

FIRST WEST CREDIT UNION **2016 ANNUAL REPORT**

Financial Statements



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



Chartered Professional Accountants
March 13, 2017
Vancouver, Canada

Consolidated Statement of Financial Position

FIRST WEST CREDIT UNION (Expressed in thousands of dollars)

December 31, 2016, with comparative information for 2015

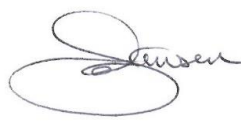
	Notes	2016	2015
Assets			
Cash resources	8	\$ 479,200	\$ 466,727
Derivative assets	9	24,084	31,237
Loans to members	10	7,496,473	7,161,456
Investments	11	1,230,233	798,048
Premises and equipment	12	68,653	74,458
Intangible assets	13	40,862	42,133
Deferred tax assets	24	7,020	5,423
Other assets	14	176,223	137,947
		\$ 9,522,748	\$ 8,717,429
Liabilities and Members' Equity			
Deposits from members	15	\$ 8,440,948	\$ 7,611,008
Borrowings	16	403,319	437,032
Deferred tax liabilities	24	11,202	11,665
Other liabilities	17	72,569	77,424
		8,928,038	8,137,129
Members' equity:			
Equity shares	18	34,883	36,991
Contributed surplus		163,651	163,651
Retained earnings		386,778	358,474
Accumulated other comprehensive income ("AOCI")		9,398	21,184
		594,710	580,300
Commitments and contingencies	26		
		\$ 9,522,748	\$ 8,717,429

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, 2016, with comparative information for 2015

	Notes	2016	2015
Interest income:			
Loans		\$ 256,250	\$ 256,224
Cash resources and investments		20,217	22,232
		276,467	278,456
Interest expense:			
Deposits		98,137	101,689
Borrowings		9,086	9,809
		107,223	111,498
Net interest income	19	169,244	166,958
Provision for credit losses	10	6,692	10,532
		162,552	156,426
Fee and commission income	20	80,907	76,946
Other income	21	21,256	20,893
		264,715	254,265
Personnel expenses	22	139,928	134,991
Depreciation and amortization		15,226	14,901
Other expenses	23	74,395	68,923
		229,549	218,815
Profit before income tax expense		35,166	35,450
Income tax expense	24	6,011	5,388
Profit for the year		\$ 29,155	\$ 30,062

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, 2016, with comparative information for 2015

	2016	2015
Profit for the year	\$ 29,155	\$ 30,062
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 (\$2,551); 2015 - \$2,309)	(11,389)	12,081
Net amount transferred to profit or loss (net of income taxes of nil; 2015 - nil)	-	-
Fair value reserve (available-for-sale financial assets):		
Net change in fair value (net of income taxes of (\$89); 2015 - nil)	(397)	-
Total other comprehensive income (loss), net of income taxes	(11,786)	12,081
Comprehensive income	\$ 17,369	\$ 42,143

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, 2016, with comparative information for 2015

		Equity shares	AOCI		Contributed surplus	Retained earnings	Total
			Hedging reserve	Fair value reserve			
Balance at December 31, 2015	\$	36,991	\$ 21,784	\$ (600)	\$ 163,651	\$ 358,474	\$ 580,300
Profit for the year		-	-	-	-	29,155	29,155
Other comprehensive income (loss), net of income taxes:							
Hedging reserve (cash flow hedges):							
Effective portion of changes in fair value		-	(11,389)	-	-	-	(11,389)
Net amount transferred to profit		-	-	-	-	-	-
Fair value reserve (available-for-sale financial assets):							
Net change in fair value		-	-	(397)	-	-	(397)
Total other comprehensive income		-	(11,389)	(397)	-	-	(11,786)
Comprehensive income		-	(11,389)	(397)		29,155	17,369
Contributions by and distribution to members:							
Dividends, net of related tax savings		-	-	-	-	(851)	(851)
Redemptions of equity shares		(2,108)	-	-	-	-	(2,108)
		(2,108)	-	-	-	(851)	(2,959)
Balance at December 31, 2016	\$	34,883	\$ 10,395	\$ (997)	\$ 163,651	\$ 386,778	\$ 594,710

		Equity shares	AOCI		Contributed surplus	Retained earnings	Total
			Hedging reserve	Fair value reserve			
Balance at December 31, 2014	\$	33,364	\$ 9,703	\$ (600)	\$ 61,270	\$ 329,786	\$ 433,523
Profit for the year		-	-	-	-	30,062	30,062
Other comprehensive income (loss), net of income taxes:							
Hedging reserve (cash flow hedges):							
Effective portion of changes in fair value		-	12,081	-	-	-	12,081
Net amount transferred to profit		-	-	-	-	-	-
Fair value reserve (available-for-sale financial assets):							
Net change in fair value		-	-	-	-	-	-
Total other comprehensive income		-	12,081	-	-	-	12,081
Comprehensive income		-	12,081	-	-	30,062	42,143
Impact of business combination (note 2)		7,171	-	-	102,381	-	109,552
Contributions by and distribution to members:							
Dividends, net of related tax savings		-	-	-	-	(1,374)	(1,374)
Redemptions of equity shares		(3,544)	-	-	-	-	(3,544)
		(3,544)	-	-	-	(1,374)	(4,918)
Balance at December 31, 2015	\$	36,991	\$ 21,784	\$ (600)	\$ 163,651	\$ 358,474	\$ 580,300

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, 2016, with comparative information for 2015

	Notes	2016	2015
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		\$ 29,155	\$ 30,062
Adjustments for:			
Provision for credit losses	10	6,692	10,532
Depreciation and amortization		15,226	14,901
Net interest income		(169,244)	(166,958)
Income tax expense	24	6,011	5,388
Other		(11,147)	14,470
Changes in:			
Derivative, net		7,867	(9,443)
Loans to members		(339,749)	(214,043)
Other assets		(38,276)	(38,730)
Deposits from members		828,637	514,992
Equity shares		(2,108)	(3,544)
Other liabilities		(5,046)	18,897
Interest received		273,795	277,153
Interest paid		(105,970)	(102,578)
Dividends paid		(851)	(1,374)
Income tax paid		(8,519)	(12,589)
Net cash flows provided by operating activities		486,473	337,136
Cash flows from investing activities:			
Acquisition of investments		(449,398)	(342,147)
Proceeds from sale of investments		14,814	9,951
Cash acquired on business combination	2	-	11,712
Acquisition of:			
Premises and equipment, net		(3,367)	(7,678)
Intangibles, net		(2,386)	(4,112)
Net cash flows provided by investing activities		(440,337)	(332,274)
Cash flows from financing activities:			
Proceeds from borrowings		92,817	148,581
Repayment of borrowings		(126,480)	(70,764)
Net cash flows provided by financing activities		(33,663)	77,817
Net increase in cash resources		12,473	82,679
Cash resources, beginning of year		466,727	384,048
Cash resources, end of year	8	\$ 479,200	\$ 466,727

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, 2016

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, 2016 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, insurance brokerage, leasing services, asset management services, and other integrated financial products and services.

2. BUSINESS COMBINATION:

On January 1, 2015, First West Credit Union amalgamated with Island Savings Credit Union ("Island Savings"). The results of Island Savings have been included in the consolidated financial statements of the Credit Union since that date.

Island Savings offers financial services on Vancouver Island, British Columbia.

The business combination is accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Island Savings. The shares of Island Savings were exchanged for shares of First West Credit Union as follows:

Island Savings Credit Union	Number of shares	First West Credit Union	Number of shares
Class A membership equity shares	247,786	Class A membership equity shares	247,786
Class C voluntary equity shares	7,170,776	Class B investment equity shares	7,170,776

Class A membership equity shares are included in deposits.

2. BUSINESS COMBINATION (CONTINUED):

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	\$	11,712
Loans		1,375,251
Investments and other		137,197
Premises and equipment		21,949
Total assets acquired	\$	1,546,109
Deposits	\$	1,353,198
Borrowings and other		83,359
Total liabilities assumed	\$	1,436,557
Estimated net assets acquired	\$	109,552

The par value of the equity shares of First West issued to Island Savings members was \$7,171. The Credit Union has recognized the excess of the estimated fair value of the net assets acquired over the par value of the equity shares issued as contributed surplus in the amount of \$102,381.

3. 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 13, 2017.

(b) Basis of measurement:

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

- (i) derivative financial instruments measured at fair value;
- (ii) financial instruments measured at fair value through profit or loss;
- (iii) available-for-sale financial assets 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.

4. 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 consolidated financial statements

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED):

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.

5. 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 operators. 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. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is measured as the excess of the aggregated of the consideration transferred, including any amount of non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annual for impairment.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(a) Basis of consolidation (continued):

(i) Business combinations (continued):

Any gain on a bargain purchase is recognized immediately in profit or loss. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

(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 consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(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 transaction costs 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.

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 on settlement of derivative contracts; and
- (v) fair value changes on other derivatives held for risk management purposes.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(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 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) Lease receivables:

Vehicle and equipment leases receivable are classified as finance leases, as the lease term is for the major part of the economic life of the asset, the present value of the minimum lease payments exceeds the fair value of the leased asset, or transfer of ownership is reasonably certain.

Vehicle and equipment leases receivable are recorded at the net present value of future minimum lease rentals, including the estimated residual value of the vehicles and equipment, net of allowances for credit losses.

(h) 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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Income taxes (continued):

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.

(i) 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.

(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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

(ii) Classification (continued):

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 5(j), (l), (m) and (q).

(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 Special Purpose Entities ("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.

(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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

(vi) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. 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 use only 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 shares for which there is no active market 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 and prepayments 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) 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 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) 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 10).

(j) 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) 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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(l) 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.

(m) 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.

(n) 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.

(o) 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:

Software	3 - 10 years
Customer list	7 - 10 years

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(o) Intangible assets (continued):

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.

Intangible assets with indefinite useful lives, such as goodwill and ICBC licenses, are subject to impairment testing at least annually.

(p) 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.

(q) 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.

(r) 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(r) Provisions (continued):

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.

(s) 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.

(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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(s) Employee benefits (continued):

(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 25.

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

At December 31, 2016, 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. Under IFRS 9, financial assets and liabilities are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

The mandatory effective date of IFRS 9 for the Credit Union is January 1, 2018 and is required to be applied retrospectively when initially applied with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The extent of the impact of adoption of IFRS 9 has not yet been determined.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

(ii) IFRS 15 Revenue from contracts with customers:

IFRS 15, issued May 2014, 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 services. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

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 for the Credit Union is January 1, 2018 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.

(iii) IFRS 16 Leases:

IFRS 16 was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

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

IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

6. 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 10; but also from interest rate swaps (derivatives) as described in note 9.

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 the 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 the 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 counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

6. FINANCIAL RISK MANAGEMENT (CONTINUED):

(b) Credit risk (continued):

Management of credit risk (continued):

The following table presents the maximum exposure to credit risk of financial assets recognized and not recognized on the consolidated statement of financial position. For financial assets recognized on the consolidated statement of financial position, 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.

	2016	2015
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	\$ 7,517,323	\$ 7,180,415
Derivatives	24,084	31,237
Term deposits and other securities	1,645,564	1,160,361
Accounts receivable	159,902	124,580
	9,346,873	8,496,593
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	49,907	51,755
Unadvanced loans and lines of credit	1,588,023	1,492,875
	1,637,930	1,544,630
Maximum exposure	\$ 10,984,803	\$ 10,041,223

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:

	2016	2015
Satisfactory risk	\$ 7,198,388	\$ 6,875,852
Special mention	167,091	172,647
	\$ 7,365,479	\$ 7,048,499

6. 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 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.

Loans past due but not impaired (continued):

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.

	2016	2015
Past due up to 29 days	\$ 101,508	\$ 92,506
Past due 30 - 59 days	13,078	9,158
Past due greater than 60 days	5,070	820
	\$ 119,656	\$ 102,484

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 collectability of principal and interest, or earlier if there is objective evidence that an impairment loss has been incurred.

	2016	2015
Impaired loans	\$ 32,188	\$ 29,432

6. 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 \$29,663 (2015 - \$31,252). 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 \$1,001 (2015 - \$1,901) has been accrued on the impaired loans but a specific allowance of \$290 (2015 - \$957) 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 the 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 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, 2016 the Credit Union's liquidity exceeds minimum statutory requirements by \$764.4 million (2015 - \$386.6 million).

(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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED):

(d) Market risk (continued):

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.

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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED):

(d) Market risk (continued):

Risk measurement (continued):

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, 2016:

	Policy limit	2016	Impact	2015	Impact
Earnings at risk	10%	0.0%	\$ -	0.0%	\$ -
Duration of equity	+/-10%	(3.9)%	-	(3.6)%	-

As at December 31, 2016 and 2015, 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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED):

(e) Capital management (continued):

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, 2016 and 2015, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2016	2015
Primary capital	\$ 589,494	\$ 565,358
Secondary capital	72,919	66,807
Deductions from capital	(25,560)	(28,385)
Total capital	\$ 636,853	\$ 603,780

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED):

(e) Capital management (continued):

- (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.

7. FINANCIAL ASSETS AND LIABILITIES:

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

2016	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	\$ -	\$ 422,472	\$ 56,728	\$ -	\$ -	\$ 479,200
Derivative assets	24,084	-	-	-	-	24,084
Loans to members	-	-	7,496,473	-	-	7,496,473
Accounts receivable	-	-	159,902	-	-	159,902
Term deposits and other	-	942,859	-	180,716	-	1,123,575
Investment in pooled funds	-	-	-	99,513	-	99,513
Deposits from members	-	-	-	-	8,440,948	8,440,948
Borrowings	-	-	-	-	403,319	403,319

7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED):

2015	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	\$ -	\$ 374,161	\$ 92,566	\$ -	\$ -	\$ 466,727
Derivative assets	31,237	-	-	-	-	31,237
Loans to members	-	-	7,161,456	-	-	7,161,456
Accounts receivable	-	-	124,580	-	-	124,580
Term deposits and other	-	611,189	-	175,011	-	786,200
Deposits from members	-	-	-	-	7,611,008	7,611,008
Borrowings	-	-	-	-	437,032	437,032

8. CASH RESOURCES:

	2016	2015
Cash and current accounts	\$ 56,728	\$ 92,566
Term deposits	422,472	374,161
	\$ 479,200	\$ 466,727

9. DERIVATIVES:

	Fair value			
	2016		2015	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	\$ 14,266	\$ 1,201	\$ 27,224	\$ -
Pay fixed swaps	610	-	-	219
	14,876	1,201	27,224	219
Other derivatives:				
Equity linked options	7,058	-	2,577	-
	7,058	-	2,577	-
Accrued interest	2,150	-	1,436	-
Total fair value	\$ 24,084	\$ 1,201	\$ 31,237	\$ 219

9. DERIVATIVES (CONTINUED):

	Notional amount			
	Within 1 year	Over 1 year	2016	2015
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	\$ -	\$ 1,465,000	\$ 1,465,000	\$ 1,334,000
Pay fixed swaps	-	50,000	50,000	250,000
	-	1,515,000	1,515,000	1,584,000
Other derivatives:				
Interest rate options	-	-	-	3,500
Equity linked options	9,498	86,266	95,764	53,142
	9,498	86,266	95,764	56,642
Total notional amount	\$ 9,498	\$ 1,601,266	\$ 1,610,764	\$ 1,640,642

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

	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
2016				
Assets	\$ 93,728	\$ 25,986	\$ 67,742	\$ -
Liabilities	-	-	-	-
Total cash inflow	\$ 93,728	\$ 25,986	\$ 67,742	\$ -

	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
2015				
Assets	\$ 29,966	\$ 9,804	\$ 20,162	\$ -
Liabilities	16	16	-	-
Total cash inflow	\$ 29,982	\$ 9,820	\$ 20,162	\$ -

During the year, there were no amounts for ineffectiveness in cash flow hedges (2015 - \$162), which is recognized in net interest income in the statement of profit or loss.

10. LOANS TO MEMBERS:

	2016	2015
Residential mortgages	\$ 3,996,332	\$ 3,788,651
Personal loans	129,902	172,142
Personal lines of credit	898,626	979,627
Commercial mortgages	2,233,465	1,989,742
Commercial loans	108,035	103,136
Commercial lines of credit	139,099	137,211
Accrued interest	11,864	9,906
	7,517,323	7,180,415
Allowance for credit losses:		
Specific	(2,415)	(4,821)
Collective	(18,435)	(14,138)
	(20,850)	(18,959)
	\$ 7,496,473	\$ 7,161,456

Allowance for credit losses:

	2016			2015	
	Beginning balance	Provision	Write-offs	Ending balance	Ending balance
Residential mortgages	\$ 2,614	\$ 1,400	\$ (690)	\$ 3,324	\$ 2,614
Personal loans	4,383	500	(1,299)	3,584	4,383
Personal lines of credit	2,602	2,692	(1,120)	4,174	2,602
Commercial mortgages	4,785	1,500	(1,082)	5,203	4,785
Commercial loans	3,063	200	(299)	2,964	3,063
Commercial lines of credit	1,512	400	(311)	1,601	1,512
	\$ 18,959	\$ 6,692	\$ (4,801)	\$ 20,850	\$ 18,959
Percentage of total loans and accrued interest				0.28%	0.26%

10. LOANS TO MEMBERS (CONTINUED):

Impaired loans and related allowances:

			2016	2015
	Loan balances	Specific allowances	Carrying amount	Carrying amount
Personal loans:				
Residential mortgages	\$ 6,202	\$ 307	\$ 5,895	\$ 6,649
Loans and lines of credit	809	407	402	1,092
Commercial loans:				
Commercial mortgages	15,180	1,022	14,158	12,111
Commercial loans and lines of credit	10,998	678	10,320	4,759
	\$ 33,189	\$ 2,414	\$ 30,775	\$ 24,611

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, Thompson and Vancouver Island areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 10% (2015 - 11%) of its residential mortgages insured against credit loss.

11. INVESTMENTS:

	2016	2015
Central 1 Credit Union shares	\$ 35,333	\$ 31,580
Term deposits callable or maturing in three months or more	942,859	611,189
Leased vehicles net of accumulated amortization of \$4,480 (2015 - \$6,685)	7,145	11,848
Principal and interest reinvestment accounts	140,785	139,340
Investment in pooled funds	99,513	-
Other	4,598	4,091
	\$ 1,230,233	\$ 798,048

Investment in shares of Central 1 Credit Union are required by governing legislation and are a condition of membership in Central 1 Credit Union, and 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.

11. INVESTMENTS (CONTINUED):

The principal and interest reinvestment accounts have been pledged as collateral for the secured borrowings of \$403.1 million (2015 - \$436.7 million) as described in note 27.

Amortization for the year in respect to leased vehicles amounted to \$2,399 (2015 - \$3,599).

12. PREMISES AND EQUIPMENT:

2016		Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:						
Balance at December 31, 2015	\$	12,444	\$ 33,666	\$ 32,307	\$ 32,147	\$ 110,564
Acquisitions		58	137	2,041	1,864	4,100
Disposals		(686)	-	-	(86)	(772)
Balance at December 31, 2016	\$	11,816	\$ 33,803	\$ 34,348	\$ 33,925	\$ 113,892
Accumulated depreciation and impairment losses:						
Balance at December 31, 2015	\$	-	\$ 6,295	\$ 13,897	\$ 15,914	\$ 36,106
Disposals		-	-	-	(39)	(39)
Depreciation		-	1,457	2,676	5,039	9,172
Balance at December 31, 2016	\$	-	\$ 7,752	\$ 16,573	\$ 20,914	\$ 45,239
Carrying amounts:						
Balance at December 31, 2016	\$	11,816	\$ 26,051	\$ 17,775	\$ 13,011	\$ 68,653

2015		Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:						
Balance at December 31, 2014	\$	10,895	\$ 26,114	\$ 23,544	\$ 21,478	\$ 82,031
Acquisitions		2,673	9,597	9,222	11,930	33,422
Disposals		(1,124)	(2,045)	(459)	(1,261)	(4,889)
Balance at December 31, 2015	\$	12,444	\$ 33,666	\$ 32,307	\$ 32,147	\$ 110,564
Accumulated depreciation and impairment losses:						
Balance at December 31, 2014	\$	-	\$ 5,317	\$ 11,892	\$ 11,597	\$ 28,806
Disposals		-	(474)	(292)	(332)	(1,098)
Depreciation		-	1,452	2,297	4,649	8,398
Balance at December 31, 2015	\$	-	\$ 6,295	\$ 13,897	\$ 15,914	\$ 36,106
Carrying amounts:						
Balance at December 31, 2015	\$	12,444	\$ 27,371	\$ 18,410	\$ 16,233	\$ 74,458

13. INTANGIBLE ASSETS:

2016	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance at December 31, 2015	\$ 12,510	\$ 15,680	\$ 2,205	\$ 23,043	\$ 53,438
Acquisitions	-	-	-	2,743	2,743
Disposals	-	-	-	(736)	(736)
Balance at December 31, 2016	\$ 12,510	\$ 15,680	\$ 2,205	\$ 25,050	\$ 55,445
Accumulated amortization and impairment losses:					
Balance at December 31, 2015	\$ 1,532	\$ -	\$ 882	\$ 8,891	\$ 11,305
Disposals	-	-	-	(378)	(378)
Amortization	-	-	221	3,435	3,656
Balance at December 31, 2016	\$ 1,532	\$ -	\$ 1,103	\$ 11,948	\$ 14,583
Carrying amounts:					
Balance at December 31, 2016	\$ 10,978	\$ 15,680	\$ 1,102	\$ 13,102	\$ 40,862

2015	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance at December 31, 2014	\$ 12,510	\$ 7,130	\$ 2,205	\$ 17,105	\$ 38,950
Acquisitions	-	8,550	-	5,938	14,488
Disposals	-	-	-	-	-
Balance at December 31, 2015	\$ 12,510	\$ 15,680	\$ 2,205	\$ 23,043	\$ 53,438
Accumulated amortization and impairment losses:					
Balance at December 31, 2014	\$ 1,532	\$ -	\$ 661	\$ 6,208	\$ 8,401
Disposals	-	-	-	-	-
Amortization	-	-	221	2,683	2,904
Balance at December 31, 2015	\$ 1,532	\$ -	\$ 882	\$ 8,891	\$ 11,305
Carrying amounts:					
Balance at December 31, 2015	\$ 10,978	\$ 15,680	\$ 1,323	\$ 14,152	\$ 42,133

14. OTHER ASSETS:

	2016	2015
Accounts receivable	\$ 29,294	\$ 25,925
Financing lease receivables	130,608	98,655
Prepaid expenses	16,321	13,367
	\$ 176,223	\$ 137,947

15. DEPOSITS FROM MEMBERS:

	2016	2015
Demand	\$ 2,827,461	\$ 2,531,491
Term	4,447,188	3,905,230
Registered savings plans	1,114,405	1,123,635
Class A membership shares	6,194	6,255
Accrued interest and dividends	45,700	44,397
	<u>\$ 8,440,948</u>	<u>\$ 7,611,008</u>

Credit Union Deposit Insurance Corporation ("CUDIC") guarantees all credit union deposits, with the exception of Class A shares which are not guaranteed.

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.

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

Class A 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.

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
2016	\$ 3,207,868	\$ 367,724	\$ 2,841,022	\$ 1,829,343	\$ 194,991	\$ 8,440,948
2015	3,016,313	500,904	2,467,150	1,442,109	184,532	7,611,008

16. BORROWINGS:

	2016	2015
Obligation under CMB program (note 27)	\$ 403,104	\$ 436,767
Accrued interest	215	265
	<u>\$ 403,319</u>	<u>\$ 437,032</u>

16. BORROWINGS (CONTINUED):

The Credit Union has three approved lines of credit totaling \$550 million. Security for the first line of credit is an assignment of loans to members, accounts 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 outstanding balance. For the third line of credit, security is provided by a first charge against specific insured realty mortgages to a maximum of 125% of the outstanding balance.

17. OTHER LIABILITIES:

	2016	2015
Accounts payable and accrued liabilities	\$ 54,167	\$ 62,438
Deferred revenue	17,201	14,767
Derivative liabilities (note 9)	1,201	219
	\$ 72,569	\$ 77,424

18. 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.

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

	2016	2015
Class B non-voting investment equity shares, unlimited number authorized	\$ 12,634	\$ 13,342
Class C non-voting investment equity shares, unlimited number authorized	14,309	15,040
Class D non-voting retirement plan equity shares, unlimited number authorized	7,940	8,609
	\$ 34,883	\$ 36,991

19. NET INTEREST INCOME:

	2016	2015
Interest income:		
Cash resources	\$ 8,387	\$ 8,053
Financial assets:		
Derivative assets	10,512	12,599
Available-for-sale	1,318	1,580
Loans to members	249,992	248,431
Assets pledged as collateral	6,258	7,793
	276,467	278,456
Interest expense:		
Deposits from members	98,137	101,689
Secured borrowings	8,639	9,301
Wholesale borrowings	447	508
	107,223	111,498
Net interest income	\$ 169,244	\$ 166,958

20. FEE AND COMMISSION INCOME:

	2016	2015
Insurance commissions and fees	\$ 31,292	\$ 30,367
Account service fees	14,055	14,629
Loan administration fees	15,923	14,119
Fees from fiduciary activities and mutual funds	16,760	14,651
Foreign exchange	2,877	3,180
	\$ 80,907	\$ 76,946

21. OTHER INCOME:

	2016	2015
Securitization	\$ 428	\$ 278
Leasing revenue	10,321	10,083
Other	10,507	10,532
	\$ 21,256	\$ 20,893

22. PERSONNEL EXPENSES:

	2016	2015
Salaries	\$ 110,758	\$ 107,066
Benefits	16,591	16,230
Pension	9,724	8,464
Other	2,855	3,231
	\$ 139,928	\$ 134,991

23. OTHER EXPENSES:

	2016	2015
Administration	\$ 45,095	\$ 40,825
Data processing	11,969	11,699
Occupancy	17,331	16,399
	\$ 74,395	\$ 68,923

24. INCOME TAXES:

	2016	2015
Current income tax	\$ 8,071	\$ 5,448
Deferred income tax	(2,060)	(60)
	\$ 6,011	\$ 5,388

Reconciliation of effective tax rate:

	2016	2015
Combined federal and provincial statutory tax rate	26.0%	26.0%
Credit Union preferred rate reduction	(7.4%)	(8.6%)
Over-provided in prior years	(0.0%)	(2.4%)
Change in predicted future rates	(0.0%)	(0.2%)
Other	(1.5%)	0.4%
	17.1%	15.2%

24. INCOME TAXES (CONTINUED):

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

	2016	2015
Deferred tax assets:		
Allowance for impairment of loans	\$ 3,951	\$ 2,550
Other accrued expenses	2,872	2,806
Other	197	67
	<u>\$ 7,020</u>	<u>\$ 5,423</u>
Deferred tax liabilities:		
Intangible assets	\$ 4,190	\$ 4,120
Investments and other	2,352	2,006
Premises and equipment	4,660	5,539
	<u>\$ 11,202</u>	<u>\$ 11,665</u>

Deferred tax that is expected to reverse to the year 2025 has been measured using a statutory tax rate of 26.00% (2015 - 26.00%). The weighted average applicable tax rate was 22.77% (2015 - 21.90%).

As at December 31, 2016, deferred tax liabilities for temporary differences of \$23,470 (2015 - \$22,438) 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.

25. 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 were actuarially measured for accounting purposes as of December 31, 2015 (prior period was measured at December 31, 2014). The effective date of the last actuarial valuation report for funding purposes was December 31, 2015 and the effective date of the next required actuarial valuation report will be December 31, 2016.

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

Pension benefits included in personnel expenses (note 22):

	2016	2015
Pension benefits:		
Defined contribution and multi-employer plan expense	\$ 9,179	\$ 7,935
Defined benefit plan expense	545	529
	\$ 9,724	\$ 8,464

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, 2015, has about 3,200 active employees and approximately 760 retired plan members. Total plan assets are \$550 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, 2015, indicated a going concern unfunded liability of \$25.1 million and a solvency deficiency of \$123.0 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 \$3,156 for employer contributions to the plan in 2016 (2015 - \$3,319).

The next actuarial valuation is scheduled for December 31, 2018 with results available in mid-2019.

26. COMMITMENTS AND CONTINGENCIES:

(a) Premises, computer services and equipment:

The Credit Union has branch lease commitments for its premises extending through to 2020 and thereafter.

For computer services and equipment, the Credit Union has computer services and hardware operating leases through to 2021 and thereafter.

26. COMMITMENTS AND CONTINGENCIES (CONTINUED):

(a) Premises, computer services and equipment (continued):

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

	Premises	Computer services and equipment
2017	\$ 10,983	\$ 5,466
2018	10,037	1,454
2019	7,933	868
2020	6,904	792
2021	5,139	487
Thereafter	6,827	609

(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.

27. 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.

27. SECURITIZATIONS (CONTINUED):

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was \$78,892 (2015 - \$92,718). The Credit Union also has recognized \$78,960 (2015 - \$92,767) 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 1.75% (2015 - 1.99%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. Canada Mortgage Bond ("CMB") pools are at maturity with 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	\$ 266,287	\$ -

The secured borrowings mature as follows:

Maturity	% Rate	Secured borrowings
June 15 2017	2.05	\$ 11,171
July 1 2017	1.72	30,549
January 1 2018	1.71	38,566
July 1 2018	2.47	33,257
July 1 2018	2.47	7,502
August 1 2018	2.37	6,658
March 1 2019	1.91	10,522
March 1 2019	1.87	27,464
March 1 2019	1.74	5,669
April 1 2019	1.85	5,045
May 1 2019	1.94	4,713
July 1 2019	1.93	7,238
October 1 2019	2.12	14,579
November 1 2019	1.93	4,151
December 1 2019	2.05	24,467
June 15 2020	1.52	33,734
June 15 2020	1.47	30,414
June 15 2020	1.47	19,184
June 15 2020	1.59	36,525
June 15 2020	1.51	6,644
June 15 2021	1.01	45,052
		\$ 403,104

28. 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).

December 31, 2016:

	Within 3 months		4 – 12 months		Over 1 year		Not-interest sensitive	Total
	Principal	%Rate	Principal	%Rate	Principal	%Rate		
Assets:								
Cash resources	\$ 437,910	1.00	\$ -	-	\$ -	-	\$ 41,290	\$ 479,200
Loans	3,261,344	3.66	866,506	3.47	3,378,014	3.24	(9,391)	7,496,473
Other	384,875	0.50	360,988	0.88	430,792	1.10	370,420	1,547,075
	4,084,129	3.08	1,227,494	2.70	3,808,806	3.00	402,319	9,522,748
Liabilities:								
Member deposits	1,579,159	1.10	2,800,338	1.61	1,875,936	1.79	2,185,515	8,440,948
Borrowings and other	5,604	2.11	26,388	2.08	370,148	2.02	84,950	487,090
	1,584,763	1.10	2,826,726	1.61	2,246,084	1.79	2,270,465	8,928,038
Balance sheet mismatch	2,499,366		(1,599,232)		1,562,722		(1,868,146)	594,710
Derivatives, notional value:								
Asset	50,000	0.90	-		1,265,000	1.74	-	1,315,000
Liability	(1,265,000)	0.91	-		(50,000)	1.32	-	(1,315,000)
	(1,215,000)		-		1,215,000		-	-
Net mismatch	\$ 1,284,366		\$ (1,599,232)		\$ 2,777,722		\$ (1,868,146)	\$ 594,710

28. INTEREST RATE SENSITIVITY (CONTINUED):

December 31, 2015:

	Within 3 months		4 – 12 months		Over 1 year		Not-interest sensitive	Total
	Principal	%Rate	Principal	%Rate	Principal	%Rate		
Assets:								
Cash resources	\$ 438,277	0.49	\$ -		\$ -		\$ 28,450	\$ 466,727
Loans	3,244,735	3.60	687,335	3.76	3,242,176	3.54	(9,212)	7,165,034
Other	530,520	0.82	290,924	0.90	74,499	1.94	189,725	1,085,668
	4,213,532	2.92	978,259	2.91	3,316,675	3.50	208,963	8,717,429
Liabilities:								
Member deposits	1,912,889	1.36	2,252,391	1.68	1,509,748	1.85	1,935,980	7,611,008
Borrowings and other	12,195	2.95	106,486	2.88	318,086	2.39	89,354	526,121
	1,925,084	1.38	2,358,877		1,827,834		2,025,334	8,137,129
Balance sheet mismatch	2,288,448		(1,380,618)	1.73	1,488,841	1.94	(1,816,371)	580,300
Derivatives, notional value:								
Asset	250,000	0.84	114,000	3.19	620,000	2.06	-	984,000
Liability	(984,000)	0.97	-	-	-	-	-	(984,000)
	(734,000)		114,000		620,000		-	-
Net mismatch	\$ 1,554,448		\$ (1,266,618)		\$ 2,108,841		\$ (1,816,371)	\$ 580,300

29. FAIR VALUES OF FINANCIAL INSTRUMENTS:

The following table presents approximate fair values of the Credit Union's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the statement of financial position date. Fair values of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short term nature. Fair values of derivative financial instruments have been determined 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.

	2016			2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	\$ 479,200	\$ 479,150	\$ (50)	\$ 466,727	\$ 466,723	\$ (4)
Loans	7,496,473	7,516,290	19,817	7,165,034	7,206,631	41,597
Investments	1,230,233	1,229,134	(1,099)	829,286	831,371	2,085
Other	292,758	292,758	-	256,382	255,687	(695)
			18,668			42,983
Liabilities:						
Deposits	8,440,948	8,453,441	(12,493)	\$ 7,611,008	\$ 7,627,984	\$ (16,976)
Borrowing	403,319	405,803	(2,484)	437,029	444,135	(7,106)
Other	83,771	83,771	-	89,092	88,397	695
			(14,977)			(23,387)
Derivative contracts	24,084	24,084	-	31,237	31,237	-
Net difference			\$ 3,691			\$ 19,596

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, Level 2 and Level 3 during the year.

29. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED):

Financial instruments measured at fair value December 31, 2016:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest rate swaps	\$ -	\$ 14,876	\$ -	\$ 14,876
Other	-	7,058	-	7,058
Financial investments available-for-sale:				
Shares	-	39,899	-	39,899
Other	-	99,513	-	99,513
	\$ -	\$ 161,346	\$ -	\$ 161,346

Financial liabilities

Derivative financial instruments:

Interest rate swaps	\$ -	\$ 1,201	\$ -	\$ 1,201
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Financial instruments measured at fair value December 31, 2015:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest rate swaps	\$ -	\$ 27,224	\$ -	\$ 27,224
Other	-	2,577	-	2,577
Financial investments available-for-sale:				
Shares	-	35,639	-	35,639
	\$ -	\$ 65,440	\$ -	\$ 65,440

Financial liabilities

Derivative financial instruments:

Interest rate swaps	\$ -	\$ 219	\$ -	\$ 219
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30. 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 Operating Officer, Chief Information Officer, Chief Risk Officer, Senior Vice President Credit, Senior Vice President People Services, Senior Vice President Governance and Corporate Strategy, Senior Vice President, Marketing, President Envision Financial, President Valley First and the President Island Savings.

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, 2016 were loans of \$2,619 (2015 - \$2,231) and deposits of \$1,149 (2015 - \$1,378). No individual allowances for credit losses have been recognized with respect to these loans (2015 - nil).

(b) Key management compensation:

	2016		2015	
Salaries and short-term employee benefits	\$	6,417	\$	5,033
Post-retirement and termination benefits		342		240
	\$	6,759	\$	5,273

At December 31, 2016, outstanding loans to directors, officers and employees of the Credit Union amounted to \$205,177 (2015 - \$187,705). 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 2016 was \$587, (2015 - \$715).

The Credit Union has included in accounts payable and other expenses a donation of \$480 (2015 - \$602) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

30. OTHER RELATED PARTY INFORMATION (CONTINUED):

(c) Subsidiaries and joint operations:

	<u>% ownership of common shares outstanding</u>	
	2016	2015
First West Insurance Services Ltd.	100%	100%
Island Savings Insurance Services Ltd.	nil	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%

inUnison Financial Services Ltd. was dissolved on January 1, 2017.

Island Savings Insurance Services Ltd. was amalgamated with First West Insurance Services Ltd. on January 1, 2016.