Heritage Credit Union
Consolidated Financial Statements
December 31, 2016

Contents

For the year ended December 31, 2016

Management's Responsibility

To the Members of Heritage Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 22, 2017

CEO

Independent Auditors' Report

To the Members of Heritage Credit Union:

We have audited the accompanying consolidated financial statements of Heritage Credit Union, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and 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 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 financial position of Heritage Credit Union as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kelowna, British Columbia

MNP LLP

March 22, 2017

Chartered Professional Accountants

600 - 1628 Dickson Avenue, Kelowna, British Columbia, V1Y 9X1, Phone: (250) 763-8919, 1 (877)766-9735

Heritage Credit Union
Consolidated Statement of Financial Position
As at December 31, 2016

	2016	2015
Assets		
Cash resources *(Note 5)*	**1,759,133**	125,172
Receivables and other assets	**560,444**	574,222
Investments *(Note 6)*	**22,314,714**	23,381,036
Member loans receivable *(Note 7)*	**138,841,483**	123,170,952
Income taxes recoverable	**-**	14,452
Property and equipment *(Note 9)*	**1,488,649**	1,551,493
Intangible assets *(Note 10)*	**1,871,176**	1,871,575
	166,835,599	150,688,902
Liabilities		
Member deposits *(Note 11)*	**150,438,813**	132,877,164
Income taxes payable	**181,179**	-
Payables and accruals	**829,260**	524,289
Borrowings *(Note 12)*	**-**	3,348,080
Deferred tax liability *(Note 13)*	**104,886**	83,119
Membership shares *(Note 14)*	**1,695,749**	1,809,541
	153,249,887	138,642,193
Commitments *(Note 20), (Note 23)*		
Members' equity		
Retained earnings	**13,253,096**	11,740,106
Non-controlling interest	**332,616**	306,603
	13,585,712	12,046,709
	166,835,599	150,688,902

Approved on behalf of the Board

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016

	2016	*2015*
Financial income		
Member loans	**4,939,963**	4,612,585
Cash resources and investments	**309,523**	390,821
	5,249,486	5,003,406
Financial expense		
Member deposits	**1,269,729**	1,397,291
Borrowings	**289,434**	228,801
Membership share dividends	**-**	54,063
	1,559,163	1,680,155
Gross financial margin	**3,690,323**	3,323,251
Provision for credit losses *(Note 7)*	**58,797**	60,368
	3,631,526	3,262,883
Other income *(Note 17)*	**3,732,266**	3,235,588
Operating margin	**7,363,792**	6,498,471
Operating expenses *(Note 18)*	**5,426,847**	5,628,915
Income before income taxes	**1,936,945**	869,556
Provision for income taxes *(Note 13)*		
Current	**286,287**	71,079
Deferred	**26,304**	52,727
	312,591	123,806
Net income	**1,624,354**	745,750
Other comprehensive income, net of tax		
Items that will be reclassified subsequently to profit or loss		
Realized gain on derivatives, net of tax $nil (2015 - $4,863)	**-**	27,341
Total comprehensive income for the year	**1,624,354**	773,091
Total comprehensive income attributable to:		
Members of the Credit Union	**1,598,341**	761,757
Non-controlling interest	**26,013**	11,334
	1,624,354	773,091

The accompanying notes are an integral part of these financial statements

	Retained earnings	*Accumulated other comprehensive gain (loss)*	*Attributable to members of the Credit Union*	*Non-controlling interest*	*Total equity*
Balance December 31, 2014	**11,005,690**	**(27,341)**	**10,978,349**	**295,269**	**11,273,618**
Net income	**734,416**	**-**	**734,416**	**11,334**	**745,750**
Realized gain on derivatives, net of tax	**-**	**27,341**	**27,341**	**-**	**27,341**
Balance December 31, 2015	**11,740,106**	**-**	**11,740,106**	**306,603**	**12,046,709**
Net income	**1,598,341**	**-**	**1,598,341**	**26,013**	**1,624,354**
Dividends paid	**(85,351)**	**-**	**(85,351)**	**-**	**(85,351)**
Balance December 31, 2016	**13,253,096**	**-**	**13,253,096**	**332,616**	**13,585,712**

	2016	2015
Cash provided by (used for) the following activities		
Operating activities		
Net income	**1,624,354**	745,750
Depreciation	**137,837**	167,898
Provision for income taxes	**312,591**	123,806
Provision for credit losses	**58,797**	60,368
Financial income	**(5,249,486)**	(5,003,406)
Financial expense	**1,559,163**	1,680,155
Income attributable to non-controlling interest	**(26,013)**	(11,334)
Member loans written off, net of recoveries	**(10,813)**	(49,818)
Investment in joint venture - equity pickup	**(472,171)**	(432,080)
Gain on mortgage pool sales	**(120,423)**	-
	(2,186,164)	(2,718,661)
Changes in working capital accounts		
Receivables and other assets	**13,779**	22,271
Income taxes paid	**(90,656)**	(50,616)
Payables and accruals	**304,968**	(281,380)
Interest received on member loans and investments	**5,165,446**	4,955,050
Interest paid on member deposits	**(1,609,729)**	(1,732,554)
Non-controlling interest	**26,013**	11,334
	1,623,657	205,444
Financing activities		
Proceeds from borrowings	**-**	1,780,617
Repayments of borrowings	**(3,348,080)**	-
Increase in member deposits	**17,612,214**	4,408,658
Decrease in membership shares	**(113,792)**	(20,055)
Proceeds from mortgage pool sales	**4,236,618**	-
Payment of dividends	**(85,351)**	-
	18,301,609	6,169,220
Investing activities		
Increase in member loans receivable	**(19,755,572)**	(11,456,440)
Purchases of property and equipment	**(74,593)**	(229,044)
Purchases of intangible assets	**-**	(798)
Proceeds from other investments	**1,582,412**	4,387,246
Purchases of other investments	**(43,552)**	(140,580)
	(18,291,305)	(7,439,616)
Increase (decrease) in cash resources	**1,633,961**	(1,064,952)
Cash resources, beginning of year	**125,172**	1,190,124
Cash resources, end of year	**1,759,133**	125,172

1. Reporting entity

Heritage Credit Union (the "Credit Union") is incorporated under the laws of British Columbia and is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members principally in the West Kootenays and provides financial services through 3 branches, telephone and on-line banking.

The address of the Credit Union's registered office is 100-630 17th Street, Castlegar, BC.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board. The consolidated financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2016.

The consolidated financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on March 22, 2017.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

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

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2016. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 3 *Business combinations*
- IFRS 10 *Consolidated financial statements*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*

3. Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

The Credit Union has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of intercompany transactions and balances. The consolidated financial statements include the accounts of the Credit Union, and its subsidiaries as follows:

HG Insurance Agencies Ltd.	100% interest
398329 BC Ltd.	60% interest
Working Ventures Insurance Solutions Ltd.	100% interest

In addition the Credit Union has a 50% interest in a joint venture, Growth Financial Corp ("Growth"), with another credit union. The Credit Union accounts for this using the equity method whereby on initial recognition the investment is recorded at cost, and the carrying amount is adjusted to recognize its share of profit or loss of the joint venture after the date of acquisition.

Growth has the following wholly owned subsidiaries:

Kelowna Valley Insurance Agency Ltd.

Creston Valley Insurance Agency Ltd.

Whitlock Insurance Agency Ltd.

459923 BC Ltd.

Growth also holds a 49% interest in the following limited partnerships:

South Okanagan Insurance Agency Limited Partnership

Lakehead Insurance Agency Limited Partnership (dissolved in the current year)

Central Okanagan Insurance Agency Limited Partnership (dissolved in the current year)

Nootka Insurance Agency Limited Partnership

The above limited partnerships are controlled entities of Growth, since Growth is exposed, and has rights, to variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities.

Consolidated entities' balances and transactions, and any unrealized gains and losses or income and expenses arising from consolidated entities' transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with investments in associates and joint ventures are eliminated to the extent of the Credit Union's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and equity instruments issued by the Credit Union. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Cash resources

Cash consists of cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less.

Investments

Central 1 deposits and shares

Central 1 deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Other investments

Investments which meet the definition of financial instruments are measured and recorded on a basis consistent with the appropriate financial instrument designation.

Investments in equity investments that do not have a quoted market price in an active market are measured at cost.

Members' loans receivable

Loans are recognized at their amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future expected impaired financial assets that have not yet been incurred. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in the consolidated statement of comprehensive income.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Property and equipment are recorded at cost. Depreciation is provided using the straight-line and declining balance methods at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Rate
Buildings and renovations	20 and 40 years and 4%
Furniture and equipment	3-20 years and 20%
Leasehold improvements	10 and 20 years
Parking lot	10 years and 10%

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income.

Intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's cash-generating units ("CGU's") expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Other intangible assets

Intangible assets with a limited life are depreciated over their estimated useful lives. The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of comprehensive income.

The Credit Union's other intangible assets consist of computer software with an estimated life of 3-8 years.

Pension plans

The Credit Union participates in a multi-employer defined benefit plan. As sufficient information is not available to apply defined benefit accounting, the plans are accounted for using defined contribution accounting.

The Credit Union also provides retirement benefits for a portion of its employees under a multi-employer defined contribution plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU's") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in net income, with the exception of goodwill, which is not reversed in subsequent periods.

Member deposits

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

Payables and accruals

Payables and accruals are stated at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Securitization

Loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

Members' shares

Shares are classified as liabilities or members' equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity. Shares subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Loan interest revenue

Interest income is recognized on the consolidated statement of comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

*Investment interest revenu*e

Investment interest revenue is recognized on the accrual basis. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other income

Insurance commissions and fees are recognized at the time the policy documents are issued by the insurance carrier. Rental income is recognized when earned and collection is believed to be reasonably assured. Revenue from the provision of other services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Income taxes

Current tax and deferred tax are recognized in net income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination
.
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

Financial instruments

All financial instruments are initially recognized on the consolidated statement of financial position at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassifications of financial instruments.

Financial assets at fair value through profit or loss:

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union's financial instruments classified as fair value through profit or loss include derivatives.

Available-for-sale:

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union's investments held with Central 1, Southern Interior Innovation Fund VCC, CUPP Services Ltd. and other investments in shares have been classified as available-for-sale.

Loans and receivables:

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member loans receivable, accrued interest, other receivables balances, cash resources and deposits with Central 1.

Held-to-maturity:

The financial assets classified as held-to-maturity are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as held-to-maturity include certain liquidity term deposits.

Financial liabilities measured at amortized cost:

Financial instruments classified as other financial liabilities include all member deposits, borrowings, non-equity membership shares, and payables and accruals. Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through" arrangement; and either:
    - a.) The Credit Union has transferred substantially all the risks and rewards of the asset, or
    - b.) The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the consolidated statement of comprehensive income.

Derivative financial instruments and hedging activities

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management. Derivatives are reported on the consolidated statement of financial position at their fair value.

Hedges

IAS 39 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies.

Derivatives may be designated as hedges, provided that the Credit Union formally documents the hedging relationship at its inception by outlining the risk management strategy being implemented along with the details of both the hedged and hedging item. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used, the intended term of the hedging relationship and the method recognizing the gains, losses, revenues and expenses associated with the items in the hedging relationship. The Credit Union must formally assess, at inception and over the term of the hedging relationship, whether the hedging relationship is effective in achieving offsetting changes in cash flow or fair value attributable to the risk being hedged. If it is determined that a derivative is not highly effective as a hedge, the Credit Union will discontinue the application of hedge accounting.

Hedge accounting requires that gains, losses, revenues and expenses of a hedging item be recognized in the same period that the related gains, losses, revenues and expenses of the hedged item are recognized.

Non-qualifying derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting, or are not designated under IAS 39 as hedges, are carried at fair value. Changes in fair value are reported in current period earnings. Derivative financial instruments with negative fair values are reported as other liabilities while derivative financial instruments with positive fair values are considered other assets.

Cash flow hedge

The Credit Union utilizes cash flow hedges as part of its risk management activities. In a cash flow hedge, the Credit Union mainly uses interest rate swaps to hedge exposure of the future cash flows related to a fixed or floating rate financial asset or liability. The effective portion of the changes in fair value of the hedging derivative, net of taxes, is recognized in accumulated other comprehensive income ("AOCI"), whereas the ineffective portion is recognized in the statement of comprehensive income. The amounts recognized in AOCI with respect to cash flow hedges are reclassified in the consolidated statement of comprehensive income in the period or periods during which the hedged item affects net income.

When the derivative instrument no longer satisfies the conditions of effective hedging, hedge accounting ceases to be prospectively applied. The amounts previously recorded in AOCI are reclassified to profit or loss in the period or periods during which the hedged item affects net income. Gains or losses on derivatives are reclassified immediately to net income when the hedged item is sold or terminated early.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the consolidated statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2016 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of the standard on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers,* and SIC 31 *Revenue – barter transactions involving advertising services*.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

4. Significant accounting judgements, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The general provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on member loans receivable is disclosed in more detail in Note 7.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

5. Cash resources

	2016	*2015*
Cash and current accounts	**774,016**	125,172
Term deposits and accrued interest maturing in three months or less	**985,117**	-
	1,759,133	125,172

Under governing legislation, the Credit Union must maintain, for liquidity purposes, deposits with Central 1 of at least 8% of member deposits and Credit Union borrowings.

At December 31, 2016, the Credit Union liquidity deposits exceed the minimum requirements by $4,962,695 (2015 - $2,479,967).

6. Investments

	2016	*2015*
Term deposits and accrued interest maturing in greater than three months	**15,777,159**	16,694,571
Shares		
Central 1 Credit Union	**592,441**	548,889
Southern Interior Innovation Fund VCC	**195,000**	390,000
CUPP Services Ltd.	**91,839**	91,839
Other	**149**	149
	879,429	1,030,877
Investment in Joint Venture		
Investment including equity pickup	**1,474,207**	1,001,669
Advances to joint venture	**4,183,919**	4,653,919
	5,658,126	5,655,588
Total	**22,314,714**	23,381,036

7. Member loans receivable

Principal and allowance by loan type:

2016

	Principal performing	Principal impaired	Allowance specific	Allowance general	Net carrying value
Residential mortgages	95,134,487	599,151	-	49,227	**95,684,411**
Commercial mortgages	21,934,536	1,519,989	31,268	11,189	**23,412,068**
Personal loans	18,189,952	92,667	6,757	79,607	**18,196,255**
Commercial loans	1,215,515	55,923	58,144	13,101	**1,200,193**
Accrued interest	348,556	-	-	-	**348,556**
Total	136,823,046	2,267,730	96,169	153,124	**138,841,483**

2015

	Principal performing	Principal impaired	Allowance specific	Allowance general	Net carrying value
Residential mortgages	82,767,200	392,030	-	40,940	83,118,290
Commercial mortgages	19,086,781	1,681,851	26,230	13,552	20,728,850
Personal loans	18,363,077	40,863	14,006	42,937	18,346,997
Commercial loans	476,963	286,484	49,806	13,838	699,803
Accrued interest	277,012	-	-	-	277,012
Total	120,971,033	2,401,228	90,042	111,267	123,170,952

The allowance reconciliation:

	2016	2015
Balance, beginning of year	**201,309**	190,759
Provision for credit losses	**58,797**	60,368
Subtotal	**260,106**	251,127
Less: accounts written off, net of recoveries	**10,813**	49,818
Balance, end of year	**249,293**	201,309

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year end that are past due but not classified as impaired because they are either i.) less than 90 days past due, or ii.) fully secured and collection efforts are reasonably expected to result in repayment.

	1-29 days	**30-89 days**	**90 days and greater**	**2016**
Personal	4,810,421	92,959	46,586	**4,949,966**
Commercial	2,055,448	-	-	**2,055,448**
Total	6,865,869	92,959	46,586	**7,005,414**

	1-29 days	30-89 days	90 days and greater	2015
Personal	2,923,640	502,200	-	3,425,840
Commercial	866,416	862,774	228,815	1,958,005
Total	3,790,056	1,364,974	228,815	5,383,845

The principal collateral and other credit enhancements the Credit Union holds as security for loans include i.) insurance, mortgages over residential lots and properties, ii.) recourse to business assets such as real estate, equipment, inventory and accounts receivable, iii.) recourse to commercial real estate properties being financed, and iv.) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

Loan portfolios and syndication

The Credit Union has included in its member loans receivable, mortgage loan portfolios acquired in the normal course of operations. The portfolio acquired includes personal mortgage loans totalling $1,560,529 (2015 - $2,160,876). The loans are administered by the vendor credit union who collects payments and remits to the Credit Union.

Included in the Credit Union's loan portfolio are commercial syndicated loans that are reported on the Credit Union's financial records, but are administered by the lead lender on the Credit Union's behalf. The balance of syndicated loans as a participating lender is $986,614 (2015 - $992,868).

8. Securitization

The Credit Union enters into agreements with other financial institutions to sell mortgage pools. The Credit Union does not retain any financial interest in these sold mortgages and substantially all of the risks and rewards are transferred. As part of the agreements, the Credit Union continues to act as administrative agent on these mortgages.

During the year, the Credit Union sold $4,043,414 (2015 - $nil) in mortgages through these private sales, against which a gain of $120,423 (2015 - $nil) was recorded.

9. Property and equipment

	Land	*Buildings and renovations*	*Furniture and equipment*	*Leasehold improvements*	*Parking lot*	*Total*
Cost						
Balance at December 31, 2014	**325,144**	**1,825,412**	**1,286,667**	**894,524**	**94,102**	**4,425,849**
Additions	**-**	**22,068**	**186,089**	**6,065**	**14,822**	**229,044**
Balance at December 31, 2015	**325,144**	**1,847,480**	**1,472,756**	**900,589**	**108,924**	**4,654,893**
Additions	**-**	**-**	**74,593**	**-**	**-**	**74,593**
Disposals	**-**	**-**	**(30,207)**	**-**	**-**	**(30,207)**
Balance at December 31, 2016	**325,144**	**1,847,480**	**1,517,142**	**900,589**	**108,924**	**4,699,279**
Depreciation and impairment losses						
Balance at December 31, 2014	**-**	**971,028**	**1,097,392**	**821,754**	**46,269**	**2,936,443**
Additions	**-**	**59,091**	**88,608**	**15,783**	**3,475**	**166,957**
Balance at December 31, 2015	**-**	**1,030,119**	**1,186,000**	**837,537**	**49,744**	**3,103,400**
Additions	**-**	**29,340**	**92,341**	**15,607**	**149**	**137,437**
Disposals	**-**	**-**	**(30,207)**	**-**	**-**	**(30,207)**
Balance at December 31, 2016	**-**	**1,059,459**	**1,248,134**	**853,144**	**49,893**	**3,210,630**
Net book value						
December 31, 2015	325,144	817,361	286,756	63,052	59,180	1,551,493
December 31, 2016	**325,144**	**788,021**	**269,008**	**47,445**	**59,031**	**1,488,649**

10. Intangible assets

	Computer software	*Goodwill*	*Total*
Cost			
Balance at December 31, 2014	**304,422**	**1,871,176**	**2,175,598**
Additions	**798**	**-**	**798**
Balance at December 31, 2015	**305,220**	**1,871,176**	**2,176,396**
Balance at December 31, 2016	**305,220**	**1,871,176**	**2,176,396**
Amortization and impairment losses			
Balance at December 31, 2014	**303,879**	**-**	**303,879**
Additions	**942**	**-**	**942**
Balance at December 31, 2015	**304,821**	**-**	**304,821**
Additions	**399**	**-**	**399**
Balance at December 31, 2016	**305,220**	**-**	**305,220**
Carrying amounts			
At December 31, 2015	399	1,871,176	1,871,575
At December 31, 2016	**-**	**1,871,176**	**1,871,176**

11. Member deposits

	2016	*2015*
Demand	**93,886,453**	82,771,987
Term	**30,977,802**	25,699,439
Registered savings plans	**17,308,499**	17,257,714
Tax free savings	**7,856,990**	6,688,389
Accrued interest and dividends	**409,069**	459,635
	150,438,813	132,877,164

12. Borrowings

The Credit Union has an authorized line of credit and term facility with Central 1 in the amount of $7,000,000 CDN (2015 - $3,710,000 CDN) and $100,000 USD (2015 - $100,000 USD). This line of credit is secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1 and is at a rate of 1.75%. As at December 31, 2016 there was $nil (2015 - $3,348,080) owing on this line of credit.

13. Income taxes

The total provision for income taxes in the consolidated statement of comprehensive income is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2016 **Amount**	**2016** **% of Pre-tax income**	*2015* *Amount*	*2015* *% of Pre-tax income*
Combined federal and provincial statutory income tax rates	**503,606**	**26.0 %**	226,085	26.0 %
Reduction for Credit Unions	**(36,833)**	**(1.9)%**	(26,100)	(3.0)%
Equity in earnings from subsidiaries	**(122,764)**	**(6.3)%**	(112,341)	(12.9)%
Non-deductible and other items	**(31,418)**	**(1.6)%**	36,162	4.2 %
Income taxes as reported	**312,591**	**16.2 %**	123,806	14.3 %

The tax effects of temporary differences which give rise to the deferred tax liability reported in on the consolidated statement of financial position is from differences between accounts deducted for accounting and income tax purposes for property and equipment and the allowance for impaired loans.

Net deferred income tax assets are comprised of the following:

	2016	*2015*
Deferred tax asset		
Allowance for impaired loans	**52,102**	22,130
Intangible assets	**34,544**	22,823
	86,646	44,953
Deferred tax liability		
Property and equipment	**(4,406)**	(2,439)
Equity income of investments	**(187,126)**	(125,633)
	(191,532)	(128,072)
Net deferred tax asset (liability)	**(104,886)**	(83,119)

14. Membership shares

The Credit Union may issue two classes of shares designated as membership equity with $1 par value.

Membership shares

Membership shares are a requirement in the Credit Union and are redeemable upon withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.

Patronage shares

Patronage shares are issued as part of patronage rebates.

Membership shares are not guaranteed by the Credit Union deposit Insurance Corporation of British Columbia.

Dividends on membership shares of $85,351 (2015 - $54,063) are presented on the consolidated statement of comprehensive income.

15. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by *IAS 24 Related Party Disclosure*s as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. Key management personnel remuneration includes the following expenses:

	2016	*2015*
Salary and short term benefits	**362,135**	658,507

Transactions with key management personnel

Loans made to directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities.

There are no loans that are impaired in relation to loan balances with KMP.

There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

	2016	*2015*
Aggregate of loans and lines of credit to Directors and KMP	**889,014**	1,151,740
Aggregate of unadvanced lines of credit to Directors and KMP	**177,275**	224,601

	2016	*2015*
Interest and other revenue earned on loans and revolving credit facilities to KMP	**21,093**	19,012
Total interest paid on deposits to KMP	**2,196**	1,733

	2016	*2015*
The total balance of member deposits from the Directors and KMP as at the year end:		
Chequing and demand deposits	**921,126**	612,478

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

16. Pension plan

The Credit Union principally provides pension benefits to its eligible employees through a multi-employer defined benefit pension plan and a money purchase plan, administered by Central 1. The annual contribution rates are actuarially determined and reported to member credit unions by Central 1. The defined benefit plan (the "Plan") is 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, had about 3,200 active employees and approximately 760 retired plan members. Total plan assets were $559.4 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 $83.9 million. As this is a multi employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased employer contributions. The next actuarial valuation is scheduled for December 31, 2018 with results available in mid 2019. The pension expense for the year ended December 31, 2016 amounted to $301,377 (2015 - $271,347) which has been recorded as an expense in earnings.

The Credit Union also provides retirement benefits for a portion of its employees under a multi-employer defined contribution pension plan.

17. Other income

	2016	*2015*
Insurance commissions and fees	**2,150,561**	2,159,162
Account service fees	**696,748**	634,917
Investment in joint venture - equity pickup	**472,171**	432,080
Gain on mortgage pool sales	**123,968**	-
Foreign exchange gain (loss)	**98,696**	(173,067)
Rental income	**83,541**	97,569
Other	**69,094**	62,775
Safety deposit rentals	**21,812**	22,152
Loan administration fees	**15,675**	-
	3,732,266	3,235,588

18. Operating expenses

	2016	*2015*
Salaries and benefits	**3,581,768**	3,671,142
Premise, occupancy and office	**623,812**	696,027
Data processing	**361,785**	392,535
Other	**325,882**	379,308
Dues and assessments	**214,889**	149,253
Depreciation	**137,837**	167,898
Advertising	**130,908**	115,631
Human resources and administration	**49,966**	42,960
Loan administration fees	**-**	14,161
	5,426,847	5,628,915

19. Capital management

The Credit Union is required under governing provincial legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. As at December 31, 2016, the Credit Union had a capital base equal to 15.03% (2015 - 14.37%).

The Credit Union's capital consists of retained earnings and membership shares.

The Credit Union employs a Capital Management Plan as required by provincial legislation that is reviewed by management and the Board of Directors. The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirement strategy employed during the year ended December 31, 2016.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum established by legislation or regulations. The capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed asset. Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

	2016	*2015*
Primary capital		
Equity shares	**556,397**	645,887
Retained earnings - non-consolidated	**13,149,335**	11,593,576
Deferred income tax	**146,237**	112,411
Dividends paid	**85,508**	-
	13,937,477	12,351,874
Secondary capital		
Share of system retained earnings	**1,182,000**	1,060,000
Other equity shares	**1,142,847**	1,222,279
	2,324,847	2,282,279
Deductions from capital	**(5,880,539)**	(5,925,529)
	10,381,785	8,708,624

20. Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the consolidated statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being West Kootenay area of British Columbia.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

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

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

(a) Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at December 31, 2016, the Credit Union had the following undrawn financial instruments subject to credit risk:

	2016	*2015*
Unadvanced lines of credit	**27,254,553**	26,184,312
Guarantees and standby letters of credit	**145,550**	307,895
Commitments to extend credit	**774,266**	549,809
	28,174,369	27,042,016

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits, investments and member deposits. The Credit Union does not hedge its fair value risk. Refer to Note 21 for further information on fair value of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

In seeking to minimize the risks from interest rate fluctuations, the Credit Union manages exposure through the use of interest rate swap contracts. At December 31, 2016, the Credit Union had not entered into any forward interest rate swap contracts. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure.

Contractual repricing and maturity

The following schedule identifies interest rate risk as prescribed by IFRS 7 Financial Instruments: Disclosures. All financial instruments are reported based on the earlier of their contractual repricing date or maturity date.

The schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

Interest rate reprice

(In thousands)

	Variable rate	*Within 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Non-Interest Sensitive*	***2016 Total***	*2015 Total*
Assets							
Cash	-	-	-	-	1,759	**1,759**	125
Cash resources and investments	-	-	9,300	6,961	6,054	**22,315**	23,381
Average yield %	-	*0.57%*	*1.30%*	*1.90%*	-	*1.51%*	*1.70 %*
Member loans receivable	30,373	6,545	18,009	82,786	1,128	**138,841**	123,171
Average yield %	*4.46%*	*3.67%*	*3.63%*	*3.23%*	-	*3.58%*	*3.77 %*
Other assets	-	-	-	-	400	**400**	423
	30,373	**6,545**	**27,309**	**89,747**	**9,341**	**163,315**	147,100
Liabilities							
Member deposits	49,265	12,862	18,887	15,000	54,425	**150,439**	132,877
Average yield %	*1.24%*	*1.61%*	*1.51%*	*1.67%*	*0.21%*	*0.97%*	*1.05 %*
Borrowings	-	-	-	-	-	**-**	3,348
Average yield %	-	-	-	-	-	-	*1.75 %*
Payables and accruals	-	-	-	-	829	**829**	524
Membership shares	-	-	-	-	1,696	**1,696**	1,810
	49,265	**12,862**	**18,887**	**15,000**	**56,950**	**152,964**	138,559
Net sensitivity	**(18,892)**	**(6,317)**	**8,422**	**74,747**	**(47,609)**	**10,351**	8,541

Based on the current financial instruments, it is estimated that a 1.0% increase in the prime interest rate would decrease financial margin by $127,060 (2015 - $142,250). A 1.0% decrease in the prime interest rate would decrease financial margin by $28,080 (2015 - $6,890).

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes.

The assessment of the Credit Union’s liquidity position reflects management’s estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

The Credit Union manages liquidity by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

Refer to Note 5 for further information about the Credit Union's regulatory requirement.

Foreign currency risk

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial condition of the Credit Union. Foreighn currency risk arises in the ordinary course of business as the Credit Union meets members demands for foreign currency banking transactions. The impact of foreign currency risk is influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and exposure to the currency market. The Credit Union's business is predominantly conducted in Canadian currency with some deposits and funds held in US dollars. The Credit Union is not significantly exposed to currency risk.

21. Fair value measurements

Recurring fair value measurements

The Credit Union's assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

(In thousands)

	2016 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Available-for-sale financial assets				
Investments	**879**	**-**	**879**	**-**

	2015 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Available-for-sale financial assets				
Investments	1,031	-	1,031	-

Valuation techniques and inputs for recurring and non-recurring level 2 fair value measurements is as follows:

(In thousands)

Fair value measurement	**Fair Value**	**Valuation technique**	**2016 Inputs**
Investments	879	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on CDOR and current investment rates

Fair value measurement	**Fair Value**	**Valuation technique**	**2015 Inputs**
Investments	1,031	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on CDOR and current investment rates

Transfers between levels of the fair value hierarchy

The Credit Union's policy for when transfers between the levels of the fair value hierarchy are deemed to have occurred, is at the date of the event or change in circumstance that caused the transfer. No such transfers occurred during the year.

Asset and liabilities for which fair value is only disclosed

The following table analyzes within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value at December 31, 2016 but for which fair value is disclosed:

	2016 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Cash resources	**1,759**	**1,759**	**-**	**-**
Investments	**21,435**	**-**	**21,435**	**-**
Member loans receivable	**136,553**	**-**	**136,553**	**-**
Other assets	**400**	**-**	**400**	**-**
	160,147	**1,759**	**158,388**	**-**
Liabilities				
Member deposits	**150,707**	**-**	**150,707**	**-**
Membership shares	**1,696**	**-**	**-**	**1,696**
Payables and accruals	**829**	**-**	**829**	**-**
Total liabilities	**153,232**	**-**	**151,536**	**1,696**

	2015 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Cash resources	125	125	-	-
Investments	22,669	-	22,669	-
Member loans receivable	121,914	-	121,914	-
Other assets	423	-	423	-
Total assets	145,131	125	145,006	-
Liabilities				
Member deposits	133,270	-	133,270	-
Membership shares	1,810	-	-	1,810
Borrowings	3,348	3,348	-	-
Payables and accruals	524	-	524	-
Total liabilities	138,952	3,348	133,794	1,810

22. Investment in joint venture

The following table illustrates summarized financial information representing the Credit Union's 50% interest in Growth:

	2016	*2015*
Share of Growth's statement of financial position		
Cash	**699,486**	692,538
Other current assets	**303,094**	291,172
Non-current assets	**4,885,253**	4,896,383
Current liabilities	**(4,403,624)**	(4,868,489)
Other current liabilities	**-**	(187)
Non-controlling interest	**(9,697)**	(9,748)
Equity	**1,474,512**	1,001,669

	2016	*2015*
Share of Growth's revenue and profit		
Revenue	**1,960,735**	1,911,410
Profit	**472,171**	432,080
Carrying amount of the investment	**1,474,512**	1,001,669

23. Commitments

Data processing

The contract with CGI to acquire online data processing services expires at the end of December 2020. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Funds under administration

Off balance sheet funds under administration by the Credit Union is comprised of loans that have been syndicated and are administered in their capacity as an agent. Off balance sheet funds are not included in the consolidated statement of financial position and the balance as at year end is as follows:

	2016	*2015*
Syndicated loans	**435,182**	429,039

24. Events after the reporting period

Subsequent to the reporting date, the Credit Union sold its 100% interest in both HG Insurance Agencies Ltd. and Working Ventures Insurance Solutions Ltd. to Growth Financial Corp. (a joint venture for which the Credit Union holds a 50% interest) for consideration of $5,200,000.