FIRST WEST CREDIT UNION **2017 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, 2017, 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

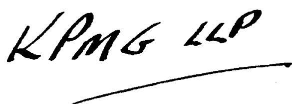
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2017, 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
Vancouver, Canada
March 12, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FIRST WEST CREDIT UNION

(Expressed in thousands of dollars)

December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Assets			
Cash resources	7	$ 88,516	$ 479,200
Derivative assets	8	13,615	24,084
Loans to members	9	8,229,577	7,496,473
Investments	10	1,219,429	1,230,233
Premises and equipment	11	65,002	68,653
Intangible assets	12	39,283	40,862
Deferred tax assets	23	5,948	7,020
Other assets	13	208,380	176,223
		$ 9,869,750	$ 9,522,748
Liabilities and Members' Equity			
Deposits from members	14	$ 8,773,030	$ 8,440,948
Borrowings	15	375,481	403,319
Derivative liabilities	8	22,593	1,201
Deferred tax liabilities	23	10,316	11,202
Other liabilities	16	77,420	71,368
		9,258,840	8,928,038
Members' equity:			
Equity shares	17	32,865	34,883
Contributed surplus		163,651	163,651
Retained earnings		428,129	386,778
Accumulated other comprehensive income ("AOCI")		(13,735)	9,398
		610,910	594,710
Commitments and contingencies	25		
		$ 9,869,750	$ 9,522,748

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Shawn Newman
______________________ Director

Robin Middleton
______________________ Director

Consolidated Statement of Profit or Loss

FIRST WEST CREDIT UNION
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Interest income:			
Loans		$ 272,461	$ 256,250
Cash resources and investments		23,072	20,217
		295,533	276,467
Interest expense:			
Deposits		101,689	98,137
Borrowings		8,657	9,086
		110,346	107,223
Net interest income	18	185,187	169,244
Provision for credit losses	9	6,700	6,692
		178,487	162,552
Fee and commission income	19	85,562	80,907
Other income	20	27,495	21,256
		291,544	264,715
Personnel expenses	21	146,589	139,928
Depreciation and amortization		14,444	15,226
Other expenses	22	78,242	74,395
		239,275	229,549
Profit before income tax expense		52,269	35,166
Income tax expense	23	10,105	6,011
Profit for the year		$ 42,164	$ 29,155

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, 2017, with comparative information for 2016

		2017		2016
Profit for the year	$	42,164	$	29,155
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 $4,782 (2016 - $2,551))		(28,907)		(11,389)
Fair value reserve (available-for-sale financial assets):				
Net change in fair value				
(net of income taxes of $1,193 (2016 - $89))		5,774		(397)
Total other comprehensive loss, net of income taxes		(23,133)		(11,786)
Comprehensive income	$	19,031	$	17,369

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, 2017, with comparative information for 2016

		AOCI				
	Equity shares	Hedging reserve	Fair value reserve	Contributed surplus	Retained earnings	Total
Balance at December 31, 2016	$ 34,883	$ 10,395	$ (997)	$ 163,651	$ 386,778	$ 594,710
Profit for the year	-	-	-	-42,164	42,164	
Other comprehensive income (loss), net of income taxes:						
Hedging reserve (cash flow hedges): Effective portion of changes in fair value	-	(28,907)	-	-	-	(28,907)
Fair value reserve (available-for-sale financial assets): Net change in fair value	-	-	5,774	-	-	5,774
Total other comprehensive income	-	(28,907)	5,774	-	-	(23,133)
Comprehensive income	-	(28,907)	5,774	-	42,164	19,031
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(813)	(813)
Redemptions of equity shares	(2,018)	-	-	-	-	(2,018)
	(2,018)	-	-	-	(813)	(2,831)
Balance at December 31, 2017	$ 32,865	$ (18,512)	$ 4,777	$ 163,651	$ 428,129	$ 610,910

		AOCI				
	Equity shares	Hedging reserve	Fair value reserve	Contributed surplus	Retained earnings	Total
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)
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

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, 2017, with comparative information for 2016

	Notes	2017	2016
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 42,164	$ 29,155
Adjustments for:			
Provision for credit losses	9	6,700	6,692
Depreciation and amortization		14,444	15,226
Net interest income		(185,187)	(169,244)
Income tax expense	23	10,105	6,011
Other		(31,433)	(11,147)
Changes in:			
Derivative assets		9,309	7,867
Derivative liabilities		21,392	(982)
Loans to members		(738,795)	(339,749)
Other assets		(32,157)	(38,276)
Deposits from members		335,233	828,637
Other liabilities		5,884	(4,064)
Interest received		295,683	273,795
Interest paid		(113,478)	(105,970)
Dividends paid		(813)	(851)
Income tax paid		(1,450)	(8,519)
Net cash flows provided by operating activities		(362,399)	488,581
Cash flows from investing activities:			
Acquisition of investments		(120,608)	(449,398)
Proceeds from sale of investments		130,078	14,814
Acquisition of:			
Premises and equipment, net		(6,040)	(3,367)
Intangibles, net		(1,840)	(2,386)
Net cash flows provided by investing activities		1,590	(440,337)
Cash flows from financing activities:			
Proceeds from borrowings		-	92,817
Repayment of borrowings		(27,857)	(126,480)
Redemption of equity shares		(2,018)	(2,108)
Net cash flows provided by financing activities		(29,875)	(35,771)
Net increase (decrease) in cash resources		(390,684)	12,473
Cash resources, beginning of year		479,200	466,727
Cash resources, end of year	7	$ 88,516	$ 479,200

See accompanying notes to consolidated financial statements.

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, 2017 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. 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 12, 2018.

(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.

3. USE OF ESTIMATES AND JUDGMENTS:

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

(a) Impairment losses on loans to members:

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Credit Union makes

3. USE OF ESTIMATES AND JUDGMENTS *(continued)*

(a) Impairment losses on loans to members *(continued)*

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 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.

(c) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, in areas such as credit risk and correlations, the Credit Union uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the Credit Union's financial investments are provided in note 28.

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

4. SIGNIFICANT ACCOUNTING POLICIES:

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

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union and its subsidiaries: First West Insurance Services Ltd., FW Wealth Management Ltd., First West Leasing Ltd., FWCU Capital Corp., 619547 BC Ltd., and 637506 BC Ltd. In addition, through one of its wholly owned subsidiaries, the Credit Union accounts for a 50% interest in Bulkley Valley Insurance Services Ltd. as a joint operator. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

(*i*) Business combinations *(continued)*

For acquisitions on or after January 1, 2010, the Credit Union measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree,

less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

(*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;

(c) Interest *(continued)*

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

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

(d) Fees and commissions:

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

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

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

(e) Dividends:

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

(f) Lease payments:

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

(g) Income taxes:

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

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

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

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

(h) Financial assets and financial liabilities:

(*i*) Recognition:

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

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

(*ii*) Classification:

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

– loans and receivables

– held-to-maturity ("HTM")

– available-for-sale ("AFS")

– fair value through profit or loss ("FVTPL") within the category as:

- Held-for-trading; and
- designated at FVTPL.

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

(*iii*) Derecognition:

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

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. The Credit Union periodically transfers loans to 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.

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

(*v*) Amortized cost measurement:

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

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

(*vi*) Fair value measurement:

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.

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

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

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.

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.

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 held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity 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 to members and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Credit Union uses statistical modelling 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 modelling.

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

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

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

original effective interest rate. Impairment losses are recognized in profit or loss. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

(i) Cash resources:

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

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

(j) Derivatives and hedge accounting:

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

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

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes qualitative and quantitative assessments, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is effective in offsetting the changes in the fair value

(j) Derivatives and hedge accounting *(continued)*

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.

(k) Loans to members:

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

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

(l) Investments:

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

(m) Premises and equipment:

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

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

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

(n) Intangible assets:

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

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

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

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

(o) Impairment of non-financial assets:

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

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

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

(p) Deposits from members and borrowings:

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

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

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

(q) Provisions:

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

(q) 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.

(r) Employee benefits:

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

(*i*) Defined benefit pension plans:

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

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

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

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

(*iii*) Defined contribution pension plans:

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

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

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

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

At December 31, 2017, 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 was issued in July 2014 and replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. As at January 1, 2018, the Credit Union adopted IFRS 9.

IFRS introduces a new classification and measurement approach for financial assets and financial liabilities, impairment model for financial assets and rules for hedge accounting.

Classification of financial instruments

IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL.

Generally, debt instruments will be measured at FVTPL unless certain conditions are met that permit FVOCI or amortized cost classification. Debt instruments that have contractual cash flows representing only payments of principal and interest will be eligible for classification as FVOCI or amortized cost. Gains and losses recorded in other comprehensive income for debt instruments classified as FVOCI will be recognized in profit or loss on disposal.

Equity instruments are measured at FVTPL. However, the Credit Union may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as FVOCI. Unlike AFS for equity securities under IAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Dividends continue to be recognized in profit and loss. This designation is also available to non-trading equity instrument holdings on date of transition.

In addition, the Credit Union may, at initial recognition, irrevocably elect to designate a financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets on date of transition.

The subsequent measurement of instruments will depend on the classification under IFRS 9.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on a preliminary assessment of the new classification and measurement requirements, the Credit Union does not expect there to be a material impact on the accounting of its financial assets.

- Loans to members will likely meet the conditions for classification as measured at amortized cost under IFRS 9.
- Pooled fund investments will likely meet the conditions for classification as measured at FVTPL under IFRS 9.
- Other debt instruments will likely meet the conditions for classification as measured at amortized cost or FVOCI under IFRS 9.

(*i*) IFRS 9 Financial Instruments *(continued)*

– For equity instruments currently classified as AFS, there is a FVOCI election available.

The accounting for financial liabilities under IFRS 9 will largely be the same as the requirements of IAS 39 except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the consolidated statement of income.

Impairment - Financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss ("ECL") model. The new ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded on performing loans is designed to capture only losses that have been incurred whether or not they have been specifically identified. The most significant impact will be on the loan portfolio.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, which is similar to the current requirements under IAS 39 for impaired financial instruments.

Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in profit or loss.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. The determination of a significant increase in credit risk takes into account many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain criteria such as 30-day past due and watch-list status. The assessment of a significant increase in credit risk will require experienced credit judgment.

ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to all debt instrument financial assets measured at amortized cost or FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Standards and interpretations issued but not yet effective *(continued)*

(*i*) IFRS 9 Financial Instruments *(continued)*

measured at FVTPL. The Credit Union believes that impairment losses are likely to increase for financial assets in scope of the new impairment model.

Hedge accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation.

IFRS 9 includes a policy choice that allows the Credit Union to continue to apply the existing hedge accounting rules of IAS 39 instead of the requirements in IFRS 9 as the hedge accounting rules pertaining to macro hedging will not have been finalized on January 1, 2018. Revised hedge accounting disclosures however, are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in the consolidated financial statements. The Credit Union plans to continue applying the hedge accounting requirements under IAS 39 until the macro hedge accounting rules under IFRS 9 are finalized.

Disclosures

IFRS 9 introduces extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. These are expected to change the nature and extent of the Credit Union's disclosures over its financial instruments, particularly in the year of the adoption.

Transition impact

IFRS 9 must be adopted retrospectively. Restatement of comparatives is not required, though it is permitted.

The Credit Union will record an adjustment to its opening January 1, 2018 retained earnings and AOCI, to reflect the application of IFRS 9 on adoption and will not restate comparative periods.

The Credit Union continues to revise, refine and validate the impairment models and related process controls leading up to the reporting required for December 31, 2018.

(*ii*) IFRS *15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, which replaces existing standards for revenue recognition. IFRS 15 establishes a framework for the recognition and measurement of revenues generated from contracts with customers, providing a principles-based approach for revenue recognition, and introducing the concept of recognizing revenue for performance obligations as they are satisfied. IFRS 15 also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. Revenues outside of the scope of IFRS 15 include lease contracts, insurance contracts and financial instruments.

In April 2016, the IASB issued amendments to IFRS 15, which provide additional clarity on the identification of a performance obligation in a contract, determination of the principal and agent in an agreement, and determination whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used at transition.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Credit Union will adopt IFRS 15 using the modified retrospective approach, recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Standards and interpretations issued but not yet effective *(continued)*

(*ii*) IFRS *15 Revenue from Contracts with Customers (continued)*

The Credit Union continues to revise, refine and validate the impact of IFRS 15 on its consolidated financial statements, including the presentation of certain revenue and expense items, the timing and measurement of revenue recognition, as well as additional qualitative and quantitative disclosures. The Credit Union does not currently expect a significant impact to our consolidated financial statements as a result of adopting IFRS 15.

(*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.

5. FINANCIAL RISK MANAGEMENT:

(a) Introduction and overview:

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

(b) Credit risk:

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

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

Management of credit risk:

Credit risk is managed in accordance with 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

(b) Credit risk *(continued)*

Management of credit risk (continued)

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.

Maximum exposure to credit risk:

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.

	2017	2016
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	$ 8,253,538	$ 7,517,323
Derivatives (net)	13,615	24,084
Term deposits and other securities	1,292,673	1,645,564
Accounts receivable	190,172	159,902
	9,749,998	9,346,873
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	84,779	49,907
Unadvanced loans and lines of credit	1,682,370	1,588,023
	1,767,149	1,637,930
Maximum exposure	$ 11,517,147	$ 10,984,803

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.

(b) Credit risk *(continued)*

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:

	2017	2016
Satisfactory risk	$ 7,870,825	$ 7,198,388
Special mention	200,161	167,091
	$ 8,070,986	$ 7,365,479

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.

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.

	2017	2016
Past due up to 29 days	$ 129,786	$ 101,508
Past due 30 - 59 days	6,344	13,078
Past due greater than 60 days	17,466	5,070
	$ 153,596	$ 119,656

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.

	2017	2016
Impaired loans	$ 28,956	$ 32,188

(b) Credit risk *(continued)*

The fair value of the collateral held by the Credit Union as security for impaired loans was $47,705 (2016 - $29,663). 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 $873 (2016 - $1,001) has been accrued on the impaired loans but a specific allowance of $873 (2016 - $290) 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, 2017, the Credit Union’s liquidity exceeds minimum statutory requirements by $325.2 million (2016 - $764.4 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.

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;

(d) Market risk *(continued)*

Risk measurement (continued)

(*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.

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, 2017:

	Policy limit	2017	Impact	2016	Impact
Earnings at risk	10%	(1.6)%	$ (3,141)	0.0 %	$ -
Duration of equity	+/-10%	4.3 %		(3.9)%	

As at December 31, 2017 and 2016, 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.

(e) Capital management *(continued)*

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

(*i*) retained earnings and contributed surplus;

(*ii*) equity shares;

(*iii*) system capital; and

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

Total capital above is reduced by:

(*i*) goodwill and other intangible assets;

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

(*iii*) securitization deferred payment accounts; and

(*iv*) investment in Venture Capital Corporations.

As at December 31, 2017 and 2016, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2017	2016
Primary capital	$ 622,229	$ 589,494
Secondary capital	79,260	72,919
Deductions from capital	(26,693)	(25,560)
Total capital	$ 674,796	$ 636,853

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

(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.

6. FINANCIAL ASSETS AND LIABILITIES:

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

2017	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	$ -	$ 77,789	$ 10,727	$ -	$ -	$ 88,516
Derivative assets	13,615	-	-	-	-	13,615
Loans to members	-	-	8,229,577	-	-	8,229,577
Accounts receivable	-	-	190,172	-	-	190,172
Term deposits and other	-	819,777	-	244,203	-	1,063,980
Investment in pooled funds	-	-	-	151,441	-	151,441
Derivative liabilities	22,593	-	-	-	-	22,593
Deposits from members	-	-	-	-	8,773,030	8,773,030
Borrowings	-	-	-	-	375,481	375,481

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
Derivative liabilities	1,201	-	-	-	-	1,201
Deposits from members	-	-	-	-	8,440,948	8,440,948
Borrowings	-	-	-	-	403,319	403,319

7. CASH RESOURCES:

	2017	2016
Cash and current accounts	$ 10,727	$ 56,728
Term deposits	77,789	422,472
	$ 88,516	$ 479,200

8. DERIVATIVES:

	Fair value			
	2017		2016	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 977	$ 22,593	$ 14,266	$ 1,201
Pay fixed swaps	-	-	610	-
	977	22,593	14,876	1,201
Other derivatives:				
Equity linked options	11,648	-	7,058	-
	11,648	-	7,058	-
Accrued interest	990	-	2,150	-
Total fair value	$ 13,615	$ 22,593	$ 24,084	$ 1,201

	Notional amount			
	Within 1 year	Over 1 year	2017	2016
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 220,000	$ 1,645,000	$ 1,865,000	$ 1,465,000
Pay fixed swaps	-	-	-	50,000
	220,000	1,645,000	1,865,000	1,515,000
Other derivatives:				
Equity linked options	19,757	138,276	158,033	95,764
	19,757	138,276	158,033	95,764
Total notional amount	$ 239,757	$ 1,783,276	$ 2,023,033	$ 1,610,764

8. DERIVATIVES *(continued)*

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

2017	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 129,176	$ 40,561	$ 88,615	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 129,176	$ 40,561	$ 88,615	$ -

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

During the year, the Credit Union recognized a gain of $106 for ineffectiveness in cash flow hedges (2016 - nil), which is recognized in net interest income in the consolidated statement of profit or loss.

9. LOANS TO MEMBERS:

	2017	2016
Residential mortgages	$ 4,400,651	$ 3,996,332
Personal loans	101,446	129,902
Personal lines of credit	902,724	898,626
Commercial mortgages	2,579,863	2,233,465
Commercial loans	122,265	108,035
Commercial lines of credit	133,716	139,099
Accrued interest	12,873	11,864
	8,253,538	7,517,323
Allowance for credit losses:		
Specific	(2,326)	(2,415)
Collective	(21,635)	(18,435)
	(23,961)	(20,850)
	$ 8,229,577	$ 7,496,473

9. LOANS TO MEMBERS *(continued)*

Allowance for credit losses:

	Beginning balance	Provision	Write-offs	2017 Ending balance	2016 Ending balance
Residential mortgages	$ 3,324	$ 1,200	$ (461)	$ 4,063	$ 3,324
Personal loans	3,584	800	(842)	3,542	3,584
Personal lines of credit	4,174	1,800	(1,076)	4,898	4,174
Commercial mortgages	5,203	1,500	(300)	6,403	5,203
Commercial loans	2,964	500	(637)	2,827	2,964
Commercial lines of credit	1,601	900	(273)	2,228	1,601
	$ 20,850	$ 6,700	$ (3,589)	$ 23,961	$ 20,850
Percentage of total loans and accrued interest				0.29%	0.28%

Impaired loans and related allowances:

	Loan balances	Specific allowances	2017 Carrying amount	2016 Carrying amount
Personal loans:				
Residential mortgages	$ 4,871	$ 290	$ 4,581	$ 5,895
Loans and lines of credit	1,587	387	1,200	402
Commercial loans:				
Commercial mortgages	20,123	1,126	18,997	14,158
Commercial loans and lines of credit	2,374	573	1,801	10,320
	$ 28,955	$ 2,376	$ 26,579	$ 30,775

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 8.5% (2016 - 10%) of its residential mortgages insured against credit loss.

10. INVESTMENTS:

	2017	2016
Central 1 Credit Union shares	$ 42,332	$ 35,333
Term deposits callable or maturing in three months or more	819,777	942,859
Leased vehicles net of accumulated amortization of $2,867 (2016 - $4,480)	4,545	7,145
Principal and interest reinvestment accounts pledged as collateral on CMB obligation (note 15)	196,690	140,785
Investment in pooled funds	151,441	99,513
Other	4,644	4,598
	$ 1,219,429	$ 1,230,233

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.

On October 27, 2017, Central 1 redeemed 13,447 of the Credit Union's Class E shares. These shares had a carrying value of $0.01 per share, equal to cost, and were redeemed at $100 per share resulting in a gain of $1,345 (2016 - nil) being recorded in Other Income.

Effective December 31, 2017, Central 1 announced that 24.9502% of the Credit Union's Class E shares would be redeemed at a value of $100 per share subsequent to year end. These shares have been recorded at a fair value of $100 per share, with the gain of $6,924 (2016 - nil) being recorded in Other Comprehensive Income.

All other investments in Class E shares are recorded at their cost of $0.01 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Amortization for the year in respect to leased vehicles amounted to $1,335 (2016 - $2,399).

11. PREMISES AND EQUIPMENT:

2017		Land		Buildings		Leasehold improvements		Other equipment		Total
Cost:										
Balance at December 31, 2016	$	11,816	$	33,803	$	34,348	$	33,925	$	113,892
Acquisitions		1,317		202		3,726		4,563		9,808
Disposals		(1,597)		(2,723)		-		(1,003)		(5,323)
Balance at December 31, 2016	$	11,536	$	31,282	$	38,074	$	37,485	$	118,377
Accumulated depreciation and impairment losses:										
Balance at December 31, 2016	$	-	$	7,752	$	16,573	$	20,914	$	45,239
Disposals		-		(368)		-		(1,186)		(1,554)
Depreciation		-		1,506		3,087		5,097		9,690
Balance at December 31, 2017	$	-	$	8,890	$	19,660	$	24,825	$	53,375
Carrying amounts:										
Balance at December 31, 2017	$	11,536	$	22,392	$	18,414	$	12,660	$	$65,002

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

12. INTANGIBLE ASSETS:

2017	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance at December 31, 2016	$ 12,510	$ 15,680	$ 2,205	$ 25,050	$ 55,445
Acquisitions	-	-	-	1,902	1,902
Disposals	-	-	-	(2,773)	(2,773)
Balance at December 31, 2017	$ 12,510	$ 15,680	$ 2,205	$ 24,179	$ 54,574
Accumulated amortization and impairment losses:					
Balance at December 31, 2016	$ 1,532	$ -	$ 1,103	$ 11,948	$ 14,583
Disposals	-	-	-	(2,711)	(2,711)
Amortization	-	-	220	3,199	3,419
Balance at December 31, 2017	$ 1,532	$ -	$ 1,323	$ 12,436	$ 15,291
Carrying amounts:					
Balance at December 31, 2017	$ 10,978	$ 15,680	$ 882	$ 11,743	$ 39,283

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

13. OTHER ASSETS:

	2017	2016
Accounts receivable	$ 28,740	$ 29,294
Financing lease receivables	161,432	130,608
Prepaid expenses	18,208	16,321
	$ 208,380	$ 176,223

14. DEPOSITS FROM MEMBERS:

	2017	2016
Demand	$ 3,179,227	$ 2,827,461
Term	4,400,873	4,447,188
Registered savings plans	1,144,397	1,114,405
Class A membership shares	5,984	6,194
Accrued interest and dividends	42,549	45,700
	$ 8,773,030	$ 8,440,948

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
2017	$ 3,618,344	480,799	2,934,495	1,565,447	173,945	$ 8,773,030
2016	$ 3,207,868	367,724	2,841,022	1,829,343	194,991	$ 8,440,948

15. BORROWINGS:

		2017		2016
Obligation under CMB program (note 26)	$	375,247	$	403,104
Accrued interest		234		215
	$	375,481	$	403,319

The Credit Union has three approved lines of credit totaling $585 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 or Genworth insured realty mortgages to a minimum of 105% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 110% of the approved credit facility.

Changes in borrowings arising from financing activities

The following table summarizes the changes in borrowings arising from financing activities for the year ended December 31, 2017:

					Non-cash changes			
		December 31, 2016		Cash flow changes		Accrued interest		December 31, 2017
Obligations under the CMB Program	$	403,319	$	(27,857)	$	19	$	375,481

16. OTHER LIABILITIES:

		2017		2016
Accounts payable and accrued liabilities	$	58,171	$	54,167
Deferred revenue		19,249		17,201
	$	77,420	$	71,368

17. EQUITY SHARES:

The Credit Union has authorized an unlimited number of 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:

	2017	2016
Non-voting investment equity shares:		
Class B	$ 12,039	$ 12,634
Class C	13,394	14,309
Non-voting retirement plan equity shares:		
Class D	7,432	7,940
	$ 32,865	$ 34,883

18. NET INTEREST INCOME:

	2017	2016
Interest income:		
Cash resources	$ 10,627	$ 8,387
Financial assets:		
Derivatives (net)	11,254	10,512
Available-for-sale	1,191	1,318
Loans to members	268,280	249,992
Assets pledged as collateral	4,181	6,258
	295,533	276,467
Interest expense:		
Deposits from members	101,689	98,137
Secured borrowings	7,841	8,639
Wholesale borrowings	816	447
	110,346	107,223
Net interest income	$ 185,187	$ 169,244

19. FEE AND COMMISSION INCOME:

	2017	2016
Insurance commissions and fees	$ 31,458	$ 31,292
Account service fees	15,149	14,055
Loan administration fees	17,957	15,923
Fees from fiduciary activities and mutual funds	18,506	16,760
Foreign exchange	2,492	2,877
	$ 85,562	$ 80,907

20. OTHER INCOME:

	2017	2016
Securitization	$ 158	$ 428
Leasing revenue	11,051	10,321
Other	16,286	10,507
	$ 27,495	$ 21,256

21. PERSONNEL EXPENSES:

	2017	2016
Salaries	$ 116,531	$ 110,758
Benefits	17,504	16,591
Pension	9,561	9,724
Other	2,993	2,855
	$ 146,589	$ 139,928

22. OTHER EXPENSES:

	2017	2016
Administration	$ 42,900	$ 45,095
Data processing	16,266	11,969
Occupancy	19,076	17,331
	$ 78,242	$ 74,395

23. INCOME TAXES:

	2017	2016
Current income tax	$ 11,070	$ 8,071
Deferred income tax	(965)	(2,060)
	$ 10,105	$ 6,011

Reconciliation of effective tax rate:

	2017	2016
Combined federal and provincial statutory tax rate	26.0%	26.0%
Credit Union preferred rate reduction	(7.9)	(7.4)
Other	1.2	(1.5)
	19.3%	17.1%

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

	2017	2016
Deferred tax assets:		
Allowance for impairment of loans	$ 3,704	$ 3,951
Other accrued expenses	2,099	2,872
Other	145	197
	$ 5,948	$ 7,020
Deferred tax liabilities:		
Intangible assets	$ 4,132	$ 4,190
Investments and other	3,334	2,352
Premises and equipment	2,850	4,660
	$ 10,316	$ 11,202

Deferred tax that is expected to reverse to the year 2025 has been measured using a statutory tax rate of 27.0% (2016 - 26.0%). The weighted average applicable tax rate was 17.5% (2016 -22.8%).

As at December 31, 2017, deferred tax liabilities for temporary differences of $24,329 (2016 - $23,470) were not recognized as the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

24. PENSION AND POST-RETIREMENT BENEFITS:

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

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

Supplemental retirement plans

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2016 (prior period was measured at December 31, 2015). The effective date of the last actuarial valuation report for funding purposes was December 31, 2016 and the effective date of the next required actuarial valuation report will be December 31, 2017.

Pension benefits included in personnel expenses (note 21):

		2017		2016
Pension benefits:				
Defined contribution and multi-employer plan expense	$	8,997	$	9,179
Defined benefit plan expense		564		545
	$	9,561	$	9,724

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 $2,973 for employer contributions to the plan in 2017 (2016 - $3,156).

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

25. COMMITMENTS AND CONTINGENCIES:

(a) Premises, computer services and equipment:

The Credit Union has branch lease commitments for its premises extending through to 2022 and thereafter.

For computer services and equipment, the Credit Union has computer services and hardware operating leases through to 2022 and thereafter.

25. 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
2018	$ 10,649	$ 3,367
2019	9,188	2,083
2020	8,104	1,197
2021	6,324	487
2022	4,178	348
Thereafter	7,656	261

(b) Legal proceedings:

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

26. SECURITIZATIONS:

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

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

26. SECURITIZATIONS *(continued)*

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was nil (2016 - $78,892). The Credit Union also has recognized no new secured borrowing (2016 - $78,960) 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 was 1.73% (2016 - 1.75%) 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 due 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	$ 184,861	$ -

The secured borrowings mature as follows:

Maturity		% Rate	Secured borrowings
July 1	2017	1.75	$ 38,566
July 1	2018	1.75	30,550
July 1	2018	2.47	33,232
July 1	2018	2.37	6,616
August 1	2018	2.47	7,568
March 1	2019	1.87	27,483
March 1	2019	1.91	10,512
March 1	2019	1.74	4,277
April 1	2019	1.85	5,040
May 1	2019	1.94	4,708
July 1	2019	1.93	5,687
October 1	2019	2.12	11,495
November 1	2019	1.93	3,182
December 1	2019	2.05	17,784
June 15	2020	1.59	36,518
June 15	2020	1.47	19,184
June 15	2020	1.52	30,414
June 15	2020	1.51	6,651
June 15	2021	1.01	45,052
October 1	2021	1.60	30,728
			$ 375,247

27. INTEREST RATE SENSITIVITY:

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

December 31, 2017:

	Within 3 months		4 – 12 months		Over 1 year			
	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 63,321	1.08	$ -	-	$ -	-	$ 25,195	$ 88,516
Loans	3,335,763	4.00	753,607	3.42	4,151,865	3.16	(11,658)	8,229,577
Other	292,306	1.16	372,236	1.18	311,229	1.51	575,886	1,551,657
	3,691,390	3.62	1,125,843	2.68	4,463,094	3.04	589,423	9,869,750
Liabilities:								
Member deposits	1,814,682	1.38	2,869,604	1.65	1,509,504	1.73	2,579,240	8,773,030
Borrowings and other	4,632	2.09	130,349	2.25	239,704	1.89	111,125	485,810
	1,819,314	1.39	2,999,953	1.67	1,749,208	1.75	2,690,365	9,258,840
Balance sheet mismatch	1,872,076		(1,874,110)		2,713,886		(2,100,942)	610,910
Derivatives, notional value:								
Asset	-	-	220,000	2.17	1,245,000	1.63	-	1,465,000
Liability	(1,465,000)	1.45	-	-	-	-	-	(1,465,000)
	(1,465,000)		220,000		1,245,000		-	-
Net mismatch	$ 407,076		$ (1,654,110)		$ 3,958,886		$ (2,100,942)	$ 610,910

27. INTEREST RATE SENSITIVITY *(continued)*

December 31, 2016:

	Within 3 months		4 – 12 months		Over 1 year			
	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
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. 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 investments where market conditions indicate a fair value are adjusted to that fair value. 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

	2017			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$ 88,516	$ 88,448	$ (68)	$ 479,200	$ 479,150	$ (50)
Loans	8,229,577	8,200,746	(28,831)	7,496,473	7,516,290	19,817
Investments	1,219,429	1,216,987	(2,442)	1,230,233	1,229,134	(1,099)
Other	332,228	332,228	-	292,758	292,758	-
			(31,341)			18,668
Liabilities:						
Deposits	8,773,030	8,765,907	7,123	8,440,948	8,453,441	(12,493)
Borrowing	375,481	371,873	3,608	403,319	405,803	(2,484)
Other	110,329	110,329	-	83,771	83,771	-
			10,731			(14,977)
Derivative contracts	13,615	13,615	-	24,084	24,084	-
Net difference			$ (20,610)			$ 3,691

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

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

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

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

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. No transfer has been made into or out of Level 1 and Level 2 during the year. An investment has been transferred from Level 2 to Level 3 at December 31, 3017 due to a change in available market inputs.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Financial instruments measured at fair value December 31, 2017:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 977	$ -	$ 977
Other	-	11,648	-	11,648
Financial investments available-for-sale:				
Shares	-	40,760	6,726	47,486
Other	-	150,894	-	150,894
	$ -	$ 204,279	$ 6,726	$ 211,005
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 22,593	$ -	$ 22,593

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

28. FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

		Total
Balance at December 31, 2016		-
Transfers from Level 2		2
Gain included in OCI - Net change in fair value (unrealized)		6,724
Balance at December 31, 2017	$	6,726

Level 3 financial instruments are comprised of certain Class E shares held with Central 1, classified as available-for-sale, which are valued at its redemption value of $100 per share (note 10). The fair value of this investment was categorized as Level 3 as the shares are not listed on an exchange and its fair value is based on the redemption value provided by Central 1.

29. OTHER RELATED PARTY INFORMATION:

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Information Officer, Chief People and Culture Officer, Senior Vice President Credit, Senior Vice President Risk, 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, 2017 were loans of $3,457 (2016 - $2,619) and deposits of $1,488 (2016 - $1,149). No individual allowances for credit losses have been recognized with respect to these loans (2016 - nil).

(b) Key management compensation:

		207		2016
Salaries and short-term employee benefits	$	5,137	$	6,417
Post-retirement and termination benefits		1,506		342
	$	6,643	$	6,759

At December 31, 2017, outstanding loans to directors, officers and employees of the Credit Union amounted to $248,487 (2016 - $205,177). 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

29. OTHER RELATED PARTY INFORMATION *(continued)*

(b) Key management compensation *(continued)*

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 2017 was $552 (2016 - $587).

The Credit Union has included in accounts payable and other expenses a donation of $500 (2016 - $480) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2017	2016
First West Insurance Services Ltd.	100%	100%
FW Wealth Management Ltd.	100%	100%
First West Leasing Ltd.	100%	100%
FWCU Capital Corp.	100%	100%
619547 BC Ltd.	100%	100%
637506 BC Ltd.	100%	100%
Western Interior Financial Ltd.	-	100%
Bulkley Valley Insurance Services Ltd.	50%	50%
inUnison Financial Services Ltd.	-	50%

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

On December 31, 2017, Western Interior Financial Ltd. was wound-up into First West Credit Union.