G&F
FINANCIAL
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GULF AND FRASER FISHERMEN'S CREDIT UNION
YEAR ENDED DECEMBER 31, 2016

Consolidated Financial Statements

(Expressed in thousands of dollars)

G&F FINANCIAL GROUP
life beyond banking™

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 consolidated 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.

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 Professional 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.

William Kiss
Co-Chief Executive Officer

Jeff Shewfelt
Co-Chief Executive Officer

Ron Lee
Vice President, Finance

KPMG LLP
Chartered Professional 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, 2016, the consolidated statements of income, 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
February 24, 2017
Vancouver, Canada

Consolidated Statement of Financial Position

(Expressed in thousands of dollars)

As at December 31, 2016, with comparative information for 2015

	NOTES	2016	2015
Assets			
Cash		$ 28,587	$ 32,347
Financial investments	5	209,666	128,653
Derivative assets	6	970	1,430
Loans	7, 8	1,455,277	1,230,167
Premises and equipment	9	6,286	6,315
Intangible assets	9	685	404
Investment property	10	797	797
Deferred income tax asset	11	1,124	829
Other assets	12	2,218	2,127
		$ 1,705,610	$ 1,403,069
Liabilities and Members' Equity			
Deposits	13	$ 1,557,016	$ 1,271,819
Members' shares	14	3,522	3,547
Secured borrowings	15	49,758	37,459
Other liabilities	16	6,189	5,991
		1,616,485	1,318,816
Members' equity:			
Accumulated other comprehensive income		524	867
Retained earnings		88,601	83,386
		89,125	84,253
Commitments	17		
		$ 1,705,610	$ 1,403,069

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

Lewis Bublé
President and Chair, Board of Directors

Lee Varseveld
Chair of the Audit Committee

Consolidated Statement of Income

(Expressed in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	NOTES	2016	2015
Interest income:			
Interest on loans		$ 45,798	$ 41,192
Other interest income		1,937	2,073
		47,735	43,265
Interest expense:			
Interest on deposits		17,777	16,332
Other interest expense		1,140	872
		18,917	17,204
Net interest income		28,818	26,061
Other income (expense):			
Member services income		7,605	7,413
Hedge ineffectiveness on cash flow hedges		(15)	3
Other income		187	136
Provision for impaired loans	8	(600)	(1,320)
		7,177	6,232
Operating margin		35,995	32,293
Operating expenses:			
Salaries and employee benefits	18	17,236	17,162
Occupancy		3,186	2,680
Office and other administrative		2,983	2,881
Data processing		2,221	2,035
Depreciation		1,078	1,167
Advertising and promotion		1,010	954
Other expenses		1,899	1,759
		29,613	28,638
Earnings from operations		6,382	3,655
Gain on sale of premises		-	3,348
Donation to G&F Financial Group Foundation		-	(1,000)
Distribution to members		(109)	(110)
Income before income taxes		6,273	5,893
Provision for income taxes	11	1,058	662
Net income		$ 5,215	$ 5,231

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Expressed in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

		2016		2015
Net income	$	5,215	$	5,231
Net unrealized gain (loss) from cash flow hedges, net of tax recovery of $76 (2015 – tax expense of $103)		(343)		549
Total comprehensive income	$	4,872	$	5,780

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

(Expressed in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	Accumulated other comprehensive income	Retained earnings	Members' equity
Balance, December 31, 2014	$ 318	$ 78,155	$ 78,473
Cash flow hedges	549	-	549
Net income	-	5,231	5,231
Balance, December 31, 2015	867	83,386	84,253
Cash flow hedges	(343)	-	(343)
Net income	-	5,215	5,215
Balance, December 31, 2016	$ 524	$ 88,601	$ 89,125

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	NOTES	2016	2015
Cash provided by (used in):			
Operating activities:			
Net income		$ 5,215	$ 5,231
Adjustments:			
Depreciation		1,078	1,167
Allowance for impaired loans		600	1,320
Interest income		(45,798)	(43,265)
Interest expense		17,777	17,204
Deferred income tax expense		(295)	(47)
Change in derivative instruments		117	(72)
		(21,306)	(18,462)
Changes in non-cash operating working capital:			
Other assets		(91)	1,041
Accounts payable and other liabilities		1,237	2,910
Interest income received		45,512	43,813
Interest expense paid		(15,778)	(16,499)
Income taxes paid		(1,039)	(43)
		8,535	12,760
Investing activities:			
Net (acquisition) disposal of investments		(81,013)	(26,204)
Net increase in loans		(225,424)	(110,287)
Net (acquisition) disposal of:			
Premises and equipment		(768)	836
Intangible assets		(563)	(154)
		(307,768)	(135,809)
Financing activities:			
Net increase in deposits		283,199	121,008
Net increase (decrease) in:			
Members' shares		(25)	(46)
Borrowings		12,299	(1,296)
		295,473	119,666
Decrease in cash		(3,760)	(3,383)
Cash, beginning of year		32,347	35,730
Cash, end of year		$ 28,587	$ 32,347

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

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 British Columbia 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 23, 2017.

(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 consolidated 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 subsidiary, Gulf and Fraser Insurance Services Ltd. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) 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.

(c) Derivative financial instruments and hedging:

Derivative financial instruments, are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. The notional contract amounts related to derivatives are not included on the consolidated statement of financial position. In the ordinary course of business, the Credit Union enters into interest rate swaps and equity index-linked option contracts. The Credit Union enters into such contracts primarily to manage its exposure to fluctuations in interest rates and other financial indices as part of the Credit Union's asset/liability management program.

Derivatives are carried at fair value, and are recorded as assets when they have a net positive fair value and liabilities when they have a net negative fair value.

3. Significant accounting policies (continued):

(c) Derivative financial instruments and hedging (continued):

Non-hedging derivative instruments:

Derivatives that are not designated as hedging instruments are classified as held-for-trading.

Upon initial recognition, the Credit Union's derivatives related to equity index-linked option contracts are classified as held-for-trading in order to avoid an accounting mismatch in relation to changes in fair value between the option contract and the underlying equity index-linked member deposit.

Non-hedging derivatives 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 recognized in net income.

Hedging derivative instruments:

Derivatives can be designated for accounting purposes as either cash flow hedging instruments or fair value hedging instruments. The Credit Union has only entered into interest rate swap contracts as cash flow hedges at this time. Cash flow hedges modify exposure to variability in cash flows for variable interest bearing instruments. The Credit Union's cash flow hedges comprise hedges of variable rate mortgages and deposits.

Each hedge undertaken by the Credit Union is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The Credit Union formally assesses prospectively and retrospectively at the hedge's inception and on an ongoing basis whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recognized in other comprehensive income. The ineffective portion is immediately recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the same period that the hedged cash flows affect net income.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time either remains in accumulated other comprehensive income and is amortized into net income over the remaining term of the original hedge or immediately when the hedged item is derecognized.

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.

3. Significant accounting policies (continued):

(e) Derecognition of financial assets:

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset; or
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset. In that case the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

(f) Securitization:

The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which include securitization of residential mortgages into special purpose entities which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfer of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

Monies raised from securitization transactions whereby the Credit Union did not transfer substantially all of the risks and rewards of ownership of the mortgages in the securitization are accounted for as a secured borrowing.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(g) 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:

ASSET	USEFUL LIFE
Buildings	5 - 40 years
Furniture and equipment	2 - 10 years
Leasehold improvements	5 - 15 years

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 net income.

(h) Intangible assets:

Intangible assets consist of computer software that 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.

(i) 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.

(j) 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.

3. Significant accounting policies (continued):

(k) 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.

(l) 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.

(m) Borrowings and other liabilities:

Borrowings and other liabilities are classified as other financial liabilities and initially measured at fair value and subsequently carried at amortized cost.

(n) 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.

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.

3. Significant accounting policies (continued):

(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.

(p) 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 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 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.

(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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(s) 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.

(t) New standards and interpretations not yet adopted:

IFRS 9, *Financial Instruments*:

The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). At its July 2014 meeting, the IASB issued the final version of IFRS 9 and it supersedes all previous versions. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39).

The main changes associated with the replacement of IAS 39 with IFRS 9 are summarized below.

IAS 39 was rule-based and contained many different classification categories and associated impairment models. IFRS 9 is principle-based and built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 also includes a hedge accounting model that links the economics of risk management with its accounting treatment.

Under IFRS 9, all financial assets that are currently in the scope of IAS 39 will be classified as one of the following:

- amortized cost;
- fair value through profit or loss; or
- fair value through other comprehensive income.

The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash and selling financial assets. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

IFRS 9, *Financial Instruments (continued)*:

As such, fair value through profit or loss represents a 'residual' category and financial assets that are held for trading and those managed on a fair value basis are also included in this category.

IFRS 9 requires financials assets to be reclassified between measurement categories when, and only when, the entity's business model for managing them changes.

An entity would be permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch.

IFRS 9 also introduces new requirements for accounting and presentation of changes in the fair value of an entity's own debt when the entity has chosen to measure that debt at fair value. The standard requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit loss.

IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with early adoption permitted. It is required to be applied retrospectively when initially applied, and it is expected that IFRS 9 will have a significant impact on the Credit Union's consolidated financial statements. However, the Credit Union is not able to determine such impact at this time.

IFRS 15, *Revenue from Contracts with Customers:*

The IASB published a new standard IFRS 15, *Revenue from Contracts with Customers*, on May 28, 2014 to replace existing IFRS guidance. The standard introduces a new revenue recognition model for contracts with customers. It contains a single model that applies to contracts with customers and two approaches to recognizing revenue. Revenue may either be recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the good or services is transferred to the customer. Significant estimates and judgment thresholds have been introduced which may affect the amount and/or timing of revenue recognized. They include:

- estimating and recognizing variable consideration;
- identifying separate goods and services in a contract; and
- estimating stand-alone selling prices.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss. The Credit Union is not able to determine the impact that IFRS 15 will have on the consolidated financial statements at this time.

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

IFRS 16, *Leases*:

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The extent of the impact of the adoption of the standard has not yet been determined by the Credit Union.

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 net income or 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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

4. Critical accounting estimates and judgments (continued):

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 notes 5, 7, 13, 15 and 19.

(b) Allowance for impairment of loans:

In determining whether an impairment loss should be recorded in the statement of 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 8.

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.

	2016	2015
Central 1 term deposits	$ 202,452	$ 122,616
Accrued interest on term deposits	463	485
Central 1 - Class A shares	5,516	4,854
Central 1 - Class E shares	1	1
Other investments	1,234	697
	$ 209,666	$ 128,653

The Credit Union must maintain liquidity reserves with Central 1 of at least 8% of total members' deposits and non-equity shares, and borrowings. The fair value of term deposits with Central 1 is $202,940 at December 31, 2016 (2015 - $123,585).

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(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

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5. Financial investments (continued):

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 consolidated 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.

6. Derivatives:

	2016			2015		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk:						
Receive fixed interest rate swaps	$ 618	$ -	$ 30,000	$ 1,053	$ -	$ 30,000
Other derivatives:						
Index-linked option contracts	352	-	4,976	377	-	6,081
Total fair value	$ 970	$ -	$ 34,976	$ 1,430	$ -	$ 36,081

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7. Loans:

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

	2016	2015
Residential mortgages and personal loans	$ 1,023,358	$ 896,977
Commercial lending	433,517	334,581
	1,456,875	1,231,558
Accrued interest receivable	2,329	2,042
	1,459,204	1,233,600
Allowance for impaired loans (note 8)	(3,927)	(3,433)
Net loans to members	$ 1,455,277	$ 1,230,167

At December 31, 2016, $840,202 (2015 - $723,124) of loans are expected to be settled more than twelve 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, 2016 was 2.70% (2015 - 2.70%).

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, and charges on specific equipment, investments, and personal guarantees.

(b) Fair value:

The fair value of loans at December 31, 2016 was $1,458,325 (2015 - $1,233,764).

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.

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Year ended December 31, 2016

7. 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, 2016 was $49,771 (2015 - $37,472). The Credit Union has also recognized $49,758 (2015 - $37,459) of secured borrowings (note 15) 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 2.09% (2015 - 2.02%) 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:

	2016	2015
Loans - insured to government	$ 125,016	$ 132,354
Loans - real estate secured	1,306,396	1,083,499
Loans - otherwise secured	13,592	4,117
Loans - unsecured	11,871	11,588
	$ 1,456,875	$ 1,231,558

8. Allowance for impaired loans:

(a) Total allowance for impaired loans:

	2016	2015
Collective allowance	$ 3,845	$ 2,717
Individual specific allowance	82	716
	$ 3,927	$ 3,433

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Year ended December 31, 2016

8. Allowance for impaired loans (continued):

(b) Movement in the allowance for impaired loans:

2016	Residential mortgages and personal loans	Commercial lending	Total
Balance, January 1, 2016	$ 746	$ 2,687	$ 3,433
Provision charged to net income	80	520	600
Loans written off	(146)	-	(146)
Recoveries of loans previously written off	40	-	40
Balance, December 31, 2016	$ 720	$ 3,207	$ 3,927

2015	Residential mortgages and personal loans	Commercial lending	Total
Balance, January 1, 2015	$ 762	$ 3,140	$ 3,902
Provision charged to net income	130	1,190	1,320
Loans written off	(185)	(1,643)	(1,828)
Recoveries of loans previously written off	39	-	39
Balance, December 31, 2015	$ 746	$ 2,687	$ 3,433

(c) Impaired loans:

	2016		2015	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Residential mortgages and personal loans	$ 350	$ 59	$ 221	$ 67
Commercial lending	18	23	2,864	649
Total loans	$ 368	$ 82	$ 3,085	$ 716

(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.

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8. Allowance for impaired loans (continued):

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

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:

2016	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	$ 3	$ -	$ 3
90 days and over	-	2,620	2,620
Balance, December 31, 2016	$ 3	$ 2,620	$ 2,623

2015	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	$ 45	$ 151	$ 196
90 days and over	-	-	-
Balance, December 31, 2015	$ 45	$ 151	$ 196

Notes to Consolidated Financial Statements

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Year ended December 31, 2016

9. Premises and equipment and intangible assets:

	Premises and equipment					Intangible assets
	Land	Leasehold Building	Furniture and improvement	Computer equipment	Total	software
Cost:						
Balance, December 31, 2014	$ 2,536	$ 3,780	$ 6,874	$ 7,255	$ 20,445	$ 5,084
Additions	-	13	88	216	317	154
Disposals	(294)	(2,473)	-	(294)	(3,061)	(2)
Balance, December 31, 2015	2,242	1,320	6,962	7,177	17,701	5,236
Additions	-	18	432	318	768	563
Disposals	-	-	-	(8)	(8)	-
Balance, December 31, 2016	$ 2,242	$ 1,338	$ 7,394	$ 7,487	$ 18,461	$ 5,799
Accumulated depreciation:						
Balance, December 31, 2014	$ -	$ 2,886	$ 3,366	$ 6,212	$ 12,464	$ 4,498
Depreciation expense	-	22	400	408	830	336
Disposals	-	(1,620)	-	(288)	(1,908)	(2)
Balance, December 31, 2015	-	1,288	3,766	6,332	11,386	4,832
Depreciation expense	-	11	423	363	797	282
Disposals	-	-	-	(8)	(8)	-
Balance, December 31, 2016	$ -	$ 1,299	$ 4,189	$ 6,687	$ 12,175	$ 5,114
Net book value:						
As at December 31, 2015	$ 2,242	$ 32	$ 3,196	$ 845	$ 6,315	$ 404
As at December 31, 2016	2,242	39	3,205	800	6,286	685

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(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

10. Investment property:

(a) Cost:

		Land		Building		Total
Balance, December 31, 2015 and 2016	$	797	$	30	$	827

(b) Accumulated depreciation:

		Land		Building		Total
Balance, December 31, 2014	$	-	$	29	$	29
Depreciation expense		-		1		1
Balance, December 31, 2015	$	-	$	30	$	30
Depreciation expense		-		-		-
Balance, December 31, 2016	$	-	$	30	$	30

(c) Net book value:

		Land		Building		Total
Balance, December 31, 2015	$	797	$	-	$	797
Balance, December 31, 2016		797		-		797

The fair value of the investment property is $2,541 (2015 - $1,771). 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 $27 (2015 - $27) and operating expenses (including repairs and maintenance) of $11 (2015 - $12) related to investment property was recognized in the consolidated statement of income.

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(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

11. Provision for income taxes:

	2016	2015
Current income taxes:		
Current year	$ 1,353	$ 709
Deferred income taxes:		
Origination and reversal of temporary differences	(197)	2
Change in tax rate	(98)	(49)
	(295)	(47)
	$ 1,058	$ 662

At December 31, 2016, a deferred income tax liability for temporary differences of $1,221 (2015 - $1,175) 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 26% (2015 - 26%) to income before income taxes. The reasons for the differences are as follows:

	2016		2015	
Combined basic federal and provincial statutory income tax	$ 1,632	26.0 %	$ 1,532	26.0 %
Decrease in tax due to:				
Preferred rate deduction available to credit unions	(570)	(9.1)%	(532)	(9.0) %
Non-taxable portion of capital gain	-	- %	(363)	(6.2) %
Recovery of taxes paid in prior years	-	- %	(7)	(0.1) %
Non-deductible and other items, net	(4)	(0.1)%	33	0.6 %
Total income taxes	$ 1,058	16.8 %	$ 662	11.3 %

At December 31, 2016, income taxes payable of $447 is included in other liabilities (2015 - taxes payable of $428).

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

	2016	2015
Allowance for impaired loans	$ 732	$ 473
Premises and equipment	304	276
Other	88	80
Net deferred income tax asset	$ 1,124	$ 829

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Year ended December 31, 2016

12. Other assets:

		2016		2015
Prepaid expenses	$	1,940	$	1,948
Accounts receivable		231		128
Other assets		47		51
	$	2,218	$	2,127

13. Deposits:

		2016		2015
Demand deposits	$	455,390	$	427,144
Term deposits		858,915		609,459
Registered Retirement Savings Plans		112,342		118,213
Registered Retirement Income Funds		46,285		42,354
Registered Education Savings Plans		3,978		3,864
Tax Free Savings Accounts		70,330		63,008
		1,547,240		1,264,042
Accrued interest payable		9,776		7,777
	$	1,557,016	$	1,271,819

At December 31, 2016, $366,220 (2015 - $267,856) of deposits are expected to be settled more than 12 months after the reporting date.

(a) Terms and conditions:

Demand deposits primarily consist of chequing and savings accounts. Interest rates and account fees are specific to each type of deposit account.

Term deposits bear fixed or variable 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.

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13. 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, 2016 was $1,561,079 (2015 - $1,275,564).

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.

14. 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 five dollars in 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.

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Year ended December 31, 2016

14. Members' shares (continued):

(a) Terms and conditions (continued):

(*ii*) 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.

(*iii*) 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, December 31, 2014	2,505	784	304	3,593
Issued during the year	109	25	3	137
Redeemed during the year	112	45	26	183
Balance, December 31, 2015	2,502	764	281	3,547
Issued during the year	199	23	3	225
Redeemed during the year	187	43	20	250
Balance, December 31, 2016	2,514	744	264	3,522
Authorized shares - 2015	Unlimited	Unlimited	Unlimited	
Authorized shares - 2016	Unlimited	Unlimited	Unlimited	

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15. Secured Borrowings:

		2016		2015
Central 1 - secured loan (note 7(c))	$	49,758	$	37,459

The fair value of borrowings as at December 31, 2016 was $49,569 (2015 - $37,780).

The Credit Union has authorized operating line and term loan facility of $84,849 (2015 - $57,889) with Central 1, bearing interest that varies with the bankers' acceptance rate. This facility is secured by an assignment of book accounts.

The Credit Union also has a credit facility agreement with Caisse Centrale Desjardins (CCD) authorized up to $30,000 and is secured by a first charge against eligible residential mortgages.

As of December 31, 2016 and 2015, no amounts were drawn against these credit facilities.

16. Other liabilities:

		2016		2015
Accounts payable and accrued liabilities	$	5,287	$	5,129
Deferred revenue		455		434
Income tax payable		447		428
	$	6,189	$	5,991

17. 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, 2016, the Credit Union has outstanding letters of credit on behalf of members in the amount of $5,013 (2015 - $5,787).

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Year ended December 31, 2016

17. Commitments (continued):

(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	$	1,476
Later than 1 year and not later than 5 years		5,358
Later than 5 years		1,764
	$	8,598

During the year, operating lease payments of $2,172 (2015 - $2,053) 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.

18. 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.

		2016		2015
Compensation:				
Salaries and short-term employee benefits	$	2,618	$	2,582
Post-employment benefits		176		174
	$	2,794	$	2,756
Transactions with key management personnel:				
Loans outstanding	$	1,657	$	2,564
Term and savings deposits		1,769		1,438
	$	3,426	$	4,002

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18. Related party transactions (continued):

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 $241 (2015 - $235) which is included in compensation to key management personnel above.

19. Financial instrument classification and fair value:

(a) Financial instrument classification:

The following table represents the carrying amount by classification.

	Held-for-trading / fair value through profit and loss	Available-for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2016					
Cash	$ -	$ -	$ 28,587	$ -	$ 28,587
Financial investments	-	6,751	202,915	-	209,666
Derivative assets	970	-	-	-	970
Loans	-	-	1,455,277	-	1,455,277
Accounts receivable	-	-	231	-	231
Deposits	-	-	-	(1,557,016)	(1,557,016)
Members' shares	-	-	-	(3,522)	(3,522)
Borrowings	-	-	-	(49,758)	(49,758)
Accounts payable	-	-	-	(5,287)	(5,287)
Income tax payable	-	-	-	(447)	(447)
	$ 970	$ 6,751	$ 1,687,010	$ (1,616,030)	$ 78,701
December 31, 2015					
Cash	$ -	$ -	$ 32,347	$ -	$ 32,347
Financial investments	-	5,552	123,101	-	128,653
Derivative assets	1,430	-	-	-	1,430
Loans	-	-	1,230,167	-	1,230,167
Accounts receivable	-	-	128	-	128
Deposits	-	-	-	(1,271,819)	(1,271,819)
Members' shares	-	-	-	(3,547)	(3,547)
Borrowings	-	-	-	(37,459)	(37,459)
Accounts payable	-	-	-	(5,129)	(5,129)
Income tax payable	-	-	-	(428)	(428)
	$ 1,430	$ 5,552	$ 1,385,743	$ (1,318,382)	$ 74,343

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Year ended December 31, 2016

19. Financial instrument classification and fair value (continued):

(b) Financial instruments measured at fair value:

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.

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, 2016:				
Central 1 - Class A shares	$ -	$ 5,516	$ -	$ 5,516
Derivative assets	-	970	-	970
Other equity investments	-	1,234	-	1,234
	$	$ 7,720	$	$ 7,720
December 31, 2015:				
Central 1 - Class A shares	$ -	$ 4,854	$ -	$ 4,854
Derivative assets	-	1,430	-	1,430
Other equity investments	-	697	-	697
	$ -	$ 6,981	$ -	$ 6,981

The fair value of derivative assets has been determined through present value techniques. The fair value of the other financial instruments in the table above is described in note 5.

There were no transfers among the three levels for the years ended December 31, 2016 and 2015.

19. Financial instrument classification and fair value (continued):

(c) Financial instruments not measured at fair value:

The fair value of the Credit Unions cash, accounts receivable, members' shares and accounts payable approximates carrying value due to their short-term nature or ability to be settled on demand. These financial instruments are classified as Level 2 in the fair value hierarchy because while settlement amounts or prices are available, there is no active market for these instruments.

The fair value of: financial investments classified as loans and receivables are disclosed in note 5, loans disclosed in note 7, deposits disclosed in note 13 and borrowings in note 15 has been determined using present value techniques, which include inputs based on market observable data. Accordingly, these financial instruments are classified as Level 2 in the fair value hierarchy.

20. 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 7 and 8 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.

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.

20. Financial instrument risk management (continued):

(a) Credit risk (continued):

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 20(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, and borrowings. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(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.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

20. Financial instrument risk management (continued):

(c) Market risk (continued):

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. Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing interest rate risk.

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.

December 31, 2016	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
Assets								
Cash and financial investments	0.94%	$ 182,306	$ 33,381	$ 8,349	$ 1,435	$ 1,618	$ 11,164	$ 238,253
Loans	3.33%	847,143	193,243	140,483	151,894	124,113	(1,599)	1,455,277
Others		-	-	-	-	-	12,080	12,080
		$ 1,029,449	$ 226,624	$ 148,832	$ 153,329	$ 125,731	$ 21,645	$ 1,705,610
Liabilities and Members’ Equity								
Deposits and members’ shares	1.26%	$ 870,704	$ 255,363	$ 80,871	$ 22,706	$ 7,280	$ 323,614	$ 1,560,538
Other	1.60%	4,183	7,241	13,412	25,596	687	4,828	55,947
Members’ equity		-	-	-	-	-	89,125	89,125
		$ 874,887	$ 262,604	$ 94,283	$ 48,302	$ 7,967	$ 417,567	$ 1,705,610
Swaps		$ (30,000)	$ -	$ 30,000	$ -	$ -	$ -	$ -
Interest sensitivity position		$ 124,562	$ (35,980)	$ 84,549	$ 105,027	$ 117,764	$ (395,922)	$ -

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

20. Financial instrument risk management (continued):

(c) Market risk (continued):

December 31, 2015	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
Assets								
Cash and financial investments	0.94%	$ 102,766	$ 16,904	$ 24,807	$ 7,000	$ -	$ 9,523	$ 161,000
Loans	3.38%	719,440	139,375	119,374	103,718	149,650	(1,390)	1,230,167
Others		-	-	-	-	-	11,902	11,902
		$ 822,206	$ 156,279	$ 144,181	$ 110,718	$ 149,650	$ 20,035	$ 1,403,069
Liabilities and Members' Equity								
Deposits and members' shares	1.24%	$ 713,798	$ 190,331	$ 62,948	$ 9,572	$ 5,005	$ 293,712	$ 1,275,366
Other	1.69%	13,710	6,878	8,174	8,709	-	5,979	43,450
Members' equity		-	-	-	-	-	84,253	84,253
		$ 727,508	$ 197,209	$ 71,122	$ 18,281	$ 5,005	$ 383,944	$ 1,403,069
Swaps		$ (30,000)	$ -	$ -	$ 30,000	$ -	$ -	$ -
Interest sensitivity position		$ 64,698	$ (40,930)	$ 73,059	$ 122,437	$ 144,645	$ (363,909)	$ -

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 net interest 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.

	2016		2015	
Impact of	Amount	Percentage of base forecast	Amount	Percentage of base forecast
100 bp increase in interest rates	$ 2,984	9.80 %	$ 1,899	6.98 %
100 bp decrease in interest rates	(1,076)	(3.53)%	(878)	(3.23)%

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(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2016

21. Capital management:

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a three-year period.

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.

The Internal Capital Target guideline issued by the Financial Institutions Commission of British Columbia sets a Supervisory level for credit unions of 10% for internal capital targets.

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, 2016 and 2015, the Credit Union's estimated capital ratio exceeded the required capital ratio.

22. 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.

		2016		2015
Syndicated loans	$	47,350	$	26,446
Investment portfolios and mutual funds at market value		197,646		179,697
	$	244,996	$	206,143