FIRST CREDIT UNION

Consolidated Financial Statements

Year Ended December 31, 2017

FIRST CREDIT UNION

Index to Consolidated Financial Statements

Year Ended December 31, 2017

DEL MISTRO DUNN

CHARTERED PROFESSIONAL ACCOUNTANTS

A partnership of incorporated professionals

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Management's Responsibility for Financial Reporting

The Consolidated financial statements of First Credit Union have been prepared in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of First Credit Union's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Operational Risk Committee. The Audit and Operational Risk Committee is appointed by the Board and meets periodically with management and the members' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Audit and Operational Risk Committee reports to the Board of Directors prior to its approval of the financial statements. The Committee also considers, for review by the Board and approval by the members, the engagement or re-appointment of the external auditors.

The Consolidated financial statements have been audited on behalf of the members by Del Mistro Dunn, in accordance with Canadian auditing standards.

Guy Chartier
Board Chair

Tim Wall
Audit and Operational Risk Committee

Powell River, British Columbia
March 27, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Members of First Credit Union

We have audited the accompanying consolidated financial statements of First Credit Union, which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income and comprehensive income, changes in equity and cash flow 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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, the auditor considers internal controls 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 **First Credit Union** as at December 31, 2017 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Del Mistro Dunn

Powell River, British Columbia
March 27, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

FIRST CREDIT UNION
Consolidated Balance Sheet
December 31, 2017

	2017	2016
ASSETS		
CASH *(Note 3)*	$ 22,016,613	$ 43,947,582
TREASURY DEPOSITS *(Note 3)*	12,401,902	5,196,802
INCOME TAXES RECOVERABLE	116,696	-
INVESTMENTS AND OTHER ASSETS *(Note 4)*	3,137,169	3,060,320
DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT *(Note 5)*	680,842	-
LOANS AND NOTES RECEIVABLE *(Notes 6, 7)*	332,875,915	295,253,507
PROPERTY, PLANT AND EQUIPMENT *(Note 8)*	5,286,503	5,130,695
INVESTMENT IN JOINT VENTURE *(Note 9)*	9,186,676	9,895,439
INTANGIBLE ASSETS *(Note 10)*	35,051	52,576
	$ 385,737,367	$ 362,536,921
LIABILITIES		
ACCOUNTS PAYABLE	$ 1,419,283	$ 1,064,434
INCOME TAXES PAYABLE	-	131,944
DEMAND DEPOSITS *(Note 11)*	171,819,724	159,276,699
ACCRUED INTEREST AND DIVIDENDS *(Note 11)*	1,293,236	1,364,003
TERM DEPOSITS *(Note 11)*	83,907,823	87,482,854
REGISTERED SAVINGS PLAN DEPOSITS *(Note 11)*	63,613,184	59,541,413
DEFERRED INCOME TAX *(Note 12)*	153,135	120,257
SECURED BORROWINGS *(Note 13)*	31,648,415	21,153,027
OBLIGATIONS UNDER FINANCE LEASE *(Note 14)*	4,311	10,432
	353,859,111	330,145,063
MEMBERS' EQUITY		
MEMBERS' SHARES *(Note 15)*	2,914,290	4,431,813
CONTRIBUTED SURPLUS *(Note 16)*	1,585,803	1,598,495
RETAINED EARNINGS	27,378,163	26,361,550
	31,878,256	32,391,858
	$ 385,737,367	$ 362,536,921

COMMITMENTS *(Note 17)*

CONTINGENT LIABILITY *(Note 18)*

ON BEHALF OF THE BOARD

_______________ *Director*

_______________ *Director*

See notes to consolidated financial statements

FIRST CREDIT UNION

Consolidated Statement of Income and Comprehensive Income

Year Ended December 31, 2017

	2017	2016
FINANCIAL INCOME		
Interest on loans	$ 10,389,802	$ 9,498,390
Interest and dividends on investments	380,492	371,936
TOTAL FINANCIAL INCOME	10,770,294	9,870,326
FINANCIAL EXPENSES		
Interest on member deposits	3,076,074	2,898,583
Interest on financing activities	323,898	357,105
TOTAL FINANCIAL EXPENSES	3,399,972	3,255,688
FINANCIAL MARGIN	7,370,322	6,614,638
INCOME FROM OTHER OPERATING ACTIVITIES		
Commissions	1,460,369	5,303,163
Bad debts	(116,221)	(338,258)
Other *(Note 19)*	2,138,676	1,693,711
TOTAL INCOME FROM OTHER OPERATING ACTIVITIES	3,482,824	6,658,616
TOTAL FINANCIAL MARGIN AND OTHER INCOME	10,853,146	13,273,254
EXPENSES		
Advertising and promotion	321,882	427,846
Amortization	577,131	538,868
Amortization of intangible assets	17,525	17,525
Building occupancy	101,966	501,823
Cheque processing	232,548	193,091
Commissions	-	29,826
Dues and assessments	561,869	558,193
Insurance	85,483	163,343
Interest and bank charges	76	88,972
Management fees	6,367	4,292
Miscellaneous	60,969	137,848
Office	969,044	1,127,952
Operating lease	15,791	26,105
Professional and consulting	319,166	318,408
Restructuring costs	59,957	341,214
Salaries and employee benefits	5,036,424	7,046,368
Wealth management	558,817	539,276
Travel	97,881	121,960
TOTAL EXPENSES	9,022,896	12,182,910
INCOME FROM OPERATIONS	1,830,250	1,090,344
OTHER INCOME (EXPENSES)		
Gains on investments *(Note 20)*	589,423	11,278,197
Income (loss) from joint venture	(737,800)	(353,417)
TOTAL OTHER INCOME (EXPENSES)	(148,377)	10,924,780
INCOME BEFORE INCOME TAXES	1,681,873	12,015,124
INCOME TAXES *(Notes 12, 21)*	309,662	1,268,988
NET AND COMPREHENSIVE INCOME	$ 1,372,211	$ 10,746,136

See notes to consolidated financial statements

FIRST CREDIT UNION

Consolidated Statement of Cash Flow

Year Ended December 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Net and comprehensive income	$ 1,372,211	$ 10,746,136
Items not affecting cash:		
Amortization of property, plant and equipment	577,131	538,868
Gain on disposal of assets	(589,423)	(11,278,197)
Deferred income taxes	27,443	122,970
Amortization of intangibles	17,525	17,525
Loss on joint venture	737,800	353,417
	2,142,687	500,719
Changes in non-cash working capital:		
Trade accounts receivable	29,202	2,120,727
Commissions receivable	(12,566)	(612,955)
Interest and dividend receivable	65,256	(21,740)
Prepaid expenses and deposits	(164,586)	(71,249)
Deferred income	-	(72,654)
Other	(1,533)	(851)
Loans and notes receivable	(37,622,408)	(29,192,612)
Accounts payable	354,849	(1,130,139)
Income taxes recoverable	(248,640)	280,439
Accrued interest payable	(64,822)	(55,677)
Registered savings plan deposits	4,071,771	5,273,696
Demand deposits	12,543,025	10,963,712
Term deposits	(3,575,031)	12,525,721
Account receivable from joint venture	(94,295)	(48,390)
	(24,719,778)	(41,972)
Cash flow from (used by) operating activities	(22,577,091)	458,747
INVESTING ACTIVITIES		
Purchase of equipment	(732,939)	(922,642)
Proceeds on disposal of equipment	-	30,806
Proceeds on disposal of shares	39,100	8,200,000
Proceeds on sale of property	-	43,763
Proceeds on disposal of ICBC Contracts	-	6,250,000
Purchase of other shares	(57,882)	(224,349)
Cash flow from (used by) investing activities	(751,721)	13,377,578
FINANCING ACTIVITIES		
Equity shares (redemptions in excess of issued)	(1,517,523)	(385,603)
Dividends and patronage refund paid during fiscal year *(Note 22)*	(368,801)	(284,974)
Proceeds from securitization *(Note 22)*	10,495,388	1,709,069
Repayment of obligations under finance lease *(Note 22)*	(6,121)	(13,522)
Cash flow from financing activities	8,602,943	1,024,970
INCREASE (DECREASE) IN CASH FLOW	(14,725,869)	14,861,295
Cash - beginning of year	49,144,384	34,283,089
CASH - END OF YEAR	$ 34,418,515	$ 49,144,384
CASH CONSISTS OF:		
Cash	$ 22,016,613	$ 43,947,582
Treasury deposits	12,401,902	5,196,802
	$ 34,418,515	$ 49,144,384

See notes to consolidated financial statements

FIRST CREDIT UNION

Consolidated Statement of Changes in Equity

Year Ended December 31, 2017

	Share Capital	Contributed Surplus	Retained Earnings
2017			
Equity at beginning of period	$ 4,431,813	$ 1,598,495	$ 26,361,550
Net and comprehensive income	-	-	1,372,211
Purchase of Shares	(1,553,023)	-	-
Sale of shares	35,500	-	-
Dividends on equity shares	-	-	(41,463)
Patronage refund	-	-	(321,392)
Deferred income tax	-	(5,435)	-
Amortization transfer of contributed surplus	-	(7,257)	7,257
Equity at end of period	$ 2,914,290	$ 1,585,803	$ 27,378,163
2016			
Equity at beginning of period	$ 4,817,416	$ 1,607,962	$ 15,968,716
Net and comprehensive income	-	-	10,746,136
Purchase of Shares	(427,367)	-	-
Sale of shares	41,764	-	-
Dividends on equity shares	-	-	(72,972)
Patronage refund	-	-	(367,129)
Deferred Income tax	-	(2,209)	-
Amortization transfer of contributed surplus	-	(86,799)	86,799
Surplus reallocation	-	79,541	-
Equity at end of period	$ 4,431,813	$ 1,598,495	$ 26,361,550

See notes to consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity Information

First Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia. The Credit Union's registered office and principal place of business is located at 4448 A Marine Avenue, Powell River, British Columbia. The Credit Union's (and its subsidiaries, together the "Group") principal business is the provision of the following products and services to its members: mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, RDSPs, RESPs, mutual funds, automated banking machines ("ABMs"), wealth management services, property and casualty insurance, auto insurance, debit and credit cards and internet banking.

International financial reporting standards (IFRS)

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

The policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the Consolidated Financial Statements.

Basis of presentation

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 27, 2018, are presented in Canadian dollars (rounded to the nearest dollar) which is the Group's functional currency, and have been prepared under the historical cost convention except for the following:

Derivative financial instruments are measured at fair value.

The assets and liabilities for defined benefit obligations are recognized as the present value of the benefit obligation less the net total of the plan assets,plus unrecognized actuarial gains, less unrecognized actuarial past service costs and unrecognized actuarial losses.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of First Credit Union and entities controlled by First Credit Union up to December 31, 2017.

Subsidiaries are all entities controlled by the Group. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used into line with those adopted by the Group.

Intercompany transactions, balances and unrealized gains and losses on intercompany transactions are eliminated on consolidation.

Joint ventures are joint arrangements that provide joint control, whereby the Company has rights to the net assets of the joint arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The equity method is a method of accounting whereby the equity interests are initially recognized at cost, including transaction costs. After initial recognition, the consolidated financial statements include the Company's share in the investees' profit or loss and other comprehensive income, and the receipt of any dividends, up to the date significant influence or joint control ceases.

Goodwill arising on the acquisition of equity interests accounted for using the equity method was recognized according to the same policy used by the Company to recognize goodwill arising on the acquisition of a subsidiary (described below). All the entities accounted for using the equity method apply the same accounting policies as the Company, as described in this section.

Unrealized gains and losses on transactions between the Company and its jointly controlled or significantly influenced investees are eliminated to the extent of the Company's interests in the investee.

Subsidiaries and affiliates	Percentage Owned 2017 (%)*	Percentage Owned 2016 (%)*
First Group of Companies Realty Holdings Ltd.	100.00	100.00
First Wealth Management Ltd.	100.00	100.00
CU Agencies Alliance Ltd. (Joint Venture - Equity Accounting)	48.76	50.00

* Percentage of voting power is in proportion to ownership

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Financial assets and financial liabilities

(a) Recognition

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Group 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.

(b) Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and

at fair value through profit or loss, and within this category as:

- held for trading; or
- designated at fair value through profit or loss (FVTPL).

Financial liabilities

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

(c) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying value of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognized in other comprehensive income is recognized as profit or loss.

Where the Group enters into a transaction whereby it transfers assets but retains all or substantially all the risks and rewards of ownership, the transferred assets are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Where a transfer of a financial asset does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(e) Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the assets 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 the borrower or indications that a borrower or issuer will enter bankruptcy, and the disappearance of an active market for the security. It may also include other observable data related 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.

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

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In assessing collective impairment, the Group uses historical trends of the probability of default, 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 review. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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 the Consolidated Statements of Income and Comprehensive Income and reflected in an allowance account. 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 Group writes off loans and investment securities when they are determined to be uncollectible. 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 available-for-sale equity security is recognized in other comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree measured at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in restructuring expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the bargain purchase gain is recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Cash and cash equivalents

Cash and cash equivalents are carried at amortized cost and with original maturities of three months or less from the date of acquisition, are subject to an insignificant risk of changes in their fair value.

Trade and other receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income, as part of service charges income, in the statement of income and comprehensive income. The losses arising from impairment are recognized in the statement of income and comprehensive income as bad debts.

Investments

Central 1 Credit Union ("Central 1") deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, these deposits are measured at amortized cost using the effective interest method. Interest income earned is included in the Consolidated Statement of Income and Comprehensive Income using the accrual basis of accounting.

Derivative Assets Held For Risk Management

Derivative instruments are measured at fair value in the Consolidated Balance Sheet, with changes in fair value recognized in profit or loss.

Equity instruments

Investment securities are non-derivative financial assets that are classified as available-for-sale. These securities are initially and subsequently measured at fair value plus incremental direct transaction costs.

Certain equity securities that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are carried at cost. The existence of restrictions placed on the Group's ability to transfer or sell these investments severely limits the size of the available market. In the absence of purchases or sales of these securities between arm's length parties, the Group will continue to carry these investments at the value determined by reference to the most recent transaction which meets such criteria.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend.

Member loans

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net and comprehensive income.

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized in bad debts in the statement of net and comprehensive income.

Property and equipment

Property and equipment is stated at cost or deemed cost less accumulated amortization. Property and equipment is amortized over its estimated useful life on a straight-line basis at the following rates and methods:

Buildings	5 to 40 years
Automated teller machines	5 years
Computer equipment	3 to 5 years
Computer software	3 to 5 years
Equipment	5 to 10 years
Furniture and fixtures	5 to 20 years
Leasehold improvements	Term of Lease
Motor vehicles	10 years
Land	Non-depreciable

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Ongoing repairs and maintenance are expensed as incurred. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Some buildings are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services, or for administrative purposes. Such properties are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of a building have different useful lives, they are accounted for as separate items (major components) of the building.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

(a) Finance lease

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are divided into capital and interest components. Interest is charged to the statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

(b) Operating leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(c) the Group as lessor

Leasing agreements whereby the Group earns rental income on premises classified as investment property are classified as operating leases. The Group recognizes rental income on a straight—line basis over the term of the lease.

Intangible assets

Amortization on fixed life intangible assets is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of intangible assets. Customer lists are amortized from the date they are available for use. The estimated useful lives for intangibles with definite lives are as follows:

Customer lists	5 years

Management determines the estimated useful life of customer lists based on its evaluation of the purchased companies at the time of acquisition by considering market share, potential growth and other factors inherent in the acquired companies.

The useful lives of the intangible assets are reviewed on an annual basis and are 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 consolidated statement of net and comprehensive income as other operating income or other operating costs, respectively.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less selling costs, the asset is written down accordingly. 'Value in use' is based on the estimated future cash flows, 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's cash-generating unit ("CGU"). CGU is defined as the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the CGU.

Impairment charges are included in net and comprehensive income and are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Trade payables

Trade and other payables are stated at cost, which approximates fair value due to the short term nature of these liabilities. Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

A provision for credit union levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

Income taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net and comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for 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 profit or loss.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when liabilities and assets are settled or recovered.

Member deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Loan securitization

For securitization transactions, 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 has 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 cost, using the effective interest rate method.

The Group's securitization activity primarily involves purchases of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Groups's Consolidated Balance Sheet as, in the opinion of the Group's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Group‘s Consolidated Balance Sheet as secured borrowing.

Employee benefits - pension plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior reporting periods. Obligations for defined contribution pension plans are determined by the amounts to be contributed and recognized as expense in profit or loss when they are due in respect of service rendered before the end of the reporting period.

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate. The Credit Union also participates in a defined contribution plan.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term incentive plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Remeasurements are recognized in profit or loss in the period in which they arise.

Equity instruments

(a) Member shares

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of International Financial Reporting Interpretations Committee ("IFRIC") 2 Members' Shares in Co-operative Entities and Similar Instruments.

(b) Dividends and patronage rebates

Dividends and patronage rebates are recognized in the consolidated financial statements when they have been approved by the Board of Directors.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net and comprehensive income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net and comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined. The related translation differences are recognized in net income together with the gain or loss of the underlying non-monetary asset or liability.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue and expense recognition

(a) Interest

Interest on financial assets and financial liabilities is measured at amortized cost, calculated on an effective interest basis. 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 financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group 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 transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(b) Commissions and fees

Other fees 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. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

(c) Dividend income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in interest and dividends on investments in financial income.

International Financial Reporting Standards (IFRS)

Certain new standards, amendments and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2017 or later periods. The standards, amendments and interpretations relevant to the Group are:

AMENDMENTS TO IAS 7 ('International Accounting Standard') STATEMENT OF CASH FLOWS

In January 2016, the IASB issued an amendment to IAS 7, Statement of Cash Flows, to improve information provided to users of financial statements about an entity's financing activities. This amendment requires specific disclosures for movements in liabilities arising from financing activities on the Statement of Cash Flows in order to improve presentation and disclosure in the financial statement. This amendment is effective for annual periods beginning on or after January 1, 2017. As a result of adopting this amendment, the Group has added an additional disclosure as described in Note 22.

AMENDMENTS TO IAS 12: INCOME TAXES

In January 2016, the IASB issued amendments to IAS 12, Income Taxes, to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of the amendments did not have a significant impact on the Group's Consolidated Financial Statements.

(continues)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 9 - FINANCIAL INSTRUMENTS

The final version of IFRS 9, issued by the IASB in July 2014, replaces IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives as well as the versions of IFRS 9 issued by the IASB in November 2013, October 2010 and November 2009. The final standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and the standard should be applied retrospectively, subject to certain exceptions. Restatement of prior periods is not required and is only permitted if it is possible without the use of hindsight. As permitted, the Group will not restate the comparative period financial statements, but instead recognize the transition impact through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at January 1, 2018.

Implementation

The Group's implementation approach has focused on developing accounting policies, assessing business models for the classification and measurement of financial instruments, and developing and validating impairment models to support the IFRS 9 impairment conclusions.

Classification and measurement

Under IFRS 9, financial assets will be classified as amortized cost, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVOCI) based on the business model for managing assets and the contractual cash flow characteristics of the financial asset.

Upon transition, the business model assessment will be based on the facts and circumstances as at January 1, 2018. Debt instruments that have contractual cash flows representing solely payments of principal and interest (SPPI) and are managed within a business model that is held-to-collect, are classified as amortized cost. Debt instruments that meet the SPPI test and are managed within a business model that is held-to-collect and for sale. are classified as FVOCI with changes in fair value recognized in other comprehensive income (OCI) until the asset is derecognized, upon which the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss. All other debt instruments will be classified and measured as FVTPL.

Equity instruments would generally be measured at FVTPL unless an irrevocable election is made to classify these instruments at FVOCI which will result in change in fair value recognized in OCI with no subsequent impact to profit or loss upon the sale of the instruments.

The classification and measurement of financial liabilities remain essentially unchanged under IFRS 9 except for financial liabilities designated as FVTPL. Once the designation is made, changes in the fair value attributable to an entity's own credit risk should generally be recognized in other comprehensive income without subsequent reclassification in profit or loss.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

IFRS 9 introduces a new expected credit loss (ECL) model applicable for all debt instruments financial assets classified as amortized cost or FVOCI, as well as certain off-balance sheet loan commitments and financial guarantees. Compared to the current incurred loss model under IAS 39, Financial Instruments: Recognition and Measurement, the new ECL will result in an allowance for credit losses being recorded regardless of whether there has been an actual loss event. For financial assets that are credit impaired or have experienced a significant increase in credit risk, the loss allowance is recognized based on expected credit losses that result from possible default events over the expected lifetime (lifetime ECL). The loss allowance for all other financial assets are recognized based on the expected credit losses that result from possible default events within twelve months of the reporting date (twelve months ECL).

The definition of credit impaired is similar to an incurred credit loss under IAS 39. The determination of ECL requires consideration of past events, current conditions and forward-looking information.

Transition

Based on December 31, 2017 data and current implementation status, the Group expects the adoption of IFRS 9 will not lead to a reclassification impact in equity between retained earnings and accumulated other comprehensive income as at January 1, 2018 due to the classification and measurement requirements and its own credit risk assessment. The estimate of the impact of applying the new impairment model for financial assets is a decrease in the loan impairment in the range of $30,000 to $80,000, an amount considered not significant to adjust. The Group will continue to validate and refine its impairment models and the process controls related to classification and measurement as required under IFRS 9.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which will replace the current revenue recognition standards IAS 18. Revenue, and related interpretations. In April 2016, the IASB issued amendments to IFRS 15, clarifying some requirements and providing additional transition relief at the date of initial application. The standard introduces a single comprehensive model to account for revenue arising from contracts with customers and applies to all contracts with customers, except for contracts that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. Therefore, the adoption of IFRS 15 will not impact certain revenue streams of the Group, including interest income, interest expense, gain (loss) on disposal of financial instruments and change in fair value of financial instruments.

IFRS 15 is effective for the Group for the annual periods beginning on January 1, 2018. As permitted, the Group will not restate the comparative period financial statements, but instead recognize any transition impact through an adjustment to the opening balance of retained earnings as at January 1, 2018. The Group has established a project to determine the impact of IFRS 15. The Group's implementation approach consists of performing a detailed assessment of the significant revenue contracts.

The Group is continuing to review its revenue contracts that fall within the scope of IFRS 15 and to assess the impact on its Consolidated Financial Statements, including the additional disclosure requirements. Based on December 31, 2017 data and current implementation status, the standard is not expected to have a material impact on the Consolidated Financial Statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 16 LEASES

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, and lessors continue to classify leases as finance or operating leases.

IFRS 16 has a mandatory effective date for annual periods beginning on or after January 1, 2019. The standard may be adopted retrospectively by applying the new lease definition to all contracts, or as of the application date by adjusting the retained earnings at that date and applying the new definition only to new contracts. If the Group was to adopt IFRS 16 currently, there would not be a significant effect on the Group's Consolidated Financial Statements at this time.

2. GENERAL INFORMATION - PRESENTATION OF FINANCIAL STATEMENTS

(a) Estimates could be significant

The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

The effect of a change in an accounting estimate is recognized prospectively by including it in income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Fair value of financial instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques that are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 4.

(c) Estimates for member loan loss provision

In determining whether an impairment loss should be recorded in the statement of income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

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2. GENERAL INFORMATION - PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 7.

(d) Estimates in income tax filings

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including any related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different amount.

3. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1 and/or other approved parties. The average yield on the accounts at December 31, 2017 is 1.23% (2016 - 0.88%).

Treasury deposits

	2017	2016
Maturing in 101 to 180 days	**$ 5,300,000**	$ -
Maturing in 181 to 365 days	**1,848,102**	1,000,000
Maturing in over 365 days	**4,000,000**	2,848,102
Total Canadian dollar treasury deposits	**11,148,102**	3,848,102
Maturing in 181 to 365 days (US dollar)	**1,253,800**	1,348,700
Total treasury deposits	**$ 12,401,902**	$ 5,196,802

The Credit Union must maintain liquidity reserves with Central 1 at 8% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one month to four years 9 months. At maturity, these deposits are reinvested at market rates for various terms.

4. INVESTMENTS AND OTHER ASSETS

	2017	2016
Central 1 Credit Union shares	$ **1,328,164**	$ 1,270,286
CUPP Services Ltd.	**142,787**	142,787
	1,470,951	1,413,073
Trade accounts receivable	**-**	29,202
Commission and other receivables	**976,835**	1,029,526
Interest and dividends receivable	**46,838**	112,094
Prepaid expenses and deposits	**596,147**	431,561
Other	**46,398**	44,864
	$ **3,137,169**	$ 3,060,320

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value since transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a nominal par value. The redemption value of each Class E share is $100, while the paid-up capital of each Class E share is $0.01. The tax basis of the Credit Union's investment in Class E Shares is $0.01 multiplied by the number of Class E shares. Should the Class E shares of Central 1 be redeemed, the Credit Union would recognize a deemed dividend equal to the difference between the redemption value of the shares and the paid-up capital of those shares at the time of redemption. There is no separately quoted market for these shares and the fair value cannot be measured reliably as the timing of the redemption of these shares cannot be determined; therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

The CUPP Services Ltd. shares are participating preference shares. The dividend yield received during 2017 was 0.00% (2016 –31.90%). There is no separately quoted market value for these shares and as there are no fixed dividend returns, they are recorded at cost.

5. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT

The following table summarizes the fair value and the notional amounts, by term to maturity, of derivative assets:

	Maturity	**2017**	2016
Fair value			
Interest Rate Swap	**1 to 5 Years**	**$ 680,842**	$ -

The Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As of December 31, 2017, the Credit Union had entered into interest rate swap contracts for a total of $ 22,000,000 of notional principal, whereby it has agreed to pay at variable interest rates based on Banker's Acceptance Canadian Dollar Offered Rate ('CDOR') rates for maturity of three months and receive at fixed interest rates. These swap contracts have fixed interest rates ranging from 1.14% to 1.325% and will mature from June 2, 2020 to June 2, 2022. The agreements are secured by a general security agreement covering all assets of the Credit Union.

6. LOANS AND NOTES RECEIVABLE

	2017	2016
Residential Mortgages	**$ 267,083,226**	$ 230,323,788
Personal Loans	**28,844,843**	29,250,204
Commercial Loans	**33,361,338**	32,684,224
Other note receivable	**3,781,090**	3,238,197
Subtotal	**333,070,497**	295,496,413
Accrued interest receivable	**340,070**	317,892
Allowance for impaired loans (Note 7)	**(534,652)**	(560,798)
	$ 332,875,915	$ 295,253,507

Member loans can have either a variable or fixed rate of interest and they mature within a maximum of five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.00% to prime plus 18.00%. The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2017 was 3.20%.

The interest rate offered on fixed rate loans being advanced at December 31, 2017 ranges from 1.00% to 10.50%. and varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

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6. LOANS AND NOTES RECEIVABLE *(continued)*

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2017	Principal	2016
Variable rate	$ 60,491,266	3.94%	$ 68,714,912	3.65%
Fixed rate due less than one year	40,730,534	3.11%	52,170,583	3.14%
Fixed rate due between one and five years	231,654,115	3.05%	174,368,012	3.18%
	$ 332,875,915	3.22%	$ 295,253,507	3.28%

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the carrying value of the loans held on a portfolio basis follows:

	2017	2016
Unsecured loans	**$ 11,606,169**	$ 11,874,239
Loans otherwise secured	**4,451,662**	5,093,685
Loans guaranteed by government	**3,789,721**	4,082,771
Residential mortgages insured by government	**112,499,880**	107,332,027
Loans secured by residential mortgages	**170,914,264**	138,477,285
Loans commercial real estate secured	**29,614,219**	28,393,500
	$ 332,875,915	$ 295,253,507

The fair value of member loans at December 31, 2017 was $331,975,735 (December 31, 2016 - $302,418,779).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

	2017	2016
Residential mortgages	**$ 266,924,985**	$ 230,131,793
Personal loans	**28,827,992**	29,226,160
Commercial loans	**33,341,848**	32,657,357
Other note receivable	**3,781,090**	3,238,197
	$ 332,875,915	$ 295,253,507

(continues)

6. LOANS AND NOTES RECEIVABLE *(continued)*

The Credit Union's primary service area is within a 100 kilometre radius of Powell River, British Columbia as well as the Comox Valley and Bowen Island, British Columbia. The Credit Union's secondary market area is the rest of the province of British Columbia.

7. LOANS AND ALLOWANCE FOR IMPAIRMENT

Impairment reconciliation - by year

Total allowance for impaired loan provision comprises:

	2017	2016
Collective provision	$ **476,812**	$ 464,922
Individual specific provision	**57,840**	95,876
	$ **534,652**	$ 560,798

Movement in individual specific provisions and collective provisions for impairment

	Residential Mortgage	Personal	Commercial	**2017**
2017				
Balance at January 1, 2017	$ 164,513	$ 160,579	$ 235,706	$ **560,798**
Provisions charged to net income	-	98,320	-	**98,320**
	164,513	258,899	235,706	**659,118**
Write offs	-	(124,466)	-	**(124,466)**
Balance at December 31, 2017	$ 164,513	$ 134,433	$ 235,706	$ **534,652**
Gross principal balance on individually impaired loans	$ -	$ 54,877	$ -	$ **54,877**

	Residential Mortgage	Personal	Commercial	2016
2016				
Balance at January 1, 2016	$ 200,048	$ 92,484	$ 146,286	$ **438,818**
Provisions charged to net income	61,000	183,000	100,000	**344,000**
	261,048	275,484	246,286	**782,818**
Write offs	(96,535)	(114,905)	(10,580)	**(222,020)**
Balance at December 31, 2016	$ 164,513	$ 160,579	$ 235,706	$ **560,798**
Gross principal balance on individually impaired loans	$ -	$ 56,058	$ 4,024	$ **60,082**

7. LOANS AND ALLOWANCE FOR IMPAIRMENT (*continued*)

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding.

	2017 Carrying Value	2017 Individual Specific Provisions	2016 Carrying Value	2016 Individual Specific Provisions
Less then 30 days	$ -	$ -	$ -	$ 10,116
30 to 90 days	224,227	-	377,750	-
Over 90 days	57,840	57,840	54,887	54,887
Total loans in arrears	282,067	57,840	432,637	65,003
Total loans not in arrears	332,593,848	476,812	294,820,870	495,795
	$ 332,875,915	$ 534,652	$ 295,253,507	$ 560,798

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective provision is based on the period of repayments that are past due.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Loans with repayments past due but not regarded as individually impaired are considered in determining the collective provision:

2017	Residential Mortgage	Personal	Commercial	Total
30 to 90 days	$ 216,338	$ 7,889	$ -	$ **224,227**
Over 90 days	-	57,840	-	**57,840**
Balance at December 31, 2017	$ 216,338	$ 65,729	$ -	$ **282,067**

2016	Residential Mortgage	Personal	Commercial	Total
30 to 90 days	$ 260,525	$ 117,225	$ -	$ **377,750**
Over 90 days	-	50,863	4,024	**54,887**
Balance at December 31, 2016	$ 260,525	$ 168,088	$ 4,024	$ **432,637**

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Computer equipment	Computer software	Equipment	Furniture and fixtures	Motor vehicles	Automated teller machines	Total *(Note27)*
Cost										
Balance at Jan 1, 2017	$ 1,068,037	$ 5,004,413	$ 145,022	$ 777,255	$ 1,192,466	$ 175,890	$ 935,892	$ 103,563	$ 149,947	$ 9,552,485
Additions	3,093	120,563	7,390	255,792	275,603	4,991	48,760	8,887	7,860	732,939
Disposals	-	-	-	-	-					
Balance at December 31, 2017	$ 1,071,130	$ 5,124,976	$ 152,412	$ 1,033,047	$ 1,468,069	$ 180,881	$ 984,652	$ 112,450	$ 157,807	$ 10,285,424
Depreciation										
Balance at Jan 1, 2017	$ -	$ (1,994,121)	$ (33,741)	$ (538,908)	$ (839,878)	$ (109,361)	$ (747,201)	$ (34,264)	$ (124,316)	$ (4,421,790)
Depreciation	-	(184,070)	(14,871)	(150,205)	(144,509)	(19,805)	(36,297)	(7,739)	(19,635)	(577,131)
Impairement (loss)	-	-	-	-	-					
Balance at December 31, 2017	$ -	$ (2,178,191)	$ (48,612)	$ (689,113)	$ (984,387)	$ (129,166)	$ (783,498)	$ (42,003)	$ (143,951)	$ 4,998,921
Net Book value										
Balance at December 31, 2017	$ 1,071,130	$ 2,946,785	$ 103,800	$ 343,934	$ 483,682	$ 51,715	$ 201,154	$ 70,447	$ 13,856	$ 5,286,503

	Land	Buildings	Leasehold improvements	Computer equipment	Computer software	Equipment	Furniture and fixtures	Motor vehicles	Automated teller machines	Total
Cost										
Balance at Jan 1, 2016	$ 977,337	$ 4,877,666	$ 500,697	$ 628,066	$ 1,143,584	$ 185,033	$ 1,168,199	$ 61,134	$ 149,947	$ 9,691,663
Additions	271,426	208,367	-	240,246	161,075	5,834	11,016	72,946	-	970,910
Disposals	(180,726)	(81,620)	(355,675)	(91,057)	(112,193)	(14,977)	(243,323)	(30,517)	-	(1,110,088)
Balance at December 31, 2016	$ 1,068,037	$ 5,004,413	$ 145,022	$ 777,255	$ 1,192,466	$ 175,890	$ 935,892	$ 103,563	$ 149,947	$ 9,552,485
Depreciation										
Balance at Jan 1, 2016	$ -	$ (1,821,600)	$ (340,520)	$ (534,014)	$ (801,361)	$ (97,162)	$ (918,732)	$ (61,134)	$ (97,667)	$ (4,672,190)
Depreciation	-	(172,521)	(14,502)	(85,015)	(141,381)	(22,990)	(36,181)	(3,647)	(26,649)	(502,886)
Impairement (loss)	-	-	321,281	80,121	102,864	10,791	207,712	30,517	-	753,286
Balance at December 31, 2016	$ -	$ (1,994,121)	$ (33,741)	$ (538,908)	$ (839,878)	$ (109,361)	$ (747,201)	$ (34,264)	$ (124,316)	$ (4,421,790)
Net Book value										
Balance at December 31, 2016	$ 1,068,037	$ 3,010,292	$ 111,281	$ 238,347	$ 352,588	$ 66,529	$ 188,691	$ 69,299	$ 25,631	$ 5,130,695

Included above in computer equipment are computer assets under finance lease with a net book value of $0 (2016- $2,511)

9. INVESTMENT IN JOINT VENTURE

The Group holds an interest representing 48.76% (50.00% in 2016) in CU Agencies Alliance Ltd.(CUAAL), a joint venture established for the purpose of finding, buying and holding shares in insurance brokerage companies on a wholly owned basis. The end of the reporting period of the joint venture is December 31.

The joint venture was established on October 1, 2016, the day after the Group sold its 100% holdings of Westview Agencies Ltd. and First Insurance Agencies Ltd. to another wholly owned subsidiary, CUAAL, followed by a sale of 50% of CUAAL to the Group's joint venture co-participant. On May 31, 2017, a new joint venture agreement was signed in which another venturer was added upon their contribution of assets, in the form of their 100% investment in 1061350 BC Ltd (operating as Aldergrove Insurance Services). As a result of this addition, the Group's holdings in the joint venture decrease by 1.24%.

These entities' shares are not traded on the stock exchange. Therefore, they have no official quoted price. The Group has not earned any dividends from this entity.

The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses related to the Group's interest in CUAAL are as follows:

	2017	2016
Cash	$ 1,530,000	$ 339,000
Other current assets	610,000	1,673,000
Non-current assets	22,346,000	23,613,000
Total assets	24,486,000	25,625,000
Current financial liabilities	1,581,000	1,290,000
Other current liabilities	100,000	754,000
Non-current financial liabilities	600,000	-
Other non-current liabilities	4,297,000	4,682,000
Total liabilities	6,578,000	6,726,000
Net assets	$ 17,908,000	$ 18,899,000

Adjusting for advances to the joint venture, totaling $408,275 (2016 - $313,979), along with our allocation of the investment and loss, results in a total of $ 9,186,676 (2016 - $9,895,439).

10. INTANGIBLE ASSETS

Amortization of intangible assets is included in non-financial expenses in the income statement.

	Indefinite life ICBC Contracts	Finite life Customer Lists	**Total 2017**
2017			
Cost			
Balance at January 1, 2017	$ -	$ 70,101	$ **70,101**
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2017	$ -	$ 70,101	$ **70,101**
Amortization			
Balance at January 1, 2017	$ -	$ (17,525)	$ **(17,525)**
Amortization	-	(17,525)	**(17,525)**
Balance at December 31, 2017	$ -	$ (35,050)	$ **(35,050)**
Carrying Amount			
At January 1, 2017	$ -	$ 52,576	$ **52,576**
At December 31, 2017	$ -	$ 35,051	$ **35,051**

	Indefinite life ICBC Contracts	Finite life Customer Lists	Total 2016
2016			
Cost			
Balance at January 1, 2016	$ 956,597	$ 412,259	$ **1,368,856**
Addition	-	-	-
Disposals	(956,597)	(342,158)	**(1,298,755)**
Balance at December 31, 2016	$ -	$ 70,101	$ **70,101**
Amortization			
Balance at January 1, 2016	$ -	$ (342,158)	$ **(342,158)**
Amortization	-	(17,525)	**(17,525)**
Disposals	-	342,158	**342,158**
Balance at December 31, 2016	$ -	$ (17,525)	$ **(17,525)**
Carrying Amount			
At January 1, 2016	$ 956,597	$ 70,101	$ **1,026,698**
At December 31, 2016	$ -	$ 52,576	$ **52,576**

The carrying amount of customer lists has a remaining amortization period of 3 years.

11. MEMBER DEPOSITS

	2017	2016
Member deposits listing		
Chequing	**$ 62,241,163**	$ 60,328,374
Demand	**109,578,561**	98,948,325
Term	**83,907,823**	87,482,854
Registered savings plans	**23,197,401**	23,864,285
Registered retirement income funds	**9,701,124**	9,308,592
Tax free savings accounts	**30,714,659**	26,368,536
	319,340,731	306,300,966
Accrued interest and dividends	**1,293,236**	1,364,003
	$ 320,633,967	$ 307,664,969

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.70% at December 31, 2017.

Demand deposits are due on demand and bear interest at a variable rate up to 1.35% at December 31, 2017. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued as of December 31, 2017 range from 0.25% to 2.85%.

The registered retirement savings plans ("RRSP") accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 0.25% at December 31, 2017.

Registered retirement income funds ("RRIFs") consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in demand deposits is an amount of $3,471,198 (2016 - $1,993,980) of US denominated dollars.

Fair value

The fair value of member deposits at December 31, 2017 was $319,413,129 (December 31, 2016 - $306,667,133)

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	Principal	2017	Principal	2016
Variable rate	$ 206,670,271	0.55%	$ 185,323,857	0.51%
Fixed rate due less than one year	83,157,444	1.69%	88,754,928	1.69%
Fixed rate due between one and five years	29,513,016	1.80%	32,222,181	1.75%
	$ 319,340,731	0.96%	$ 306,300,966	0.98%

7. MEMBER DEPOSITS *(continued)*

Concentrations of Risk

The Credit Union's primary service area is within a 100 kilometre radius of Powell River, British Columbia as well as the Comox Valley and Bowen Island, British Columbia. The Credit Union's secondary market area is the rest of the province of British Columbia

12. DEFERRED INCOME TAXES

The movement in 2017 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2017	Recognized in Net Income	Recognized directly in Equity	Closing Balance Dec 31, 2017
Deferred tax liabilities				
Property, plant and equipment	$ (120,257)	$ (27,443)	$ (5,435)	$ (153,135)
Intangible assets	-	-	-	-
Other	-	-	-	-
	(120,257)	(27,443)	(5,435)	(153,135)
Deferred tax assets				
Cumulative eligible capital	-	-	-	-
Property, plant and equipment	-	-	-	-
Tax losses carried forward	-	-	-	-
	-	-	-	-
2017 net deferred tax liability	$ (120,257)	$ (27,443)	$ (5,435)	$ (153,135)

The movement in 2016 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2016	Recognized in Net Income	Recognized directly in Equity	Closing Balance Dec 31, 2016
Deferred tax liabilities				
Property, plant and equipment	$ (112,106)	$ (5,942)	$ (2,209)	$ (120,257)
Intangible assets	(178,482)	178,482	-	-
Other	267	(267)	-	-
	(290,321)	172,273	(2,209)	(120,257)
Deferred tax assets				
Cumulative eligible capital	4,959	(4,959)	-	-
Property, plant and equipment	10,794	(10,794)	-	-
Tax losses carried forward	147,136	(147,136)	-	-
	162,889	(162,889)	-	-
2016 net deferred tax liability	$ (127,432)	$ 9,384	$ (2,209)	$ (120,257)

13. SECURED BORROWINGS

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of mortgages into Canada Mortgage and Housing Corporation-sponsored programs which issue bonds to third party investors at specified interest rates.

The Credit Union also securitizes insured residential mortgages by participating in the National Housing Act ("NHA") Mortgage-backed Securities ("MBS") program. Through the program, the Credit Union issues securities backed by mortgages that are insured against borrower's default.

For loans which are securitized, the Credit Union receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in Note 26(d).

Full derecognition of certain loans securitized occurs when First Credit Union transfers its contractual right to receive cash flows from the financial assets or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, prepayment and other price risks.

The following table summarizes First Credit Unions on balance sheet securitization activity during the years ended December 31, 2017 and 2016:

	2017	2016
Amount Securitized	**$ 17,880,525**	$ 11,263,975
Outstanding Balance of Securitized Loans	**31,648,415**	21,153,027

The following table summarizes the balances for securitized loans that are not recorded on First Credit Union's Balance Sheet:

	2017	2016
Amount Securitized	**$ 81,316,706**	$ 128,022,441
Outstanding Balance of Securitized Loans	**279,721,403**	208,892,469

The following table summarizes First Credit Unions total securitization activity during the years ended December 31, 2017 and 2016:

	2017	2016
Amount Securitized	**99,197,231**	139,286,416
Outstanding Balance of Securitized Loans	**311,369,818**	230,045,496

14. OBLIGATIONS UNDER FINANCE LEASE

	2017	2016
Computer leases.	$ -	$ 9,341
Computer leases bearing interest at 13.25% per annum, repayable in monthly blended payments of $497. These leases mature on dates between August and November 2018 and are secured by the equipment.	4,311	1,091
	$ 4,311	$ 10,432

Future minimum capital lease payments are approximately:

Total minimum lease payments	$ 4,559

15. MEMBER SHARES

		2017	2016
Issued:			
547,100	Membership (2016 - 554,451)	$ 547,101	$ 554,451
2,367,189	Investment (2016 - 3,877,362)	2,367,189	3,877,362
		$ 2,914,290	$ 4,431,813

Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

Membership shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold membership shares ($5 for junior members under the age of majority, $25 for individual members, and $100 for corporate members). These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares and the payment of dividends on these shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 26 b).

Investment shares

Investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash or additional shares. These shares, as per the Credit Union rules, are only redeemable by Board approval, and may be limited to a maximum of 10% of the outstanding opening balance of the year at the discretion of the Board.

16. CONTRIBUTED SURPLUS

Contributed surplus was created upon the amalgamation of Cumberland & District Credit Union (CDCU) with First Credit Union in September 2012 and represents the retained earnings of CDCU that were assumed $1,423,824 (2016 - $1,423,824) as well as the fair value increments (including deductions for deferred income taxes) on land and buildings held by CDCU $161,979 (2016 - $174,671). The fair value increments on the land and building are amortized directly into retained earnings at the same rate and method as the underlying assets.

17. COMMITMENTS

Credit facilities

The Credit Union has authorized lines of credit with Central 1 totaling $18,400,000 plus $100,000 in USD. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Long term leases

The Company has a long term lease with respect to its premises and equipment. The premises' lease contains renewal options and provides for payment of utilities, property taxes and maintenance costs. Future minimum lease payments as at December 31, 2017 are as follows:

	Premises	Equipment	Total
No later than one year	$ 63,685	$ 1,229	$ 64,914
Later than one year but not later than five years	263,719	-	263,719
Later than five years	89,403	-	89,403
	$ 416,807	$ 1,229	$ 418,036

18. CONTINGENT LIABILITY

Legal matters are without merit or will have no significant impact

Certain claims, suits, and complaints arising in the ordinary course of operations have been filed or are pending against the Credit Union. In the opinion of management, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Credit Union if disposed of unfavourably.

19. OTHER INCOME

	2017	2016
Credit card discounts and fees	**$ 3,667**	$ 5,904
Loan fees and penalties	**365,755**	308,180
Service charges	**872,042**	792,184
Finance fees	**-**	121,044
Other	**780,752**	427,080
Rental revenue	**116,460**	39,319
	$ 2,138,676	$ 1,693,711

20. GAINS ON INVESTMENTS

	2017	2016
Gain on sale of subsidiary investment (Purchase price adjustment)	$ (130,515)	$ 6,131,961
Gain on disposal of ICBC license	-	5,293,403
Impairment loss on land	-	(180,726)
Gain on disposal of assets	-	33,559
Gain on investments	39,096	-
Interest rate swap	680,842	-
	$ 589,423	$ 11,278,197

21. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 19.74% (2016 - 21.10%) to the income for the year and is reconciled as follows:

	2017	2016
Income before income taxes	$ 1,681,873	$ 12,015,124
Income tax expense at the combined basic federal and provincial tax rate:	$ 354,422	$ 3,689,049
Increase (decrease) resulting from:		
Non-deductible expenses	6,073	6,630
Reduction for tax deductible dividends	(68,580)	(80,538)
Capital cost allowance claimed in excess of amortization	(2,261)	(3,129)
Taxable portion of gain on disposal	-	1,141,415
Gain on assets disposal	(104,012)	(2,533,007)
Non-deductible losses (income) from subsidiary	117,920	(922,077)
Other	(60)	(158)
Deferred tax provision	27,443	122,970
Losses of prior years carried forward	(21,052)	(147,136)
Tax adjustments relating to prior years	(231)	(5,031)
Effective tax expense	$ 309,662	$ 1,268,988

The Provincial government budget included a measure which initiated the phase-out of the additional Provincial deduction for credit unions, beginning with fiscal years ending on December 31, 2017. The additional Provincial deduction has been reduced by a rate of 20% for 2016 and 2017, 60% for 2018 and 80% for 2019. This change will result in an additional increase of Provincial taxes payable year over year.

22. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	December 31, 2016	Cash Flow Changes	Non-Cash Fair Value Change	Non-cash Other	December 31, 2017
Secured borrowings	$ 21,153,027	$ 10,495,388	$ -	$ -	$ **31,648,415**
Obligations under capital lease	10,432	(6,121)	-	-	**4,311**
Dividends payable	399,816	(368,801)	-	362,855	**393,870**
	$ 21,563,275	$ 10,120,466	$ -	$ 362,855	$ **32,046,596**

23. RELATED PARTY TRANSACTIONS

Key management personnel

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

The Credit Union recognizes that a fair and equitable compensation program of key management personnel is important in attracting and retaining individuals with skills and abilities required to carry out the organization's objectives. The Credit Union's compensation program reflects internal equity, external competitiveness and individual contribution, and is designed to include an appropriate balance of cash compensation and non-cash benefits. Compensation of key management personnel comprises the top five highest paid employees in 2017.

Remuneration for the Directors of the Credit Union is reviewed regularly by a sub-committee of the Board in accordance with the Credit Union's rules and applicable provincial legislation. Director remuneration is determined by benchmarking against compensation data from similarly sized credit unions in the province of British Columbia. Changes to Director remuneration are approved by the Board of Directors. Total compensation paid to the Board of Directors in 2017 was $43,028 (2016 - $37,987) .

The following is a summary of the Group's related party transactions:

	2017	2016
Compensation for key management		
Salaries and other short-term employee benefits	$ **898,970**	$ 830,211
Total pension and other post-employment benefits	**54,720**	52,450
	$ **953,690**	$ 882,661

(continues)

23. RELATED PARTY TRANSACTIONS *(continued)*

Loans to key management personnel

	2017	2016
Aggregate value of loans advanced	$ **1,138,886**	$ 920,421
Interest received on loans advanced	**9,038**	7,196
Total value of lines of credit advanced	**223,618**	125,029
Interest received on lines of credit advanced	**1,783**	1,165
Unused value of lines of credit	**271,982**	320,571

Deposits from key management

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

24. PENSION PLAN

Defined Benefit Plan

The Credit Union makes contributions to the BC Credit Unions Employees' Pension Plan, which is a contributory, multiemployer, multidivisional pension plan governed by a 12-member Board of Trustees, which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits on behalf of some members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Credit Union is one of several employers participating in the 1.75% Division of the Plan. At December 31, 2015, this Division covered about 3,200 active employees and approximately 760 retired plan members, and had assets of approximately $559.4M.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability in the 1.75% Division of $25.1M and a solvency deficiency of $83.9M. As this is a multi-employer plan, the assets and liabilities are pooled and assets are not tracked separately by participating employer. Although the actuaries may be able to determine a breakdown of the current liabilities based on each employer's individual demographic profile and allocate a proportionate share of the assets based on the solvency ratio of the entire Plan, the Plan does not track accumulated contributions and investment earnings for each employer.

The amount contributed to the plan for 2017 was $211,513 (2016 - $220,624). The contributions were made for current service and these have been recognized in net and comprehensive income.

Defined Contribution Plan

The Credit Union also makes contributions to the Pension Plan for the Employees of First Credit Union, a plan administered by Mackenzie Financial, on behalf of some members of its staff. The plan is a defined contribution plan, which requires contributions from the Credit Union based on length of service and rates of pay, with no further liability assumed by the Credit Union for plan performance.

The amount contributed to the plan for 2017 was $239,267 (2016 - $235,102). The contributions were made for current service and have been recognized in net and comprehensive income.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

December 31, 2017

	Held to Maturity	Available-for-Sale	Fair value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
Cash	$ -	$ -	$ 22,016,613	$ -	$ -
Treasury deposits	12,401,902	-	-	-	-
Derivative financial instruments	-	-	680,842	-	-
Loans to members	-	-	-	332,875,915	-
Member deposits	-	-	-	-	(319,340,731)
Secured borrowings	-	-	-	-	(31,648,415)
Accrued interest and dividends	-	-	-	-	(1,293,236)
Members' shares	-	-	-	-	(2,914,290)
Other liabilities	-	-	-	-	(1,423,594)
	$ 12,401,902	$ -	$ 22,697,455	$ 332,875,915	$(356,620,266)

December 31, 2016

	Held to Maturity	Available-for-Sale	Fair value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
Cash	$ -	$ -	$ 43,947,582	$ -	$ -
Treasury deposits	5,196,802	-	-	-	-
Loans to members	-	-	-	295,253,507	-
Member deposits	-	-	-	-	(306,300,966)
Secured borrowings	-	-	-	-	(21,153,027)
Accrued interest and dividends	-	-	-	-	(1,364,003)
Members' shares	-	-	-	-	(4,431,813)
Other liabilities	-	-	-	-	(1,074,866)
	$ 5,196,802	$ -	$ 43,947,582	$ 295,253,507	$(334,324,675)

26. 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, while 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 Senior Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Asset Liability Management services are provided by a strategic consulting company to ensure the Credit Union's short-term interest rate risk profile adequately safeguards financial margin, to manage long-term interest rate risk to ensure long-term profitability, to present new product strategies and test the impact these strategies have on the financial success and risk profile of the Credit Union, and to provide overall management consulting that ensures the Credit Union's risk profile is well managed.

a. Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Management

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.

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26. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

A sizeable portfolio of the loan book is secured by residential property in Powell River, the Comox Valley and Bowen Island, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken and through involvement in loan pools secured by properties in other areas of British Columbia.

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.

b. Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

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

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Union Incorporation Act of British Columbia require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The regulated minimum liquidity ratio is 8%. The Credit Union has set an internal liquidity target of 9 - 11%.

The Credit Union manages liquidity risk by:

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

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.

As at December 31, 2017, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	**Maximum exposure**
Cash	$ 22,006,475
Liquidity reserve deposit	12,401,902
Discount deposits and term deposit	-
	34,408,377
Liquidity requirement	26,788,240
Excess liquidity	$ 7,620,137

(continues)

26. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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.

c. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk (Note 26 d), currency risk (Note 26 e) and equity risk (which at this time is inconsequential).

d. Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured monthly and reported to the Board quarterly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, policies and procedures

The Credit Union's major source of income is financial margin - the difference between interest earned on investments and members' loans and interest paid on members' deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management, in concert with external consultant Tuff Risk, and reported to the Financial Institution Commission ("FICOM") in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FICOM as required by credit union regulations. For the year ended 2017, the Credit Union was in compliance with this policy.

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26. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates, or due or payable on demand, are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity

	Asset Yield %	Liability Cost %	Assets	Liabilities	Asset/Liability Gap
0-3 months	3.58%	0.79%	$ 78,941,481	$ 227,029,169	$ (148,087,688)
4-12 months	2.75%	1.70%	42,851,148	66,223,985	(23,372,837)
1-2 years	3.16%	1.73%	54,074,894	11,000,471	43,074,423
2-5 years	3.05%	1.60%	181,815,471	48,219,698	133,595,773
Interest Sensitive	3.15%	1.10%	357,682,994	352,473,323	5,209,671
Non-interest sensitive	-	-	28,054,373	33,264,044	(5,209,671)
Total	-	-	$ 385,737,367	$ 385,737,367	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to change in interest rates determines that an increase in interest rates of 1% could result in a decrease to net income of $247,280 while a decrease in interest rates of 1% could result in an increase to net income of $83,940.

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

e. Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar member deposits. The Credit Union limits this risk by holding an equivalent amount of United States dollar cash and near cash investments in accordance with its investment policy. Foreign currency changes are continually monitored by the treasury and Asset and Liability Committee ("ALCO") for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Risk measurement

The Credit Union's position is measured daily and reported to the Board monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates is controlled by limiting the unhedged foreign currency exposure to $100,000 in U.S. funds.

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26. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

For the year-ended December 31, 2017, the Credit Union's exposure to foreign exchange risk is within policy.

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.

27. CAPITAL MANAGEMENT

a. Capital management

The Group's objectives when managing its capital are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Group's capital structure consists of membership shares (member shares, patronage shares, investment shares) and undivided earnings. There have been no changes in how the Credit Union measures capital since the previous period.

Section 67(1) of the Financial Institutions Act of British Columbia ("The Act") states that a credit union must at all times ensure that it has an adequate capital base in relation to the business carried on by it, in accordance with the regulations. These regulations require that the Credit Union establish and maintain a level of capital that shall not be less than 8% of the risk weighted value of its assets. The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2017 was $135,547,998, 2016 - $120,235,851).

As at December 31, 2017, the Credit Union exceeded the capital requirements of the Act with a calculated risk weighted asset ratio of 23.31% (2016 - 27.48%).

b. Regulatory capital consists of the following:

	2017	2016
Tier I capital		
Member shares	$ 2,914,290	$ 4,431,813
Retained earnings	27,378,163	26,361,550
Contributed surplus	1,585,803	1,598,495
Deferred income tax credit	153,135	120,257
Dividends and patronage	393,870	399,816
	32,425,261	32,911,931
Tier II capital		
Proportion of systems retained earnings	2,883,000	2,566,000
Deduction from capital		
Subsidiary and other equity investments	(3,228,485)	(2,106,738)
Other intangible assets	(486,229)	(325,230)
	(3,714,714)	(2,431,968)
	$ 31,593,547	$ 33,045,963