FIRST WEST CREDIT UNION **2014 ANNUAL REPORT**

Financial Statements

FIRSTWEST
CREDIT UNION

Management's Responsibility

The accompanying statements of First West Credit Union have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this annual report is consistent with the information in the financial statements, unless otherwise noted.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's board of directors, acting through its Audit and Risk Management Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our internal auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations.
The Provincial Superintendents of Financial Institutions may conduct an examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit and Risk Management Committee to discuss their audit and matters arising therefrom.

Launi Skinner
Chief Executive Officer

Thomas Webster
Chief Financial Officer

Independent Auditors' Report

To the Members of First West Credit Union

We have audited the accompanying consolidated financial statements of First West Credit Union, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of profit or loss, 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 First West Credit Union as at December 31, 2014, 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 Accountants
March 9, 2015
Vancouver, Canada

Consolidated Statement of Financial Position

FIRST WEST CREDIT UNION
(Expressed in thousands of dollars)

December 31, 2014, with comparative information for 2013

	Notes	2014	2013
Assets			
Cash resources	7	$ 384,048	$ 95,894
Derivative assets	8	16,176	8,897
Loans to members	9	5,581,463	5,421,470
Investments	10	356,327	461,304
Premises and equipment	11	53,225	51,497
Intangible assets	12	30,549	25,828
Deferred tax assets	23	4,045	4,243
Other assets	13	91,287	60,306
		$ 6,517,120	$ 6,129,439
Liabilities and Members' Equity			
Deposits from members	14	$ 5,733,955	$ 5,434,730
Borrowings	15	288,451	242,094
Deferred tax liabilities	23	8,022	8,991
Other liabilities	16	53,169	41,331
		6,083,597	5,727,146
Members' equity:			
Equity shares	17	33,364	36,646
Contributed surplus		61,270	61,270
Retained earnings		329,786	298,892
Accumulated other comprehensive income ("AOCI")		9,103	5,485
		433,523	402,293
Commitments and contingencies	25		
Subsequent event	30		
		$ 6,517,120	$ 6,129,439

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

Consolidated Statement of Profit or Loss

FIRST WEST CREDIT UNION
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Notes	2014	2013
Interest income:			
Loans		$ 214,585	$ 208,108
Cash resources and investments		16,406	16,215
		230,991	224,323
Interest expense:			
Deposits		88,128	87,486
Borrowings		6,681	7,606
		94,809	95,092
Net interest income	18	136,182	129,231
Provision for credit losses	9	7,473	6,800
		128,709	122,431
Fee and commission income	19	53,939	53,697
Other income	20	16,498	19,753
		199,146	195,881
Personnel expenses	21	95,876	90,727
Depreciation and amortization		11,715	14,162
Other expenses	22	52,202	50,177
		159,793	155,066
Profit before income tax expense		39,353	40,815
Income tax expense	23	7,279	3,093
Profit for the year		$ 32,074	$ 37,722

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FIRST WEST CREDIT UNION
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Profit for the year	$ 32,074	$ 37,722
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified to profit or loss:		
Hedging reserve (cash flow hedges):		
Net unrealized gain (loss), (net of income taxes of $1,330; 2013 - $(720))	5,000	(2,973)
Net amount transferred to profit or loss (net of income taxes of $(283); 2013 - $(529))	(1,062)	(2,170)
Fair value reserve (available-for-sale financial assets):		
Net change in fair value (net of income taxes of $(79); 2013 - $(15))	(320)	(60)
Total other comprehensive income, net of income taxes	3,618	(5,203)
Comprehensive income	$ 35,692	$ 32,519

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

FIRST WEST CREDIT UNION

(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings	Total
Balance at December 31, 2013	$ 36,646	$ 5,765	$ (280)	$ 61,270	$ 298,892	$ 402,293
Profit for the year	-	-	-	-	32,074	32,074
Other comprehensive income (loss), net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	5,000	-	-	-	5,000
Net amount transferred to profit	-	(1,062)	-	-	-	(1,062)
Fair value reserve (available-for-sale financial assets):						
Net change in fair value	-	-	(320)	-	-	(320)
Total other comprehensive income	-	3,938	(320)	-	-	3,618
Comprehensive income	-	3,938	(320)	-	32,074	35,692
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(1,180)	(1,180)
Redemptions of equity shares	(3,282)	-	-	-	-	(3,282)
	(3,282)	-	-	-	(1,180)	(4,462)
Balance at December 31, 2014	$ 33,364	$ 9,703	$ (600)	$ 61,270	$ 329,786	$ 433,523

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings	Total
Balance at December 31, 2012	$ 40,381	$ 10,908	$ (220)	$ 57,957	$ 262,470	$ 371,496
Profit for the year	-	-	-	-	37,722	37,722
Impact of business combination	-	-	-	3,313	-	3,313
Other comprehensive income (loss), net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	(2,973)	-	-	-	(2,973)
Net amount transferred to profit or loss	-	(2,170)	-	-	-	(2,170)
Fair value reserve (available-for-sale financial assets):						
Net change in fair value	-	-	(60)	-	-	(60)
Total other comprehensive income	-	(5,143)	(60)	-	37,722	35,832
Comprehensive income	-	(5,143)	(60)	-	37,722	32,519
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(1,300)	(1,300)
Redemptions of equity shares	(3,735)	-	-	-	-	(3,735)
Total distribution to members	(3,735)	-	-	-	(1,300)	(5,035)
Balance at December 31, 2013	$ 36,646	$ 5,765	$ (280)	$ 61,270	$ 298,892	$ 402,293

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

FIRST WEST CREDIT UNION
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Notes	2014	2013
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 32,074	$ 37,722
Adjustments for:			
Provision for credit losses	9	7,473	6,800
Depreciation and amortization		11,715	14,162
Net interest income		(136,182)	(129,231)
Income tax expense	23	7,279	3,093
Other		4,586	(6,094)
Changes in:			
Derivative, net		(6,367)	4,331
Loans to members		(167,717)	(223,793)
Other assets		(30,981)	(9,350)
Deposits from members		302,051	373,861
Equity shares		(3,282)	(3,735)
Other liabilities		12,521	(2,608)
Interest received		230,330	224,245
Interest paid		(97,648)	(95,285)
Dividends paid		(1,493)	(1,300)
Income tax received (paid)		(9,362)	5,258
Net cash flows provided by operating activities		154,997	198,076
Cash flows from investing activities:			
Acquisition of investments		(43,364)	(12,624)
Proceeds from sale of investments		142,960	7,687
Cash acquired on merger		-	17,320
Acquisition of:			
Premises and equipment, net		(6,501)	(5,706)
Intangibles, net		(6,282)	(59)
Net cash flows provided by investing activities		86,813	6,618
Cash flows from financing activities:			
Proceeds from borrowings		71,344	129,526
Repayment of borrowings		(25,000)	(349,916)
Net cash flows provided by (used in) financing activities		46,344	(220,390)
Net increase (decrease) in cash resources		288,154	(15,696)
Cash resources, beginning of year		95,894	111,590
Cash resources, end of year	7	$ 384,048	$ 95,894

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FIRST WEST CREDIT UNION

(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2014

1. REPORTING ENTITY:

First West Credit Union (the "Credit Union") is domiciled in Canada and its head office is located at 6470 - 201 Street, Langley, BC. The Credit Union is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) (the "Act"). The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2014 comprise the Credit Union and its subsidiaries (hereinafter together referred to as the "Credit Union" and individually as "Credit Union entities"). The Credit Union primarily is involved in retail and commercial banking, leasing services, asset management services, insurance brokerage and other integrated financial products and services.

2. BASIS OF PREPARATION:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2015.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

(*i*) derivative financial instruments are measured at fair value;

(*ii*) financial instruments are measured at fair value through profit or loss;

(*iii*) available-for-sale financial assets are measured at fair value; and

(*iv*) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. USE OF ESTIMATES AND JUDGMENTS:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Impairment losses on loans to members:

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be specifically identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) Income taxes:

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate applicable to credit unions under the Canadian Income Tax Act. An estimate of deposit, share and income growth based on the modeling of the Credit Union's business plan inclusive of economic indicators provides the basis in determining the applicability of the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, profit or loss would be affected in the subsequent year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

4. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union and its subsidiaries: First West Insurance Services Ltd., FW Wealth Management Ltd., First West Leasing Ltd., FWCU Capital Corp., 619547 BC Ltd., 637506 BC Ltd., and Western Interior Financial Ltd. In addition, the Credit Union accounts for a 50% interest in inUnison Financial Services Ltd. and through one of its wholly owned subsidiaries, a 50% interest in Bulkley Valley Insurance Services Ltd., as joint operations. All inter-corporate transactions and balances have been eliminated in preparing the consolidated financial statements.

(*i*) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Credit Union. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Credit Union takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after January 1, 2010, the Credit Union measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Credit Union elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Credit Union incurs in connection with a business combination are expensed as incurred.

In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under Canadian generally accepted accounting principles.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(a) Basis of consolidation (continued):

(*ii*) Subsidiaries:

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(*iii*) Special purpose entities:

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated, if based on an evaluation of the substance of its relationship with the Credit Union and the SPE's risks and rewards; the Credit Union concludes that it controls the SPE.

(b) Foreign currency:

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Interest:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and basis points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

4. Significant accounting policies (continued):

(c) Interest (continued):

Interest income and expense presented in the consolidated statement of profit or loss include:

(*i*) interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

(*ii*) interest on available-for-sale investment securities calculated on an effective interest basis;

(*iii*) the ineffective portion of fair value changes in qualifying hedging derivatives designated as cash flow hedges of variability in interest cash flows;

(*iv*) interest and expense on settlement of derivative contracts; and

(*v*) fair value changes on other derivatives held for risk management purposes.

(d) Fees and commissions:

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Dividends:

Dividend income is recognized when the right to receive income is established. Dividends are reflected as other income based on the underlying classification of the underlying equity investment.

(f) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Income taxes:

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Income taxes (continued):

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but the Credit Union intends to settle the assets and liabilities on a net basis or the tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Financial assets and financial liabilities:

(*i*) Recognition:

The Credit Union initially recognizes loans, deposits, and borrowings on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Financial assets and financial liabilities (continued):

(*ii*) Classification:

The Credit Union classifies its financial assets in one of the following categories:

- loans and receivables
- held-to-maturity ("HTM")
- available-for-sale ("AFS")
- fair value through profit or loss ("FVTPL") within the category as:
  - Held-for-trading; and
  - designated at FVTPL.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as other financial liability or fair value through profit or loss. See note 4(i), (k), (l) and (p).

(*iii*) Derecognition:

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. The Credit Union periodically transfers loans to SPEs through securitizations or through transfers to independent third parties. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivables to a transferee, the Credit Union fails de-recognition of the transferred receivables and records a secured borrowing with respect to any consideration received.

(*iv*) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legally enforceable right to set off the recognized amounts, when gross settlement is equivalent to net settlement, and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Financial assets and financial liabilities (continued):

(*v*) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Financial instruments classified as loans and receivables and HTM are measured at amortized cost.

(*vi*) Fair value measurement:

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants on the measurement date.

Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions used in valuation techniques include risk free and benchmark interest rates, credit spreads and discount rates.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate swaps and equity linked options that utilize observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the uncertainty associated with determining fair values.

For more complex instruments, the Credit Union uses proprietary valuation models, which are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Instruments involving significant unobservable inputs include certain mortgage investments and retained interest in securitizations. Management judgment and estimation are required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default, prepayment rates and selection of appropriate discount rates. Financial instruments classified at FVTPL are measured at fair value, with fair value changes recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Financial assets and financial liabilities (continued):

(*vi*) Fair value measurement (continued):

Financial instruments classified as AFS are non-derivative instruments and are measured at fair value. Foreign exchange gains or losses on AFS debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss. Other fair value changes are recognized in other comprehensive income.

When the investment is sold, the gain or loss accumulated in accumulated other comprehensive income is reclassified to profit or loss.

(vii) Fair value of financial instruments determined using valuation models:

The fair values of mortgage investments and retained interest from securitizations are determined by discounting contractual cash flows at risk adjusted discount rates.

(viii) Identification and measurement of impairment:

At each reporting date the Credit Union assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days.

The Credit Union considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and HTM investment securities are assessed for specific impairment. All individually significant loans and HTM investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and HTM investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and HTM investment securities with similar risk characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Financial assets and financial liabilities (continued):

(*viii*) Identification and measurement of impairment (continued):

In assessing collective impairment the Credit Union uses statistical modeling of historical trends of default experience, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Credit Union writes off certain loans to members when they are determined to be uncollectible (see note 9).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Cash resources:

Cash resources comprise unrestricted balances held with Central 1 Credit Union ("Central 1") and highly liquid financial assets with original maturities of less than three months from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash resources are carried at amortized cost in the consolidated statement of financial position. Cash and current accounts are classified as loans and receivables. Term deposits with maturities less than three months are classified as HTM.

(j) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other indices. In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps, caps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset and liability management program.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes qualitative and quantitative assessments, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. The Credit Union makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(*i*) Cash flow hedges:

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Derivatives and hedge accounting:

(*i*) Cash flow hedges (continued):

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the amount recognized in accumulated other comprehensive income is reclassified through other comprehensive income to profit or loss as a reclassification adjustment in the same period the previously hedged cash flows affect profit or loss. If the forecast transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(k) Loans to members:

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

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment. Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance for impaired loans plus accrued interest.

(l) Investments:

Investments are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for at amortized cost or fair value depending on their classification as either HTM, FVTPL, or AFS.

(m) Premises and equipment:

Premises and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Other equipment	3 - 10 years
Leasehold improvements	lease term

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(n) Intangible assets:

Intangible assets consist of computer software, goodwill, ICBC licenses and customer lists. Goodwill, ICBC licenses and customer lists arose from the acquisition of the Credit Union's subsidiaries. Intangible assets are initially recorded at cost. Intangible assets with finite lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Goodwill	indefinite
ICBC licenses	indefinite
Software	3 - 10 years
Customer list	7 - 10 years

Intangible assets with finite lives are assessed for impairment when impairment indicators are identified. When an impairment triggering event has occurred, any excess of carrying value over fair value is charged to profit or loss in the period in which impairment is determined.

(o) 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. When 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.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating-unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

(p) Deposits from members and borrowings:

Deposits from members and borrowings are the Credit Union's sources of primary funding.

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits from members and borrowings are designated as other financial liabilities and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(q) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with that contract.

(r) Employee benefits:

The Credit Union operates various pension plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit pension plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability is recognized in the Credit Union's consolidated statement of financial position. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income as they are incurred.

(*ii*) Post-employment health care benefits:

The Credit Union operates a number of post-employment health care benefit plans. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(r) Employee benefits (continued):

(*iii*) Defined contribution pension plans:

For defined contribution plans, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(*iv*) Participation in multi-employer pension plans:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan (the "Plan") administered by Central 1 Credit Union. Each member Credit Union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed the Credit Union that they are not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, the Credit Union's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 24.

(s) Change in accounting policies:

The Credit Union has adopted the following new or amended standards with an initial application date of January 1, 2014:

IAS 32 – Offsetting Financial Assets and Financial Liabilities (Amended)

Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The impact of adopting the amendments to IAS 32 did not have a significant impact on these consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(t) Standards and interpretations issued but not yet effective:

At December 31, 2014, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which may be relevant to the Credit Union's consolidated financial statements are set out below.

(i) IFRS 9 Financial Instruments:

IFRS 9, issued July 2014 replaces IAS 39, Financial Instruments: Recognition and Measurement and deals with classification and measurement of financial assets and liabilities. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The changes will affect the classification and measurement of financial assets and liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

The mandatory effective dates of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied. The extent of the impact of adoption of IFRS 9 has not yet been determined.

(ii) IFRS 15 Revenue form contracts with customers:

IFRS 15 replaces IAS 11, Construction contracts, IAS 18, Revenue and related interpretations. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or serves.

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The mandatory effective date of IFRS 15 is January 1, 2017 and is required to be applied retrospectively when initially applied. The extent of the impact of adoption of IFRS 15 has not yet been determined.

5. FINANCIAL RISK MANAGEMENT:

(a) Introduction and overview:

The Credit Union is exposed to the following risks from holding financial instruments: credit risk, liquidity risk, market risk, operational risk and capital risk. The following is a description of those risks and how the Credit Union manages them.

(b) Credit risk:

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in note 9; but also from interest rate swaps (derivatives) as described in note 8.

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic and industry factors.

Management of credit risk:

Credit risk is managed in accordance with our lending policy approved by the Board of Directors. Risk limits and credit authorities are delegated to the Credit Risk Committee, comprised of executive and senior credit management staff, which in turn delegates appropriate limits to lending staff. Credit exposures in excess of certain levels require approval from the Credit Risk Committee.

The Investment and Loan Committee ("ILC") meets quarterly to review portfolio credit quality, industry and member concentrations, and adequacy of loan allowances. Policies relating to single member limits and industry and geographic concentration are approved by the Board.

The Credit Union's Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and reviews branch credit decisions to ensure compliance to policy. The Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Loan exposures are managed and monitored through facility limits for individual borrowers, credit type, industry exposure and a credit review process. These reviews ensure the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(b) Credit risk (continued):

Maximum exposure to credit risk:

The following table presents the maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments. For financial assets recognized on the balance sheet, the maximum exposure to credit risk without taking account of any collateral held equals their carrying amount. For loan commitments and other credit-related commitments that are irrevocable, the maximum exposure to credit risk without taking account of any collateral held, is the full amount of the committed facilities.

	2014	2013
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	$ 5,596,363	$ 5,433,318
Derivatives	16,176	8,897
Term deposits and other securities	645,048	490,567
	6,257,587	5,932,782
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	48,760	38,859
Unadvanced loans and lines of credit	1,499,356	1,276,662
	1,548,116	1,315,521
Maximum exposure	$ 7,805,703	$ 7,248,303

Collateral and other credit enhancements:

It is the Credit Union's lending policy to assess the member's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the member's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

Credit quality of financial assets neither past due nor impaired:

The credit quality of the portfolio of loans that were neither past due nor impaired can be assessed by reference to the categories below, on which the following information is based:

	2014	2013
Satisfactory risk	$ 5,429,329	$ 5,264,994
Special mention	65,912	37,883
	$ 5,495,241	$ 5,302,877

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(b) Credit risk (continued):

Credit quality of financial assets neither past due nor impaired (continued):

Satisfactory risk includes commercial facilities demonstrating financial conditions, risk factors and the capacity to repay ranging from satisfactory to excellent and retail facilities that are maintained within and outside of generally applicable product parameters without being impaired.

Special mention includes facilities that require varying degrees of special attention due to terms and conditions of credit that are not met.

Information in respect of geographic concentrations is included in note 9.

Loans past due but not impaired:

Examples of exposures considered past due but not impaired include loans to members that have missed the most recent payment date but on which there is no evidence of impairment or they are fully secured by cash collateral. Loans past due greater than 60 days are included on the watch list.

The aging analysis below includes past due loans to members on which a collective allowance has been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

	2014	2013
Past due up to 29 days	$ 73,493	$ 83,894
Past due 30 - 59 days	5,801	12,473
Past due greater than 60 days	1,327	6,024
	$ 80,621	$ 102,391

Impaired loans:

When impairment losses occur, the carrying amount of the loan is reduced by the loss amount through the use of a specific allowance account.

Individual accounts are treated as impaired when they are past due 90 days, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest, or earlier if there is objective evidence that an impairment loss has been incurred.

	2014	2013
Impaired loans	$ 20,501	$ 28,050

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(b) Credit risk (continued):

Impaired loans (continued):

The fair value of the collateral held by the Credit Union as security for impaired loans was $12,255 (2013 - $23,748). The Credit Union has estimated the fair value of the collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

Accrued interest of $796 (2013 - $952) has been accrued on the impaired loans but a specific allowance of $734 (2013 - $720) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

(c) Liquidity risk:

Liquidity risk is the risk of the Credit Union being unable to meet its obligations associated with its financial liabilities that are settled by cash or other financial assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

Liquidity risk is managed in accordance with our liquidity policy approved by the Board of Directors. The liquidity policy of the Credit Union is that liquidity is managed on both an operational and strategic level on a total basis. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. Contingency liquidity is managed by having a plan in place that can be invoked very quickly, as well as having a diversity of funding sources arranged that can be accessed when needed. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The liquidity deposits must be held on deposit with the Central 1 Credit Union as per the Credit Union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits from members and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2014 the Credit Union's liquidity exceeds minimum statutory requirements by $155.8 million (2013 - $50.7 million).

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(d) Market risk:

The principal market risk to which the Credit Union is exposed to is the risk of loss from fluctuations in the future cash flows of a financial instrument because of changes in interest rates.

Interest rate risk arises when the market values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This interest rate risk includes yield curve risk, basis risk, optionality risk and interest rate path risk.

The primary objectives of the Credit Union's market risk management process include: maximize earnings and return on capital within acceptable and controllable levels of the above risks; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain policies and procedures that are consistent with the short- and long-term strategic goals of the Board of Directors.

Risk measurement:

The Credit Union's risk position is measured based upon the potential impact of changes in market conditions. The Asset Liability Committee ("ALCO") is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Responsibilities include:

(*i*) approval and review of pricing, investment, liquidity, derivative, foreign exchange, and asset-liability policies;

(*ii*) review of deviations between actual performance and projected plans;

(*iii*) review of the management of interest rate sensitivity and financial margin including investing, liquidity management, hedging, and securitization activities;

(*iv*) approval of Asset-Liability and hedging strategies to manage interest rate risk in order to achieve policies;

(*v*) evaluation of the current interest rate risk position and the potential effect on its Asset Liability Management ("ALM") strategy; and

(*vi*) review and monitoring of key risk modeling assumptions.

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(d) Market risk (continued):

Risk measurement (continued):

The Credit Union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12 months based on:

(*i*) the current asset and liability structure;

(*ii*) scheduled maturity and re-pricing of the assets and liabilities;

(*iii*) several hundred randomly generated interest rate paths composed around a base rate forecast;

(*iv*) a volatility percentage of randomly generated key rates; and

(*v*) assumptions regarding member behavior and changes in composition of assets and liabilities.

Growth assumptions are based on business plans. Member behaviour assumptions to assess embedded options in deposit and loan portfolios are based on analysis of trend information and management judgment.

The Credit Union will assess the results of the monthly forecast simulations. The maximum allowable risk exposure will be as follows:

Earnings at risk:

Earnings at risk is defined as the percentage of the reduction in the financial margin given a 1% increase and decrease in interest rates. A reduction in financial margin is not to exceed 10% of the next 12 months' financial margin resulting from this test.

Duration of equity:

The effective duration of equity is defined as the percentage change in the market value of equity (including retained earnings, equity shares and derivatives) given a 1% change in interest rates. The 1% change will consist of a 50 bp shock up and a 50 bp shock down. Given this 1% change, the effective duration of equity will not exceed a maximum of 10%.

The following table shows the results of these forecast simulations as at December 31, 2014:

	Policy limit	2014	Impact	2013	Impact
Earnings at risk	10%	0.4%	$ 506	(2.2)%	$(2,999)
Duration of equity	+/-10%	2.2%		1.5%	

As at December 31, 2014 and 2013, the Credit Union was within policy limits.

(e) Capital management:

The Credit Union is regulated under the Act and is required to maintain a capital level at a minimum of 8% of risk-weighted assets.

When determining the sufficiency of capital, the Credit Union includes in its calculation amounts permitted by the Act including:

(*i*) retained earnings and contributed surplus;

(*ii*) equity shares;

(*iii*) system capital; and

(*iv*) other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority.

Total capital above is reduced by:

(*i*) goodwill and other intangible assets;

(*ii*) investments with banks/trusts and other;

(*iii*) securitization deferred payment accounts; and

(*iv*) investment in Venture Capital Corporations.

As at December 31, 2014 and 2013, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2014	2013
Primary capital	$ 428,397	$ 399,543
Secondary capital	51,787	47,421
Deductions from capital	(20,601)	(20,139)
Total capital	$ 459,583	$ 426,825

5. FINANCIAL RISK MANAGEMENT (CONTINUED):

(e) Capital management (continued):

The Credit Union management ensures compliance with capital adequacy through the following:

(*i*) identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;

(*ii*) developing and submitting to the Board of Directors for its consideration and approval appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;

(*iii*) regularly measuring and monitoring capital requirements and capital position, and ensuring the Credit Union meets and will continue to meet its capital requirements;

(*iv*) managing the capital in accordance with the capital management policies;

(*v*) establishing appropriate and effective procedures and controls for managing the capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;

(*vi*) providing the Board of Directors with appropriate reports on the capital position and on the procedures and controls for managing the capital; and

(*vii*) providing the Board of Directors with appropriate reports that will enable it to assess whether the institution has an ongoing effective capital management process.

Stress testing of the capital level is performed at minimum on an annual basis. The tests include a variety of scenarios that vary the growth and income assumptions. They include a test for the current year as well as for the plan period. A sufficient number of scenarios are performed to ensure that sensitivity levels can be reasonably assessed and planned for.

A three year capital plan is reviewed and approved by the Board of Directors annually.

Distributions of capital, such as share dividends, are only made after targets in the capital plan have been met. Each distribution must be approved by the Board of Directors.

The ILC is responsible for developing and conducting an annual review of capital management procedures relative to the policy requirements established. The ILC reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the ILC, reviews any written correspondence from the Financial Institutions Commission (“FICOM”) regarding capital management matters, and investigates and responds as appropriate.

6. FINANCIAL ASSETS AND LIABILITIES:

The table below set out the classifications and carrying amounts of the Credit Union's financial assets and liabilities:

2014	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	$ -	$ 306,160	$ 77,888	$ -	$ -	$ 384,048
Derivative assets	16,176	-		-	-	16,176
Loans to members	-	-	5,581,463	-	-	5,581,463
Term deposits and other	-	263,923	-	74,965	-	338,888
Deposits from members	-	-	-	-	5,733,955	5,733,955
Borrowings	-	-	-	-	288,451	288,451

2013	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	$ -	$ 54,975	$ 40,919	$ -	$ -	$ 95,894
Derivative assets	8,897	-	-	-	-	8,897
Loans to members	-	-	5,421,470	-	-	5,421,470
Term deposits and other	-	392,484	-	43,108	-	435,592
Deposits from members	-	-	-	-	5,434,730	5,434,730
Borrowings	-	-	-	-	242,094	242,094

7. CASH RESOURCES:

	2014	2013
Cash and current accounts	$ 77,888	$ 40,919
Term deposits	306,160	54,975
	$ 384,048	$ 95,894

8. DERIVATIVES:

	Fair value			
	2014		2013	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 12,715	$ -	$ 6,705	$ 538
Pay fixed swaps	91	7	-	-
	12,806	7	6,705	538
Other derivatives:				
Interest rate options	58	-	1,543	-
Equity linked options	1,933	-	182	-
	1,991	-	1,725	-
Accrued interest	1,379	-	467	-
Total fair value	$ 16,176	$ 7	$ 8,897	$ 538

	Notional amount			
	Within 1 year	Over 1 year	2014	2013
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 50,000	$ 734,000	$ 784,000	$ 384,000
Pay fixed swaps	-	250,000	250,000	-
	50,000	984,000	1,034,000	384,000
Other derivatives:				
Interest rate options	113,800	3,500	117,300	135,300
Equity linked options	3,404	20,952	24,356	15,253
	117,204	24,452	141,656	150,553
Total notional amount	$ 167,204	$ 1,008,452	$ 1,175,656	$ 534,553

The following table summarizes the time periods in which the hedged cash flows are expected to occur and affect profit or loss:

2014	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 66,346	$ 16,815	$ 49,531	$ -
Liabilities	(5,603)	(1,465)	(4,138)	-
Total cash inflow	$ 60,743	$ 15,350	$ 45,393	$ -

8. DERIVATIVES (CONTINUED):

2013	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 24,844	$ 5,616	$ 19,228	$ -
Total cash inflow	$ 24,844	$ 5,616	$ 19,228	$ -

During the year, the Credit Union recognized a gain of $330 (2013 - $256) for ineffectiveness in cash flow hedges, which is recognized in net interest income in the statement of profit or loss.

9. LOANS TO MEMBERS:

	2014	2013
Residential mortgages	$ 2,749,708	$ 2,721,682
Personal loans	191,111	202,340
Personal lines of credit	918,325	907,593
Commercial mortgages	1,544,629	1,402,867
Commercial loans	71,319	77,129
Commercial lines of credit	112,597	112,782
Accrued interest	8,674	8,925
	5,596,363	5,433,318
Allowance for credit losses:		
Specific	(4,410)	(4,148)
Collective	(10,490)	(7,700)
	(14,900)	(11,848)
	$ 5,581,463	$ 5,421,470

Allowance for credit losses:

	Beginning balance	Provision	Write-offs	2014 Ending balance	2013 Ending balance
Residential mortgages	$ 1,127	$ 2,000	$ (743)	$ 2,384	$ 1,127
Personal loans	3,271	2,273	(1,544)	4,000	3,271
Personal lines of credit	2,208	400	(1,085)	1,523	2,208
Commercial mortgages	3,039	2,500	(577)	4,962	3,039
Commercial loans	1,351	50	(17)	1,384	1,351
Commercial lines of credit	852	250	(455)	647	852
	$ 11,848	$ 7,473	$ (4,421)	$ 14,900	$ 11,848
Percentage of total loans and accrued interest				0.27%	0.22%

9. LOANS TO MEMBERS (CONTINUED):

Impaired loans and related allowances:

	Loan balances	Specific allowances	2014 Carrying amount	2013 Carrying amount
Personal loans:				
Residential mortgages	$ 7,660	$ 645	$ 7,015	$ 6,974
Loans and lines of credit	1,248	597	651	3,251
Commercial loans:				
Commercial mortgages	9,639	2,683	6,956	12,737
Commercial loans and lines of credit	1,954	485	1,469	940
	$ 20,501	$ 4,410	$ 16,091	$ 23,902

Concentrations of credit risk:

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region. This risk may indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk is mitigated through the Credit Union's diversified geographic service area including the Lower Mainland, Fraser Valley, Kitimat, Smithers, Okanagan, Similkameen and Thompson areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 20% (2013 - 26%) of its residential mortgages insured against credit loss.

10. INVESTMENTS:

	2014	2013
Central 1 Credit Union shares	$ 23,087	$ 21,564
Term deposits callable or maturing in three months or more	263,923	392,484
Leased vehicles (net of accumulated amortization of $9,629 (2013 - $15,585))	17,439	25,712
Other	51,878	21,544
	$ 356,327	$ 461,304

Investment in shares of Central 1 Credit Union are required by governing legislation and are a condition of membership in Central 1 Credit Union, are classified as available-for-sale. Available-for-sale investments with significant variability in the range for fair values estimates based on valuation models are recorded at cost.

Amortization for the year in respect to leased vehicles amounted to $5,381 (2013 - $7,870).

11. PREMISES AND EQUIPMENT:

2014	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance at December 31, 2013	$ 10,895	$ 25,484	$ 20,211	$ 43,323	$ 99,913
Acquisitions	-	630	3,410	5,418	9,458
Disposals	-	-	(77)	(27,263)	(27,340)
Balance at December 31, 2014	$ 10,895	$ 26,114	$ 23,544	$ 21,478	$ 82,031
Accumulated depreciation and impairment losses:					
Balance at December 31, 2013	$ -	$ 4,192	$ 10,585	$ 33,639	$ 48,416
Disposals	-	-	(42)	(24,341)	(24,383)
Depreciation	-	1,125	1,349	2,299	4,773
Balance at December 31, 2014	$ -	$ 5,317	$ 11,892	$ 11,597	$ 28,806
Carrying amounts:					
Balance at December 31, 2014	$ 10,895	$ 20,797	$ 11,652	$ 9,881	$ 53,225

2013	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance at December 31, 2012	$ 11,532	$ 24,598	$ 17,918	$ 39,112	$ 93,160
Acquisitions	160	1,852	2,293	4,523	8,828
Disposals	(797)	(966)	-	(312)	(2,075)
Balance at December 31, 2013	$ 10,895	$ 25,484	$ 20,211	$ 43,323	$ 99,913
Accumulated depreciation and impairment losses:					
Balance at December 31, 2012	$ -	$ 3,046	$ 9,213	$ 31,462	$ 43,721
Disposals	-	-	-	(16)	(16)
Depreciation	-	1,146	1,372	2,193	4,711
Balance at December 31, 2013	$ -	$ 4,192	$ 10,585	$ 33,639	$ 48,416
Carrying amounts:					
Balance at December 31, 2013	$ 10,895	$ 21,292	$ 9,626	$ 9,684	$ 51,497

12. INTANGIBLE ASSETS:

2014		Goodwill		ICBC licenses		Customer list		Software		Total
Cost:										
Balance at December 31, 2013	$	12,510	$	7,130	$	2,205	$	14,439	$	36,284
Acquisitions		-		-		-		6,533		6,533
Disposals		-		-		-		(3,867)		(3,867)
Balance at December 31, 2014	$	12,510	$	7,130	$	2,205	$	17,105	$	38,950
Accumulated amortization and impairment losses:										
Balance at December 31, 2013	$	1,532	$	-	$	440	$	8,484	$	10,456
Disposals		-		-		-		(3,616)		(3,616)
Amortization		-		-		221		1,340		1,561
Balance at December 31, 2014	$	1,532	$	-	$	661	$	6,208	$	8,401
Carrying amounts:										
Balance at December 31, 2014	$	10,978	$	7,130	$	1,544	$	10,897	$	30,549

2013		Goodwill		ICBC licenses		Customer list		Software		Total
Cost:										
Balance at December 31, 2012	$	12,510	$	7,130	$	2,205	$	14,399	$	36,244
Acquisitions		-		-		-		59		59
Disposals		-		-		-		(19)		(19)
Balance at December 31, 2013	$	12,510	$	7,130	$	2,205	$	14,439	$	36,284
Accumulated amortization and impairment losses:										
Balance at December 31, 2012	$	1,532	$	-	$	220	$	7,142	$	8,894
Disposals		-		-		-		(19)		(19)
Amortization		-		-		220		1,361		1,581
Balance at December 31, 2013	$	1,532	$	-	$	440	$	8,484	$	10,456
Carrying amounts:										
Balance at December 31, 2013	$	10,978	$	7,130	$	1,765	$	5,955	$	25,828

13. OTHER ASSETS:

		2014		2013
Accounts receivable	$	17,825	$	16,860
Financing lease receivables		63,853		34,119
Prepaid expenses		9,609		9,327
	$	91,287	$	60,306

14. DEPOSITS FROM MEMBERS:

	2014	2013
Demand	$ 1,722,996	$ 1,570,274
Term	3,144,659	3,013,436
Registered savings plans	824,506	806,376
Class A membership shares	6,260	6,284
Accrued interest and dividends	35,534	38,360
	$ 5,733,955	$ 5,434,730

The Credit Union Deposit Insurance Corporation of British Columbia, a statutory corporation, fully guarantees all deposits. Credit Union equity shares and investments such as mutual funds or RSP equity plans are not covered by deposit insurance.

Class A membership shares are preferred and redeemable, and accordingly are classified as deposits. An unlimited number of voting Class A membership shares are authorized with a par value of $1.

Class A membership shares shall be entitled to dividends at such rate, payable at such time or times, and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

Under agreements with trustees of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

The following table summarizes the time periods in which deposits from members are contractually payable by the Credit Union:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Greater than 3 years	Total
2014	$ 2,164,670	$ 445,701	$ 1,779,651	$ 1,247,667	$ 96,266	$ 5,733,955
2013	1,906,382	352,362	1,814,478	1,261,839	99,669	5,434,730

15. BORROWINGS:

		2014		2013
Money market loan	$	-	$	25,000
Obligation under CMB program (note 26)		288,242		216,898
Accrued interest		209		196
	$	288,451	$	242,094

The Credit Union has three approved lines of credit totaling $474 million. Security for the first line of credit is an assignment of loans to members, amounts receivable, and a demand debenture to the lender. For the second line of credit, security is provided by a first charge against specific CMHC insured realty mortgages to a maximum of 110% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific insured realty mortgages to a maximum of 110% of the outstanding balance.

16. OTHER LIABILITIES:

		2014		2013
Accounts payable and accrued liabilities	$	42,606	$	32,936
Deferred revenue		10,556		7,857
Derivative liabilities (note 8)		7		538
	$	53,169	$	41,331

17. EQUITY SHARES:

The Credit Union has authorized Class B, C, and D equity shares, which have a par value and redemption value of $1 each.

The rules of the Credit Union state that the annual redemption of Class B, C, and D shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class B, C, and D shares shall be entitled to dividends at such rate, payable at such time or times and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

17. EQUITY SHARES (CONTINUED):

Class B, C, and D equity shares are not guaranteed by CUDIC. The Credit Union has issued:

	2014	2013
Class B non-voting investment equity shares, unlimited number authorized	$ 7,050	$ 7,480
Class C non-voting investment equity shares, unlimited number authorized	16,586	18,121
Class D non-voting retirement plan equity shares, unlimited number authorized	9,728	11,045
	$ 33,364	$ 36,646

18. NET INTEREST INCOME:

	2014	2013
Interest income:		
Cash resources	$ 6,817	$ 6,925
Financial assets:		
Derivative assets	8,621	8,456
Available-for-sale	968	834
Loans to members	207,371	201,851
Assets pledged as collateral	7,214	6,257
	230,991	224,323
Interest expense:		
Deposits from members	88,128	87,486
Secured borrowings	5,931	4,446
Wholesale borrowings	750	3,160
	94,809	95,092
Net interest income	$ 136,182	$ 129,231

19. FEE AND COMMISSION INCOME:

	2014	2013
Insurance commissions and fees	$ 22,934	$ 24,566
Account service fees	10,000	9,271
Loan administration fees	8,940	8,781
Fees from fiduciary activities and mutual funds	9,670	8,621
Foreign exchange	2,395	2,458
	$ 53,939	$ 53,697

20. OTHER INCOME:

	2014	2013
Securitization	$ 217	$ 1,272
Leasing revenue	10,391	12,740

Other	5,890	5,741
	$ 16,498	$ 19,753

21. PERSONNEL EXPENSES:

	2014	2013
Salaries	$ 75,682	$ 71,354
Benefits	11,363	11,453
Pension	6,378	5,551
Other	2,453	2,369
	$ 95,876	$ 90,727

22. OTHER EXPENSES:

	2014	2013
Administration	$ 31,031	$ 29,337
Data processing	9,275	9,197
Occupancy	11,896	11,643
	$ 52,202	$ 50,177

23. INCOME TAX EXPENSE:

	2014	2013
Current income tax	$ 8,049	$ 3,806
Deferred income tax	(770)	(713)
	$ 7,279	$ 3,093

23. INCOME TAX EXPENSE (CONTINUED):

Reconciliation of effective tax rate:

	2014	2013
Combined federal and provincial statutory tax rate	26.0%	25.8%
Credit Union preferred rate reduction	(4.1%)	(5.6%)
Change in estimated tax rate	-	(8.1%)
Over-provided in prior years	(3.7%)	(2.1%)
Change in predicted future rates	0.8%	(1.9%)
Other	(0.5%)	(0.5%)
	18.5%	7.6%

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

		2014		2013
Deferred tax assets:				
Allowance for impairment of loans	$	2,089	$	2,182
Other accrued expenses		1,849		1,857
Other		107		204
	$	4,045	$	4,243
Deferred tax liabilities:				
Intangible assets	$	3,150	$	3,207
Investments and other		1,510		2,222
Premises and equipment		3,362		3,562
	$	8,022	$	8,991

Deferred tax that is expected to reverse to the year 2024 has been measured using the statutory rate that will apply for the period, 26.00% (2013 - 26.00%). The weighted average applicable tax rate was 20.38% (2013 - 26.89%).

As at December 31, 2014, deferred tax liabilities for temporary differences of $12,534 (2013 - $9,505) were not recognized as the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

24. PENSION AND POST-RETIREMENT BENEFITS:

The Credit Union provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Credit Union employees upon or after retirement.

The Credit Union funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by the Credit Union at the time of entitlement. Contributions for the defined contribution plan are paid by the Credit Union on an annual basis.

Supplemental retirement plans

The accrued benefit obligation and plan assets for defined benefit and supplemental retirement plans were actuarially measured for accounting purposes as of December 31, 2014 (prior period was measured at December 31, 2013). The effective date of the last actuarial valuation report for funding purposes was December 31, 2014 and the effective date of the next required actuarial valuation report will be December 31, 2015.

Pension benefits included in personnel expenses (note 21):

	2014	2013
Pension benefits:		
Defined contribution and multi-employer plan expense	$ 6,281	$ 5,437
Defined benefit plan expense	97	114
	$ 6,378	$ 5,551

Participation in multi-employer plan (the "Plan"):

The Credit Union is one of several employers that participates in the BC Credit Union Employees' Pension Plan. The Plan is a multi-employer contributory defined benefit pension plan governed by a 12-member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Plan, as at December 31, 2014, has about 3,100 active employees and approximately 550 retired plan members. Total plan assets are $354 million.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation, which was conducted as at December 31, 2012, indicated a going concern unfunded liability of $32.3 million and a solvency deficiency of $129.9 million. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. The Credit Union paid $3,404 for employer contributions to the plan in fiscal year 2014 (2013 - $2,270).

24. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED):

Participation in multi-employer plan (the "Plan") (continued):

The next actuarial valuation is scheduled for December 31, 2015 with results available in mid-2016. The Trustees of the Plan may, however, decide to conduct an valuation sooner than December 31, 2015.

25. COMMITMENTS AND CONTINGENCIES:

(a) Premises, computer services and equipment:

The Credit Union has branch lease commitments for its premises extending through to 2019 and thereafter.

For computer services and equipment, the Credit Union has computer services and hardware operating leases through to 2019 and thereafter.

The following table summarizes the approximate operating lease payments over the next five years:

	Premises	Computer services and equipment
2015	$ 7,306	$ 2,319
2016	5,350	1,523
2017	4,008	1,348
2018	3,294	1,293
2019	2,450	56
Thereafter	3,030	-

(b) Legal proceedings:

The Credit Union has claims and legal proceedings brought against it that arise from usual business activities. The Credit Union contests the validity of these claims and proceedings. While the outcome of outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Credit Union's financial position.

26. SECURITIZATIONS:

The Credit Union periodically enters into agreements with Central 1 and other third parties which may include securitization of residential mortgages into SPE's which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfers 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 have been 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. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was $95,786 (2013 - $110,938). The Credit Union also has recognized $95,701 (2013 - $116,532) of secured borrowing relating to 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 to members and they are pledged as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 2.09% (2013 - 2.22%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. The principal balance of CMB pools are due at maturity with a bullet payment.

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.

Type of loan	Total principal	Principal amount over 60 days past due
Residential mortgages	$ 243,536	$ -

26. SECURITIZATIONS (CONTINUED):

The secured borrowings mature as follows:

Maturity		% Rate	Secured borrowings
January 1	2016	1.61	$ 14,891
February 1	2016	2.74	49,453
May 1	2016	2.65	3,034
May 1	2016	1.63	8,721
July 1	2017	1.72	30,519
January 1	2018	1.71	38,566
July 1	2018	2.47	33,287
July 1	2018	2.47	7,557
August 1	2018	2.37	6,660
March 1	2018	1.87	27,509
March 1	2019	1.91	10,522
April 1	2019	1.85	5,045
May 1	2019	1.94	4,713
November 1	2019	2.05	39,738
November 1	2019	1.93	8,027
			$ 288,242

27. INTEREST RATE SENSITIVITY:

Interest rate risk is the sensitivity of Credit Union's financial position to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates and are summed to show the interest rate sensitivity gap (mismatch).

27. INTEREST RATE SENSITIVITY (CONTINUED):

December 31, 2014:

	Within 3 months		4 – 12 months		Over 1 year			
	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 360,061	0.91	$ -	-	$ -	-	$ 23,987	$ 384,048
Loans	2,463,432	4.06	669,535	3.87	2,453,778	3.71	(5,282)	5,581,463
Other	135,329	0.84	87,376	1.58	102,830	2.61	226,074	551,609
	2,958,822	3.53	756,911	3.61	2,556,608	3.66	244,779	6,517,120
Liabilities:								
Member deposits	1,694,058	1.74	1,698,188	1.91	1,040,516	2.09	1,301,193	5,733,955
Borrowings and other	13,145	2.34	12,570	3.37	280,903	2.62	43,024	49,642
	1,707,203	1.75	1,710,758	1.92	1,321,419	2.20	1,344,217	6,083,597
Balance sheet mismatch	1,251,619		(953,847)		1,235,189		(1,099,438)	433,523
Derivatives, notional value:								
Asset	250,000	1.28	50,000	3.41	734,000	2.23	-	1,034,000
Liability	(784,000)	1.28	-	-	(250,000)	1.34	-	(1,034,000)
	(534,000)		50,000				484,000	-
Net mismatch	$ 717,619		$ (903,847)		$ 1,719,189		$ (1,099,438)	$ 433,523

27. INTEREST RATE SENSITIVITY (CONTINUED):

December 31, 2013:

	Within 3 months		4 – 12 months		Over 1 year			
	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 73,351	0.86	$ -	-	$ -	-	$ 22,543	$ 95,894
Loans	2,342,252	3.94	540,080	4.02	2,540,571	3.84	(1,433)	5,421,470
Other	87,876	0.85	155,390	1.22	184,387	2.41	2,503,479	612,075
	2,503,479	3.74	695,470	3.40	2,724,958	3.74	2,524,589	6,129,439
Liabilities:								
Member deposits	1,795,747	1.70	1,767,448	1.95	874,279	2.19	997,256	5,434,730
Borrowings and other	38,725	1.95	22,566	3.99	204,546	2.66	26,579	292,416
	1,834,472	1.71	1,790,014	1.97	1,078,825	2.28	1,023,835	5,727,146
Balance sheet mismatch	669,007		(1,094,544)		1,646,133		(818,303)	402,293
Derivatives, notional value:								
Asset	-	-	-	-	384,000	2.85	-	384,000
Liability	(384,000)	1.29	-	-	-	-	-	(384,000)
	(384,000)		-		384,000	-	-	-
Net mismatch	$ 285,007		$ (1,094,544)		$ 2,030,133		$ (818,303)	$ 402,293

28. FAIR VALUES OF FINANCIAL INSTRUMENTS:

The following table presents approximate fair values of the Credit Union's financial instruments, including derivatives.

Where available, the fair value of loans is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using discounted cash flow models. Input into the valuation models includes expected lifetime credit losses, interest rates, prepayment rate and interest spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

The fair value of deposits is estimated using discounted cash flow models, applying the interest rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand approximate their carrying value.

Fair values of other financial instruments are assumed to approximate their carrying value, principally due to their short-term nature. Fair values of derivative financial instruments are based on market price quotations.

These fair values, presented for information only, reflect conditions that existed at the date of the statement of financial position. For financial instruments carried at cost or amortized cost, the fair value calculations for these instruments are based on Level 2 inputs.

	2014			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$ 384,048	$ 384,034	$ (14)	$ 95,894	$ 95,889	$ (5)
Loans	5,581,463	5,609,486	28,023	5,421,470	5,452,572	31,102
Investments	356,327	358,263	1,936	461,304	464,493	3,189
Other	179,106	179,106	-	60,306	60,306	-
			29,945			34,286
Liabilities:						
Deposits	$ 5,733,955	$ 5,742,663	$ (8,708)	$ 5,434,730	$ 5,451,537	$ (16,807)
Borrowing	288,451	290,713	(2,262)	242,094	242,303	(209)
Other	61,191	61,191	-	41,331	41,331	-
			(10,970)			(17,016)
Derivative contracts	16,176	16,176	-	8,897	8,897	-
Net fair value difference			$ 18,975			$ 17,270

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED):

The Credit Union measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Unadjusted quoted prices in active markets for identical instruments;

Level 2: Inputs other than quoted prices in Level 1 that are observable for the instrument either directly or indirectly; and

Level 3: Inputs for the instrument that are not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation.

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. No transfer has been made into or out of Level 1 and Level 2 during the year.

Financial instruments measured at fair value December 31, 2014:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest Rate Swaps	$ -	$ 12,864	$ -	$ 12,864
Other	-	1,933	-	1,933
Financial investments available-for-sale:				
Shares	-	90,563	-	90,563
	$ -	$ 105,360	$ -	$ 105,360
Financial liabilities				
Derivative financial instruments:				
Interest Rate Swaps	$ -	$ 7	$ -	$ 7

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED):

Financial instruments measured at fair value December 31, 2013:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest Rate Swaps	$ -	$ 6,705	$ -	$ 6,705
Other	-	1,725	-	1,725
Financial investments available-for-sale:				
Shares	-	57,884	-	57,884
Retained interests in securitizations	-	-	27	27
Government bonds	9,074	-	-	9,074
	$ 9,074	$ 66,314	$ 27	$ 75,415
Financial liabilities				
Derivative financial instruments:				
Interest Rate Swaps	$ -	$ 538	$ -	$ 538

The following table reconciles the Credit Union's Level 3 fair value measurements from December 31, 2013 to December 31, 2014:

Fair value measurements using Level 3 inputs:	
Balance as at December 31, 2013	$ 27
Settlements	(27)
Balance at December 31, 2014	$ -

29. OTHER RELATED PARTY INFORMATION:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, post-employment benefit plans, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union including the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Senior Vice President Enterprise Risk Management, Senior Vice President People Services, Senior Vice President, Operations, Sales, and Member Experience, Senior Vice President Governance and Corporate Strategy, Senior Vice President, Marketing, President Envision Financial and the President Valley First.

29. OTHER RELATED PARTY INFORMATION (CONTINUED):

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits:

The Credit Union provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2014 were loans of $2,572 (2013 - $4,361) and deposits of $893 (2013 - $1,039). No individual allowances for credit losses have been recognized with respect to these loans (2013 - nil).

(b) Key management compensation:

		2014		2013
Salaries and short-term employee benefits	$	3,860	$	3,904
Post-retirement and termination benefits		169		186
	$	4,029	$	4,090

At December 31, 2014, outstanding loans to directors, officers and employees of the Credit Union amounted to $136,755 (2013 - $157,906). All such loans were granted in accordance with normal lending terms. Employee loans are recorded at their fair value in the consolidated statement of financial position with the difference between market values and carrying values being recognized as personnel expenses in the consolidated statement of profit or loss.

The aggregate remuneration earned by directors of the Credit Union during 2014 was $532 (2013 - $594).

The Credit Union has included in accounts payable and other expenses a donation of $607 (2013 - $450) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

29. OTHER RELATED PARTY INFORMATION (CONTINUED):

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2014	2013
First West Insurance Services Ltd.	100%	100%
FW Wealth Management Ltd.	100%	100%
First West Leasing Ltd.	100%	100%
FWCU Capital Corp.	100%	100%
619547 BC Ltd.	100%	100%
637506 BC Ltd.	100%	100%
Western Interior Financial Ltd.	100%	100%
inUnison Financial Services Ltd.	50%	50%
Bulkley Valley Insurance Services Ltd.	50%	50%

30. SUBSEQUENT EVENT:

Subsequent to year end, on January 1, 2015, the Credit Union acquired the assets of Island Savings Credit Union, in exchange for shares of the Credit Union.

The business combination will be accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Island Savings Credit Union. The following table summarizes management's preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition. The Credit Union is in the process of obtaining third-party valuations of the fair value of the consideration transferred and certain identifiable asset. Thus the allocation of the consideration transferred is preliminary.

Cash	$ 11,712
Loans	1,375,251
Investments and other	126,735
Premises and equipment	19,804
Total assets acquired	1,533,502
Deposits	1,353,198
Borrowings	70,764
Other	10,512
Total liabilities assumed	1,434,474
Estimated net assets acquired	$ 99,028