1, 2012	\$ 64,787	\$ 64,787
Comprehensive income	5,252	5,252
Balance on December 31, 2012	70,039	70,039
Comprehensive income	5,395	5,395
Balance on December 31, 2013	\$ 75,434	\$ 75,434

See accompanying notes to consolidated financial statements.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Cash Flows  
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Total comprehensive income	\$ 5,395	\$ 5,252
Adjustments:		
Depreciation	1,269	1,225
Allowance for impaired loans	500	300
Interest income	(40,310)	(40,134)
Interest expense	15,560	14,780
Deferred income tax expense (recovery)	440	(224)
	(17,146)	(18,801)
Changes in non-cash operating working capital:		
Other assets	(677)	199
Accounts payable and other liabilities	722	2,275
Interest income received	39,969	39,934
Interest expense paid	(14,861)	(14,194)
Net income taxes paid	(1,303)	(2,056)
	6,704	7,357
Investing activities:		
Net (acquisition) disposal of investments	(27,368)	3,897
Net increase in loans	(86,040)	(45,690)
Net (acquisition) disposal of:		
Assets held-for-sale	6,116	(80)
Premises and equipment	74	(3,008)
Intangible assets	(345)	(567)
	(107,563)	(45,448)
Financing activities:		
Net increase in deposits	104,966	23,235
Net increase (decrease) in:		
Members' shares	(52)	(84)
Borrowings	(875)	9,654
	104,039	32,805
Increase (decrease) in cash and cash equivalents	3,180	(5,286)
Cash and cash equivalents, beginning of year	17,813	23,099
Cash and cash equivalents, end of year	\$ 20,993	\$ 17,813

See accompanying notes to consolidated financial statements.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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## 1. Reporting entity:

Gulf and Fraser Fishermen's Credit Union (the Credit Union) is incorporated under the British Columbia Credit Union Incorporation Act and is a member of Central 1 Credit Union (Central 1), which is the central credit union and trade services organization for B.C. and Ontario credit unions. The Credit Union provides financial services to its members principally in the Greater Vancouver Area of British Columbia. The Credit Union's head office is located at 7375 Kingsway, Burnaby, British Columbia.

## 2. Basis of preparation:

### (a) 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 (the IASB).

These consolidated financial statements have been authorized for issue by the Board of Directors on February 11, 2014.

### (b) Basis of measurement:

These consolidated financial statements were prepared using the historical cost basis, except for available-for-sale financial assets and derivative financial instruments, which are measured at fair value.

### (c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

### (d) Use of estimates and judgments:

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 financial statements are disclosed in note 4.

## 3. Significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, Gulf and Fraser Insurance Services Ltd., 0887291 BC Ltd. and 0887287 BC Ltd. The shares of 0887291 BC Ltd. and assets of 0887287 BC Ltd. were sold as of November 1, 2013 and 0887287 BC Ltd. was wound up as of December 31, 2013. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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## 3. Significant accounting policies (continued):

### (b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and demand deposits held at Central 1.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value due to their short-term nature.

### (c) Financial investments:

#### (i) Central 1 deposits:

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost.

#### (ii) Equity instruments:

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value are recognized as a separate component of other comprehensive income.

When there is objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

#### (iii) Derivatives:

The Credit Union enters into derivatives related to index linked term deposits.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in the consolidated statement of net income.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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### 3. Significant accounting policies (continued):

#### (d) Loans:

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

At each reporting date, the Credit Union assesses whether there is objective evidence that a loan or group of loans is impaired. If there is objective evidence that a loan or group of loans is impaired, the amount of the loss is measured as the difference between the loans carrying amount and the present value of estimated future cash flows discounted at the loans original effective interest rate. The carrying amount of loans is reduced through use of an allowance for impairment account.

The Credit Union first assesses whether objective evidence of impairment exists individually for loans that are individually significant.

If it is determined that no objective evidence of impairment exists for individually assessed loans, whether significant or not, the asset is included in a group of loans with similar credit risk characteristics and that group of loans 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 loan is unlikely. Loans are written off against the allowance for impairment, if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net income.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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### 3. Significant accounting policies (continued):

(e) Derecognition of financial assets and liabilities:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred; or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled, or expires.

If the criteria for derecognition has not been met in a securitization transaction, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

(f) Premises and equipment:

Premises and equipment are 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 as follows:

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Buildings	5 to 45 years
Furniture and equipment	2 to 10 years
Leasehold improvements	5 to 15 years

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

Gains or losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of premises and equipment, and are recognized net within comprehensive income.

(g) Intangible assets:

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of 2 to 5 years.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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### 3. Significant accounting policies (continued):

(h) Investment property:

The Credit Union's investment property consists of land and buildings held to earn rental income. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings and related improvements are depreciated on a straight-line basis over their estimated useful life of 5 to 25 years.

Rental income is recognized on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in net income.

(j) Deposits:

All deposits are classified as other financial liabilities and are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Deposits are subsequently measured at amortized cost, using the effective interest rate method.

(k) Members' shares:

Members' shares issued by the Credit Union are redeemable at the member's option and accordingly are classified as other financial liabilities and are carried at amortized cost.

(l) Accounts payable and other payables:

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value and subsequently carried at amortized cost. Their carrying value is a reasonable estimate of fair value due to their short-term nature.

(m) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. 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 year-end date.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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### 3. Significant accounting policies (continued):

#### (m) Income taxes (continued):

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 which is not a business combination 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 allow 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 year-end date and are expected to apply when the assets/liabilities are recovered/settled.

#### (n) Leased assets:

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a finance lease), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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 comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

#### (o) Revenue recognition:

Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income 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.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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## 3. Significant accounting policies (continued):

### (p) Foreign currency translation:

Transactions in foreign currencies are translated into the functional currency of the Credit Union at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Realized and unrealized gains and losses arising from translation are included in the consolidated statement of comprehensive income.

### (q) Employee benefits:

#### (i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

#### (ii) Group Registered Savings Plan:

The Credit Union participates in a Group Registered Savings Plan, recognizing contributions as an expense in the year during which services are rendered by employees. The Credit Union has no legal or constructive obligation to pay further amounts beyond these contributions.

### (r) Provisions:

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

### (s) Adoption of new accounting policies:

#### (i) IFRS 10 *Consolidated Financial Statements*

As a result of the adoption of IFRS 10, the Credit Union has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Credit Union controls the investee on the basis of *de facto* circumstances.

In accordance with the transitional provisions of IFRS 10, the Credit Union re-assessed the control conclusion for its investees at January 1, 2013. Based on this assessment, the adoption of IFRS 10 does not change the Credit Union's conclusions around control of its investee. Therefore, no adjustments to previous accounting for investees are required in the consolidated financial statements.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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### 3. Significant accounting policies (continued):

(s) Adoption of new accounting policies (continued):

(ii) IFRS 11 *Joint Arrangements*:

As a result of the adoption of IFRS 11, the Credit Union has changed its accounting policy with respect to interests in joint arrangements.

Under IFRS 11, the Credit Union classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Credit Union's rights to the assets and obligations for the liabilities of the arrangement. For the year ended December 31, 2013, the Credit Union was not party to a joint arrangement. Therefore, the adoption of IFRS 11 does not have an impact on the Credit Union's consolidated financial statements.

(iii) IFRS 12 *Disclosure of Interests in Other Entities*

The objective of IFRS 12 is to require the disclosure of information that enables users of 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. The Credit Union has included new disclosure in the consolidated financial statements which are required under IFRS 12.

(iv) IFRS 13 *Fair Value Measurement*:

In accordance with the transitional provisions, IFRS 13 has been applied prospectively from January 1, 2013, which is the Credit Union's effective date of adoption for this standard. As a result, the Credit Union has adopted a new definition of fair value which measures the fair value of an asset or liability based on assumptions that market participants would use under current market conditions, including assumptions about risks. The adoption of IFRS 13 had no impact on the measurement of the Credit Union's assets and liabilities at January 1, 2013. However, the Credit Union has included new disclosure in the consolidated financial statements which are required under IFRS 13.

(t) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Credit Union, with the exception of:

IFRS 9 *Financial Instruments*:

IFRS 9 represents a comprehensive project to replace IAS 39 and deals with classification and measurement of financial assets based on the business model in which they are held and the characteristics of their cash flows. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Credit Union has not yet evaluated the extent of impact of this standard.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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## 4. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

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.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Fair value of financial instruments:

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 5.

### (b) Allowance for impairment of loans:

In determining whether an impairment loss should be recorded in the statement of 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 member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective allowance for impaired loans, management uses estimates based on several factors including historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the collective allowance for impaired loans are provided in note 7.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

## 5. Financial investments:

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

	2013	2012
Central 1 term deposits	\$ 116,189	\$ 89,029
Accrued interest on term deposits	473	477
Central 1 - Class A shares	3,795	3,709
Central 1 - Class E shares	1	1
Other investments	581	455
	\$ 121,039	\$ 93,671

The Credit Union must maintain liquidity reserves with Central 1 of at least 8% of total members' deposits and non-equity shares. The fair value of term deposits with Central 1 is \$116,077 at December 31, 2013 (2012 - \$89,405).

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 of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at a par value of one dollar per share. 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.

Class E Central 1 shares are issued with a par value of one cent per share; however, they are redeemable at one hundred dollars per share at the option of Central 1. There is no separately quoted market value for these shares. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, the Class E Central 1 shares are carried in the financial statements at cost.

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.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

## 6. Loans:

The following table provides information on loans by type. The maximum exposure to credit risk would be the carrying values as detailed below:

	2013	2012
Residential mortgages and personal loans	\$ 748,929	\$ 681,040
Commercial lending	295,461	277,534
	1,044,390	958,574
Accrued interest receivable	2,557	2,216
	1,046,947	960,790
Allowance for impaired loans (note 7)	(3,661)	(3,385)
Net loans to members	\$ 1,043,286	\$ 957,405

At December 31, 2013, \$577,411 (2012 - \$544,083) of loans are expected to be settled more than 12 months after the reporting date.

### (a) Terms and conditions:

Loans can have either a variable or fixed rate of interest and mature within 7 years.

Variable rate loans are based on a "prime rate" formula. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2013 was 3.00% (2012 - 3.00%).

The interest rate offered on fixed rate loans being advanced to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans secured by residential property and generally receive monthly blended payments of principal and interest or interest only. Personal loans consist of term loans and lines of credit with various repayment terms.

Commercial lending consists of term loans, 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.

### (b) Fair value:

The fair value of loans at December 31, 2013 was \$1,047,947 (2012 - \$962,278).

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.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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Year ended December 31, 2013

## 6. Loans (continued):

### (c) Securitized loans:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund mortgage growth by securitizing loans to Central 1 or unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in all or a portion of the transferred mortgages being derecognized from the consolidated statement of financial position.

The amount of residential mortgages that were transferred but which were not derecognized at December 31, 2013 was \$9,981 (2012 - \$10,852). The Credit Union has also recognized \$9,975 (2012 - \$10,850) of secured borrowings (note 14) relating to the securitization transactions, as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 1.96% (2012 - 1.94%) and it matures over the same term as the underlying mortgages.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

### (d) Credit quality of loans:

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

	2013	2012
Loans - insured by government	\$ 141,100	\$ 138,692
Loans - real estate secured	886,202	802,893
Loans - otherwise secured	5,456	6,262
Loans - unsecured	11,632	10,727
	<u>\$ 1,044,390</u>	<u>\$ 958,574</u>

## 7. Allowance for impaired loans:

### (a) Total allowance for impaired loans:

	2013	2012
Collective provision	\$ 2,097	\$ 2,100
Individual specific provision	1,564	1,285
	<u>\$ 3,661</u>	<u>\$ 3,385</u>

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 7. Allowance for impaired loans (continued):

(b) Movement in the allowance for impaired loans:

2013	Residential mortgages and personal loans	Commercial lending	Total
Balance at January 1, 2013	\$ 807	\$ 2,578	\$ 3,385
Provision charged to net income	106	394	500
Loans written off	(187)	(79)	(266)
Recoveries of loans previously written off	42	-	42
Balance at December 31, 2013	\$ 768	\$ 2,893	\$ 3,661

2012	Residential mortgages and personal loans	Commercial lending	Total
Balance at January 1, 2012	\$ 981	\$ 2,340	\$ 3,321
Provision charged to net income	(21)	321	300
Loans written off	(216)	(83)	(299)
Recoveries of loans previously written off	63	-	63
Balance at December 31, 2012	\$ 807	\$ 2,578	\$ 3,385

(c) Impaired loans:

	2013		2012	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Residential mortgages and personal loans	\$ 1,040	\$ 150	\$ 1,390	\$ 189
Commercial lending	11,125	1,414	4,368	1,096
Total loans	\$ 12,165	\$ 1,564	\$ 5,758	\$ 1,285

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 7. Allowance for impaired loans (continued):

(d) Key assumptions in determining the specific and collective allowance for impaired loans:

The Credit Union has estimated the specific allowance by determining the likely impairment loss on loans that have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

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

(e) Loans past due but not impaired:

Loans with repayments past due but not regarded as individually impaired are as follows:

2013	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	\$ 22	\$ -	\$ 22
90 days and over	194	-	194
Balance at December 31, 2013	\$ 216	\$ -	\$ 216

2012	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	\$ 38	\$ -	\$ 38
90 days and over	-	16	16
Balance at December 31, 2012	\$ 38	\$ 16	\$ 54

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 8. Assets held-for-sale:

The Credit Union obtained an Order Absolute of Foreclosure on September 14, 2010 on the Oceanfront Grand Resort & Marina (Oceanfront) in the name of 0887291 BC Ltd., a corporation wholly owned by the Credit Union which received title to the property. In addition, 0887287 BC Ltd., a corporation wholly owned by the Credit Union, was established on September 14, 2010 to operate the ongoing business of Oceanfront. In 2011, the operating name was changed from Oceanfront Grand Resort & Marina to Oceanfront Suites at Cowichan Bay.

On November 1, 2013, the shares of 0887291 BC Ltd., the assets of 0887287 BC Ltd. and the business of Oceanfront were sold. On December 31, 2013, 0887287 BC Ltd. was wound up with any remaining assets, debts and liabilities assumed by the Credit Union.

During the year, the following was recognized in the consolidated statement of comprehensive income with respect to assets held-for-sale:

	2013	2012
Revenue	\$ 1,418	\$ 1,399
Expenses	(1,472)	(1,735)
Gain on sale of liquor license	-	199
Deferred income tax expense (note 11)	(124)	-
Net loss from assets held-for-sale	\$ (178)	\$ (137)

In addition, the following was recognized in the consolidated statement of cash flows with respect to assets held-for-sale:

	2013	2012
Cash flows from operating activities	\$ 379	\$ (195)
Cash flows from investing activities	531	114
Cash flows from financing activities	(1,033)	202
Net cash from (used in) assets held-for-sale	\$ (123)	\$ 121

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 9. Premises and equipment and intangible assets:

	Premises and equipment					Intangible assets		
	Land	Building	Leasehold improvement	Furniture and equipment	Total	Computer software	Licenses	Total
<b>Cost:</b>								
Balance at January 1, 2012	\$ 2,671	\$ 4,786	\$ 3,031	\$ 6,280	\$ 16,768	\$ 3,701	\$ 30	\$ 3,731
Additions	-	17	2,338	663	3,018	597	-	597
Disposals	-	-	(310)	(273)	(583)	(38)	(30)	(68)
Balance at December 31, 2012	2,671	4,803	5,059	6,670	19,203	4,260	-	4,260
Additions	-	23	276	166	465	345	-	345
Disposals	(135)	(1,051)	-	(133)	(1,319)	-	-	-
Balance at December 31, 2013	\$ 2,536	\$ 3,775	\$ 5,335	\$ 6,703	\$ 18,349	\$ 4,605	\$ -	\$ 4,605
<b>Accumulated depreciation:</b>								
Balance at January 1, 2012	\$ -	\$ 3,204	\$ 3,013	\$ 5,145	\$ 11,362	\$ 3,228	\$ -	\$ 3,228
Depreciation expense	-	140	83	486	709	513	-	513
Disposals	-	-	(306)	(267)	(573)	(38)	-	(38)
Impairment	-	-	-	-	-	-	-	-
Balance at December 31, 2012	-	3,344	2,790	5,364	11,498	3,703	-	3,703
Depreciation expense	-	110	234	508	852	417	-	417
Disposals	-	(652)	-	(129)	(781)	-	-	-
Impairment	-	-	-	-	-	-	-	-
Balance at December 31, 2013	\$ -	\$ 2,802	\$ 3,024	\$ 5,743	\$ 11,569	\$ 4,120	\$ -	\$ 4,120
<b>Net book value:</b>								
As at December 31, 2012	\$ 2,671	\$ 1,459	\$ 2,269	\$ 1,306	\$ 7,705	\$ 557	\$ -	\$ 557
As at December 31, 2013	2,536	973	2,311	960	6,780	485	-	485

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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## 10. Investment property:

### (a) Cost:

	Land	Building	Total
Balance at January 1, 2012	\$ 797	\$ 30	\$ 827
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2012	797	30	827
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2013	\$ 797	\$ 30	\$ 827

### (b) Accumulated depreciation:

	Land	Building	Total
Balance at January 1, 2012	\$ -	\$ 24	\$ 24
Depreciation expense	-	3	3
Disposals	-	-	-
Impairment	-	-	-
Balance at December 31, 2012	-	27	27
Depreciation expense	-	1	1
Disposals	-	-	-
Impairment	-	-	-
Balance at December 31, 2013	\$ -	\$ 28	\$ 28

### (c) Net book value:

	Land	Building	Total
As at December 31, 2012	\$ 797	\$ 3	\$ 800
As at December 31, 2013	797	2	799

The fair value of the investment property is \$1,380 (2012 - \$1,430). The fair value of the investment property was estimated based on the property tax assessment notices for the applicable year. Investment property held by the Credit Union is leased out under operating leases. During the year, rental income of \$26 (2012 - \$26) and operating expenses (including repairs and maintenance) of \$10 (2012 - \$9) related to investment property was recognized in the statement of comprehensive income.

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## 11. Provision for income taxes:

	2013	2012
Current income taxes:		
Current year	\$ 625	\$ 944
Deferred income taxes:		
Origination and reversal of temporary differences	80	(157)
Change in tax rate	360	(67)
	440	(224)
	\$ 1,065	\$ 720

Included in the provision for income taxes above is \$124 (2012 - nil) of deferred income tax expenses related to the net loss from assets held-for-sale (note 8).

At December 31, 2013, a deferred tax liability for temporary differences of \$1,177 (2012 - \$1,204) related to investments in subsidiaries was not recognized because the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 25.8% (2012 - 25.0%) to income before income taxes. The reasons for the differences are as follows:

	2013		2012	
Combined basic federal and provincial statutory income tax	\$ 1,681	25.8 %	\$ 1,527	25.0 %
Decrease in tax due to:				
Preferred rate deduction available to credit unions	(738)	(11.3)%	(192)	(3.1)%
Non deductible and other items, net	241	3.6 %	(154)	(2.5)%
Recovery of taxes paid in prior years	(119)	(1.8)%	(461)	(7.6)%
Total income taxes	\$ 1,065	16.3 %	\$ 720	11.8 %

At December 31, 2013, taxes receivable of \$970 is included in other assets (2012 - taxes receivable of \$765).

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## 11. Provision for income taxes (continued):

The components of the net deferred tax asset are as follows:

	2013	2012
Allowance for impaired loans	\$ 358	\$ 515
Premises and equipment	357	591
Non-capital losses	117	124
Other	45	87
Net deferred tax asset	\$ 877	\$ 1,317

## 12. Deposits:

	2013	2012
Deposits withdrawals on demand	\$ 403,851	\$ 390,127
Term deposits	473,984	391,108
Registered Retirement Savings Plan	131,735	132,664
Registered Retirement Income Funds	39,883	38,953
Registered Education Savings Plans	3,743	3,650
Tax Free Savings Accounts	45,555	37,283
	1,098,751	993,785
Accrued interest payable	6,889	6,190
	\$ 1,105,640	\$ 999,975

At December 31, 2013, \$199,973 (2012 - \$284,875) of deposits are expected to be settled more than 12 months after the reporting date.

### (a) Terms and conditions:

Deposits withdrawable on demand primarily consist of chequing and savings accounts. Interest rates and account fees are specific to each type of deposit account.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, monthly or upon maturity.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above.

Registered retirement income funds (RRIF) 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 or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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Year ended December 31, 2013

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## 12. Deposits (continued):

### (a) Terms and conditions (continued):

The registered education savings plans (RESP) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

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

### (b) Fair value:

The fair value of deposits at December 31, 2013 was \$1,108,957 (2012 - \$1,003,388).

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

## 13. Members' shares:

The members' shares of the Credit Union are divided into three classes of shares being membership shares, patronage shares and non-equity shares. All of the Credit Union's member shares are classified as financial liabilities as each class of shares is redeemable at the option of the member. The member shares are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

### (a) Terms and conditions:

#### (i) Membership shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold twenty-five dollars in membership shares (five dollars for junior membership shares). These membership shares are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in membership shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of membership shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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## 13. Members' shares (continued):

(a) Terms and conditions (continued):

(i) Patronage shares:

Patronage shares were issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par (one dollar). There is no limit on the number of patronage shares which can be held by a member. Funds issued in patronage shares are not insured by CUDIC. The withdrawal of patronage shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year. Patronage rebates are at the discretion of the Directors. All issued shares are fully paid.

(ii) Non-equity shares:

Non-equity shares are withdrawable on demand by the member and may be redeemed by the Credit Union at par (one dollar). Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

(b) Number of shares outstanding:

	Membership shares	Patronage shares	Non-equity shares	Total
Balance at January 1, 2012	2,422	898	498	3,818
Issued during the year	200	37	5	242
Redeemed during the year	200	63	63	326
Balance at December 31, 2012	2,422	872	440	3,734
Issued during the year	246	36	4	286
Redeemed during the year	199	61	78	338
Balance at December 31, 2013	2,469	847	366	3,682
Authorized shares	Unlimited	Unlimited	Unlimited	

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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## 14. Borrowings:

	2013	2012
Central 1 - operating line and term loan facility	\$ -	\$ -
Central 1 - secured loan (note 6(c))	9,975	10,850
	<u>\$ 9,975</u>	<u>\$ 10,850</u>

The Credit Union maintains an operating line and term loan facility of \$21,776 (2012 - \$41,944) with Central 1, bearing interest that varies with the bankers' acceptance rate. This facility is secured by an assignment of book accounts. As at December 31, 2013 and 2012, no amounts were drawn against this facility.

## 15. Other liabilities:

	2013	2012
Accounts payable and accrued liabilities	\$ 2,799	\$ 3,378
Deferred revenue	40	42
	<u>\$ 2,839</u>	<u>\$ 3,420</u>

## 16. Commitments:

### (a) Letters of credit:

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. Letters of credit are not reflected in the consolidated statement of financial position. At December 31, 2013, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$9,317 (2012 - \$8,525).

### (b) Contractual obligations:

The Credit Union is committed to long-term leases for various branch premises extending to 2029.

Total future minimum lease payments for these arrangements are as follows:

Not later than 1 year	\$ 1,193
Later than 1 year and not later than 5 years	2,683
Later than 5 years	3,340
	<u>\$ 7,216</u>

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
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## 16. Commitments (continued):

### (b) Contractual obligations (continued):

During the year, operating lease payments of \$1,717 (2012 - \$1,787) were recognized as an expense.

The Credit Union has a license agreement with a third party vendor for banking system software and associated supporting applications. The Credit Union also has a data processing agreement with the third party vendor to operate the software on behalf of the Credit Union, providing related services and interfaces. Both agreements expire on December 17, 2017.

## 17. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, which includes those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union. Key management personnel include the Credit Union's Executive Management Team and Directors.

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	2013	2012
Compensation:		
Salaries and short-term employee benefits	\$ 2,133	\$ 1,839
Post-employment benefits	143	112
	<hr/>	<hr/>
	\$ 2,276	\$ 1,951
Transactions with key management personnel:		
Loans outstanding	\$ 406	\$ 457
Term and savings deposits	1,423	1,184
	<hr/>	<hr/>
	\$ 1,829	\$ 1,641

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The Credit Union's policy for lending to, and for receiving deposits from, key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. The employees of the Credit Union are eligible for reduced interest rates on personal loans, lines of credit and mortgages. Directors are not eligible for these benefits.

During the year, the Credit Union's Board of Directors received aggregate remuneration of \$236 (2012 - \$235) which is included in compensation to key management personnel above.

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## 18. Financial instrument classification and fair value:

The following table represents the carrying amount by classification.

	Available- for-sale	Loans and receivables	Other financial liabilities	Total
<b>December 31, 2013</b>				
Cash and cash equivalents	\$ -	\$ 20,993	\$ -	\$ 20,993
Financial investments	4,376	116,663	-	121,039
Loans	-	1,043,286	-	1,043,286
Accounts receivable	-	406	-	406
Deposits	-	-	(1,105,640)	(1,105,640)
Members' shares	-	-	(3,682)	(3,682)
Borrowings	-	-	(9,975)	(9,975)
Accounts payable	-	-	(2,799)	(2,799)
	\$ 4,376	\$ 1,181,348	\$ (1,122,096)	\$ 63,628

<b>December 31, 2012</b>				
Cash and cash equivalents	\$ -	\$ 17,813	\$ -	\$ 17,813
Financial investments	4,165	89,506	-	93,671
Loans	-	957,405	-	957,405
Accounts receivable	-	709	-	709
Deposits	-	-	(999,975)	(999,975)
Members' shares	-	-	(3,734)	(3,734)
Borrowings	-	-	(10,850)	(10,850)
Accounts payable	-	-	(3,378)	(3,378)
	\$ 4,165	\$ 1,065,433	\$ (1,017,937)	\$ 51,661

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - fair value measurements based on unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - fair value measurements based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - fair value measurements based on inputs that are not based on observable market data.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 18. Financial instrument classification and fair value (continued):

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels:

	Level 1	Level 2	Level 3	Total
December 31, 2013:				
Central 1 - Class A shares	\$ -	\$ 3,795	\$ -	\$ 3,795
Other equity investments	-	581	-	581
	\$ -	\$ 4,376	\$ -	\$ 4,376
December 31, 2012:				
Central 1 - Class A shares	\$ -	\$ 3,709	\$ -	\$ 3,709
Other equity investments	-	455	-	455
	\$ -	\$ 4,164	\$ -	\$ 4,164

There were no transfers among the three levels for the years ended December 31, 2013 and 2012.

## 19. Financial instrument risk management:

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

### (a) Credit risk:

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. The Credit Union's exposure to credit risk is concentrated primarily in its loans. Risk management policies are implemented by management and the Board. These policies include evaluating the member's ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts. Notes 6 and 7 provide further discussion over the Credit Union's loan balances and exposure to credit risk. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas. The Credit Union's market service area is primarily the Greater Vancouver Area of British Columbia and as a result, repayment by members is dependent in part upon the general economic conditions of this geographic region.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 19. Financial instrument risk management (continued):

### (a) Credit risk (continued):

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. With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for impaired loans quarterly.

### (b) Liquidity risk:

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due. Cash flows payable under financial liabilities by their remaining contractual maturities are included in the interest rate sensitivity analysis included in note 19(c).

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's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

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 is required to maintain, in the form of cash and term deposits, a minimum of 8% liquidity at all times, based on total members' deposits and non-equity shares. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

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## 19. Financial instrument risk management (continued):

### (c) Market risk:

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and other market prices. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union's investment, lending, and deposit portfolios. The Credit Union has limited exposure to other price risk because the majority of its investments are deposits held with Central 1.

The Credit Union's business is predominantly conducted in Canadian currency. However, some of the Credit Union's deposits are denominated in US funds. The Credit Union economically hedges its exposure to negative impacts from US currency fluctuations by maintaining US dollar denominated investments in amounts which approximate its US deposits. Therefore, exposures to foreign currency fluctuations are managed to immaterial levels on an ongoing basis.

Interest rate risk is the potential impact on the Credit Union's earnings and economic value due to changes in interest rates. The Credit Union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities, and equity against the impact of various possible rate increases or decreases.

The Credit Union has formal internal policies that establish acceptable levels of interest rate risk. These policies are directed at ensuring that expected net interest income has a high probability of falling within an acceptable range. There are further policies designed to ensure that the market value of equity is not eroded by interest rate changes beyond an acceptable range. The Credit Union also consults with independent experts with regards to both the quality and interpretation of its internal interest rate risk management programs.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within one year, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. There are no maturities for the non-interest sensitive financial liabilities as the amounts are payable on demand. All financial liabilities classified as within one year have a contractual maturity of less than one year.

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

## 19. Financial instrument risk management (continued):

### (c) Market risk (continued):

December 31, 2013	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
<b>Assets</b>								
Cash and cash equivalents and financial investments	1.07%	\$ 85,570	\$ 9,529	\$ 11,814	\$ 13,105	\$ 13,796	\$ 8,218	\$ 142,032
Loans	3.89%	620,463	136,945	114,172	68,786	104,023	(1,103)	1,043,286
Others	-	-	-	-	-	-	12,252	12,252
		\$ 706,033	\$ 146,474	\$ 125,986	\$ 81,891	\$ 117,819	\$ 19,367	\$ 1,197,570
<b>Liabilities and Members' Equity</b>								
Deposits and members' shares	1.45%	\$ 761,260	\$ 141,822	\$ 51,409	\$ 1,958	\$ 4,784	\$ 148,089	\$ 1,109,322
Other	1.34%	9,975	-	-	-	-	2,839	12,814
Members' equity	-	-	-	-	-	-	75,434	75,434
		\$ 771,235	\$ 141,822	\$ 51,409	\$ 1,958	\$ 4,784	\$ 226,362	\$ 1,197,570
Interest sensitivity position		\$ (65,202)	\$ 4,652	\$ 74,577	\$ 79,933	\$ 113,035	\$ (206,995)	\$ -

December 31, 2012	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
<b>Assets</b>								
Cash and cash equivalents and financial investments	1.16%	\$ 85,476	\$ 11,396	\$ 4,698	\$ 1,700	\$ -	\$ 8,214	\$ 111,484
Loans	4.05%	575,470	105,963	117,391	100,489	59,261	(1,169)	957,405
Others	-	-	-	-	-	-	19,129	19,129
		\$ 660,946	\$ 117,359	\$ 122,089	\$ 102,189	\$ 59,261	\$ 26,174	\$ 1,088,018
<b>Liabilities and Members' Equity</b>								
Deposits and members' shares	1.50%	\$ 582,803	\$ 160,385	\$ 118,066	\$ 4,878	\$ 1,545	\$ 136,032	\$ 1,003,709
Other	1.33%	10,850	-	-	-	-	3,420	14,270
Members' equity	-	-	-	-	-	-	70,039	70,039
		\$ 593,653	\$ 160,385	\$ 118,066	\$ 4,878	\$ 1,545	\$ 209,491	\$ 1,088,018
Interest sensitivity position		\$ 67,293	\$ (43,026)	\$ 4,023	\$ 97,311	\$ 57,716	\$ (183,317)	\$ -

The following table summarizes the pre-tax impact of an immediate and sustained parallel 1% increase or decrease shift in interest rates over the next 12 months on total comprehensive income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the risk management initiatives.

Impact of	2013		2012	
	Amount	Percentage of base forecast	Amount	Percentage of base forecast
100 bp increase in interest rates	\$ 1,450	5.62 %	\$ 2,161	8.79 %
100 bp decrease in interest rates	(1,615)	(6.26)%	(2,421)	(9.85)%

# GULF AND FRASER FISHERMEN'S CREDIT UNION

Notes to Consolidated Financial Statement  
(Expressed in thousands of dollars)

Year ended December 31, 2013

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## 20. Capital management:

The *Financial Institutions Act of British Columbia* requires the Credit Union to maintain a prescribed capital base at all times. This base consists primarily of equity shares and retained earnings. The level of capital required is based on a percentage of the total value of risk-weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. The *Financial Institutions Act of British Columbia* prescribes a minimum capital ratio of 8%, to avoid certain operating restrictions. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk-weighted asset levels. At December 31, 2013, the Credit Union's estimated capital ratio exceeded the required capital ratio.

## 21. Funds under administration:

Funds under administration by the Credit Union comprise loans that have been syndicated and administered in the capacity as an agent. It also includes investment portfolios and mutual fund accounts that are managed on behalf of members. Funds under administration are kept separate from Credit Union assets and therefore are not reflected in the consolidated statement of financial position.

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	2013	2012
Syndicated loans	\$ 1,897	\$ 1,079
Investment portfolios and mutual funds at market value	132,311	96,092
	<hr/>	<hr/>
	\$ 134,208	\$ 97,171

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