

FIRST CREDIT UNION
Consolidated Financial Statements
Year Ended December 31, 2015

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Year Ended December 31, 2015

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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.


Gerry Wray
Audit and Operational Risk Committee


Kate Wetherell,
Audit and Operational Risk Committee

Powell River, British Columbia
March 22, 2016

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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, 2015 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, 2015 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Powell River, British Columbia
March 22, 2016


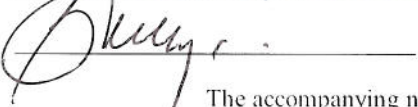


CHARTERED PROFESSIONAL ACCOUNTANTS

FIRST CREDIT UNION
Consolidated Balance Sheet
December 31, 2015

	2015	2014
ASSETS		
CASH (Note 3)	\$ 23,022,157	\$ 4,082,689
TREASURY DEPOSITS (Note 3)	11,260,932	15,919,900
INCOME TAXES RECOVERABLE	148,495	-
INVESTMENTS AND OTHER ASSETS (Note 4)	4,150,367	3,959,328
LOANS AND NOTES RECEIVABLE (Notes 5, 6)	266,060,895	231,876,874
PROPERTY, PLANT AND EQUIPMENT (Note 7)	5,019,473	5,271,474
INTANGIBLE ASSETS (Note 8)	1,026,698	971,522
GOODWILL (Note 9)	12,370,036	12,370,036
	<u>\$ 323,059,053</u>	<u>\$ 274,451,823</u>
LIABILITIES		
ACCOUNTS PAYABLE	\$ 2,194,568	\$ 2,033,097
DEFERRED INCOME	72,654	68,937
INCOME TAXES PAYABLE	-	74,600
DEMAND DEPOSITS (Note 10)	148,312,987	130,003,216
TERM DEPOSITS (Note 10)	74,957,133	67,094,236
REGISTERED SAVINGS PLAN DEPOSITS (Note 10)	54,267,717	43,333,640
NON EQUITY SHARES (Note 10)	-	697,101
ACCRUED INTEREST AND DIVIDENDS (Note 10)	1,264,553	1,369,156
DEFERRED INCOME TAX (Note 11)	127,432	213,297
LOAN FROM CENTRAL 1 CREDIT UNION	-	7,800,000
SECURED BORROWINGS (Note 12)	19,443,958	-
OBLIGATIONS UNDER FINANCE LEASE (Note 13.)	23,954	46,036
	<u>300,664,956</u>	<u>252,733,316</u>
MEMBERS' EQUITY		
MEMBERS' SHARES (Note 14)	4,817,416	4,964,756
CONTRIBUTED SURPLUS (Note 15)	1,607,962	1,617,017
RETAINED EARNINGS	15,968,719	15,136,734
	<u>22,394,097</u>	<u>21,718,507</u>
	<u>\$ 323,059,053</u>	<u>\$ 274,451,823</u>
COMMITMENTS (Note 16)		
CONTINGENT LIABILITY (Note 17)		

ON BEHALF OF THE BOARD

 Director
 Director

The accompanying notes form an integral part of these financial statements.

FIRST CREDIT UNION
Consolidated Statement of Income and Comprehensive Income
Year Ended December 31, 2015

	2015	2014
FINANCIAL INCOME		
Interest on loans	\$ 8,673,855	\$ 8,177,462
Interest and dividends on investments	407,931	348,141
	<u>9,081,786</u>	<u>8,525,603</u>
FINANCIAL EXPENSES		
Interest on member deposits	3,070,754	3,111,640
Interest on borrowed money	208,464	83,335
	<u>3,279,218</u>	<u>3,194,975</u>
FINANCIAL MARGIN	<u>5,802,568</u>	<u>5,330,628</u>
INCOME FROM OTHER OPERATING ACTIVITIES		
Commissions	6,394,324	6,644,499
Bad debts	(234,234)	(138,488)
Other (Note 18)	1,343,222	1,314,728
	<u>7,503,312</u>	<u>7,820,739</u>
TOTAL FINANCIAL MARGIN AND OTHER INCOME	<u>13,305,880</u>	<u>13,151,367</u>
EXPENSES		
Advertising and promotion	332,650	321,498
Amortization	522,565	472,510
Amortization of intangible assets	32,450	14,945
Building occupancy	440,216	431,832
Cheque processing	180,915	156,203
Commissions	37,370	25,674
Dues and assessments	487,637	294,720
Insurance	128,091	114,860
Interest and bank charges	119,693	123,244
Miscellaneous	38,722	46,386
Office	1,226,378	1,212,948
Operating lease	82,316	139,236
Professional and consulting	262,208	183,091
Salaries and employee benefits	7,420,841	7,115,559
Subcontract	699,333	681,773
Travel	108,335	77,866
	<u>12,119,720</u>	<u>11,412,345</u>
INCOME FROM OPERATIONS	<u>1,186,160</u>	<u>1,739,022</u>
OTHER INCOME		
Gains (losses) on disposal of assets (Note 19)	1,428	(98,690)
INCOME BEFORE INCOME TAXES	<u>1,187,588</u>	<u>1,640,332</u>
INCOME TAXES		
Current (Note 20)	150,741	256,801
Deferred (Note 11)	(87,663)	(16,154)
	<u>63,078</u>	<u>240,647</u>
NET AND COMPREHENSIVE INCOME	<u>\$ 1,124,510</u>	<u>\$ 1,399,685</u>

The accompanying notes form an integral part of these financial statements.

FIRST CREDIT UNION
Consolidated Statement of Cash Flow
Year Ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Net and comprehensive income	\$ 1,124,510	\$ 1,399,685
Items not affecting cash:		
Amortization of property, plant and equipment	522,565	472,510
Loss (gain) on disposal of assets	(1,428)	83,210
Deferred income taxes	(87,663)	(16,154)
Amortization of intangibles	32,450	14,945
	<u>1,590,434</u>	<u>1,954,196</u>
Changes in non-cash working capital:		
Trade accounts receivable	(77,090)	(148,021)
Commissions receivable	78,103	(198,557)
Interest and dividend receivable	32,145	91,854
Prepaid expenses and deposits	(114,441)	(67,373)
Deferred income	3,717	68,937
Other	(5,235)	(5,014)
Loans and notes receivable	(34,184,021)	(23,809,838)
Accounts payable	161,471	60,675
Income taxes recoverable	(223,095)	176,641
Non equity shares	(697,101)	(1,081,111)
Accrued interest payable	(130,167)	(48,077)
Registered savings plan deposits	10,934,077	2,958,529
Demand deposits	18,309,771	6,328,994
Term deposits	7,862,897	(1,674,092)
	<u>1,951,031</u>	<u>(17,346,453)</u>
Cash flow from (used by) operating activities	<u>3,541,465</u>	<u>(15,392,257)</u>
INVESTING ACTIVITIES		
Purchase of equipment	(315,176)	(430,814)
Proceeds on disposal of equipment	46,040	6,727
Purchase of customer list	(87,626)	-
Purchase of other shares	(105,892)	(113,440)
Cash flow used by investing activities	<u>(462,654)</u>	<u>(537,527)</u>
FINANCING ACTIVITIES		
Equity shares	(147,340)	(324,278)
Dividends and patronage refund paid during fiscal year	(274,307)	(263,186)
Proceeds from Central 1 loan	(7,800,000)	7,800,000
Proceeds from securitization	19,443,958	-
Repayment of obligations under finance lease	(22,082)	(18,769)
Cash flow from financing activities	<u>11,200,229</u>	<u>7,193,767</u>
INCREASE (DECREASE) IN CASH FLOW	<u>14,279,040</u>	<u>(8,736,017)</u>
Cash - beginning of year	<u>20,004,049</u>	<u>28,740,066</u>
CASH - END OF YEAR	<u>\$ 34,283,089</u>	<u>\$ 20,004,049</u>
CASH CONSISTS OF:		
Cash	\$ 23,022,157	\$ 4,084,149
Treasury deposits	<u>11,260,932</u>	<u>15,919,900</u>
	<u>\$ 34,283,089</u>	<u>\$ 20,004,049</u>

The accompanying notes form an integral part of these financial statements.

FIRST CREDIT UNION
Consolidated Statement of Changes in Equity
Year Ended December 31, 2015

	Share Capital	Contributed Surplus	Retained Earnings
2015			
Equity at beginning of period	\$ 4,964,756	\$ 1,617,017	\$ 15,136,734
Net and comprehensive income	-	-	1,124,510
Purchase of Shares	46,759	-	-
Sale of shares	(194,099)	-	-
Dividends on equity shares	-	-	(95,782)
Patronage refund	-	-	(204,000)
Deferred income tax	-	(1,798)	-
Amortization transfer of contributed surplus	-	(7,257)	7,257
Equity at end of period	<u>\$ 4,817,416</u>	<u>\$ 1,607,962</u>	<u>\$ 15,968,719</u>
2014			
Equity at beginning of period	\$ 5,289,034	\$ 1,629,808	\$ 14,002,848
Net and comprehensive income	-	-	1,399,684
Purchase of Shares	176,536	-	-
Sale of shares	(500,814)	-	-
Dividends on equity shares	-	-	(109,679)
Patronage refund	-	-	(163,376)
Deferred Income tax	-	(5,534)	-
Amortization transfer of contributed surplus	-	(7,257)	7,257
Equity at end of period	<u>\$ 4,964,756</u>	<u>\$ 1,617,017</u>	<u>\$ 15,136,734</u>

The accompanying notes form an integral part of these financial statements.

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

I. 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, 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").

Basis of presentation

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 22, 2016, have been prepared under the historical cost convention and are presented in Canadian dollars rounded to the nearest dollar.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of First Credit Union and entities controlled by the First Credit Union up to December 31, 2015.

Subsidiaries are all entities controlled by 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 recognised 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.

Subsidiaries	Percentage Owned 2015 (%)*	Percentage Owned 2014 (%)*
First Insurance Agencies Ltd.	100.00	100.00
Westview Agencies Ltd.	100.00	100.00
First Group of Companies Realty Holdings Ltd.	100.00	100.00

* 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.

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FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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 administrative 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 recognised 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 recognised 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 recognised 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 recognised 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.

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 amortised cost using the effective interest rate method, less impairment. Amortised 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 recognised in the statement of income and comprehensive income as bad debts.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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 they are carried at amortized cost, which approximates fair value.

Equity instruments

These equity 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 they are carried at amortized cost. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment is recognized in net and comprehensive income.

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.

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 there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of expected cash flows discounted at the loans' original effective interest rate; short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

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.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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.

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 costs, using the effective interest rate method.

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	3 to 20 years
Leasehold improvements	Term of Lease
Motor vehicles	3 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 recognised within other income in profit or loss.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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. Goodwill and ICBC Contracts are not amortized but are checked for impairment on an annual basis; the 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	10 years
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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.

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. The Credit Union has one cash-generating unit, the insurance subsidiaries in Powell River and on Vancouver Island, for which impairment testing is performed.

Intangible assets with an indefinite useful life (such as goodwill and ICBC contracts) are tested for impairment annually regardless of whether there is any indication of impairment.

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 recognised. 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.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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 recognised 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 recognised when that minimum activity threshold is reached.

Employee benefits - pension plan

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.

Other long-term employee benefits

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 recognised in profit or loss in the period in which they arise.

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.

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.

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.

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.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

Income taxes *(continued)*

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.

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.

Revenue and expense recognition

(a) Interest

Interest on financial assets and financial liabilities is measured at amortised 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

Commissions are recognized at the time policies are accepted by the insuring company. Contingent insurance commissions are variable and uncertain and are contingent upon the profitability of the insurance provider and the claims of the Group's insurance customers over the year. Due to this inherent uncertainty, contingent commissions are only recorded when the amount is virtually certain.

Other fees and commission income — including account servicing fees, investment management fees, sales commission, placement fees and syndication fees — are recognised 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 recognised on a straight-line basis over the commitment period.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

(c) Dividend income

Dividend income is recognised 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.

Leases

(a) 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.

(b) 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.

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)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

Financial assets and financial liabilities

(a) Recognition

The Group initially recognises 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 recognised 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.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised 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.

(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.

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.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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, 2015 or later periods that the Group has decided not to adopt early. The standards, amendments and interpretations that will be relevant to the Group are:

IFRS 9 Financial Instruments. IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

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.

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

(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.

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 6.

(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.

(e) Estimates in goodwill impairment

The Credit Union determines whether goodwill is impaired using the value in use method as the underlying business entities are not quoted in an active market. This method uses valuation techniques that are significantly affected by the assumptions used, including discount rates and estimates of future cash flows.

The methods and assumptions applied for goodwill impairment testing are disclosed in Note 9.

(f) Operating segments

The Group has the following two strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based upon the Group's management and internal reporting structure. The segments are banking and insurance. Banking deals with loans, deposits and other transactions and balances with corporate and retail customers. Insurance deals with brokerage services for property and life insurance products.

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

3. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2015 is 1.34% (2014 - 1.30%).

Treasury deposits

	2015	2014
Maturing in 101 to 180 days	\$ -	\$ 2,804,388
Maturing in 181 to 365 days	500,000	2,078,480
Maturing in over 365 days	9,376,932	9,876,932
Total Canadian dollar treasury deposits	9,876,932	14,759,800
Maturing in 181 to 365 days (US dollar)	1,384,000	-
Maturing in over 365 days (US dollars shown in CDS dollars)	-	1,160,100
Total treasury deposits	\$ 11,260,932	\$ 15,919,900

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 three years. At maturity, these deposits are reinvested at market rates for various terms.

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

4. INVESTMENTS AND OTHER ASSETS

	2015	2014
CUPP Services Ltd.	\$ 142,787	\$ 142,787
Central 1 Credit Union shares	1,045,937	939,955
	1,188,724	1,082,742
Trade accounts receivable	2,149,929	2,072,839
Commission and other receivables	317,037	395,141
Interest and dividends receivable	90,352	122,497
Prepaid expenses and deposits	360,312	245,871
Other	44,013	38,778
	\$ 4,150,367	\$ 3,957,868

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 2015 was 28.2% (2014 – 19.20%). There is no separately quoted market value for these shares and as there are no fixed dividend returns, they are recorded at cost.

Accounts receivable are related to the insurance business of the Group and are stated at cost, which approximates fair value due to the short term nature of these assets. Trade receivables are non-interest bearing and are generally on terms of 60 days as this is the time frame after which the Group is liable for 'time in use' costs on the insurance policy provided. Financing of insurance premiums is available from the Group at an average rate of 5.25%. The Group considers accounts receivable to be fully collectible; accordingly, the allowance for doubtful accounts is insignificant.

As of December 31, 2015, the ageing analysis of trade receivables is as follows:

	Total	< 30 days	31-60 days	61-90 days	91+ days
2015	\$2,149,929	393,107	485,258	269,769	1,001,795
2014	\$2,072,839	385,495	482,884	226,572	977,888

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

5. LOANS AND NOTES RECEIVABLE

	<u>2015</u>	<u>2014</u>
Residential Mortgages	\$ 201,557,904	\$ 174,874,883
Personal Loans	30,426,775	28,742,292
Commercial Loans	32,800,275	28,167,238
Other note receivable	1,397,105	-
	<hr/>	<hr/>
Subtotal	266,182,059	231,784,413
Accrued interest receivable	317,654	288,203
Allowance for impaired loans (Note 6)	(438,818)	(195,742)
	<hr/>	<hr/>
	\$ 266,060,895	\$ 231,876,874

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

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.50% to prime plus 8.0%. 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, 2015 was 2.70%.

The interest rate offered on fixed rate loans being advanced at December 31, 2015 ranges from 1.00% to 12.5% 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. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

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:

	<u>Principal</u>	<u>2015</u>	<u>Principal</u>	<u>2014</u>
Variable rate	\$ 70,839,797	3.74%	\$ 60,147,731	4.10%
Fixed rate due less than one year	60,847,420	3.24%	34,512,079	3.44%
Fixed rate due between one and five years	134,373,678	3.40%	137,217,064	3.38%
	<hr/>		<hr/>	
	\$ 266,060,895	3.45%	\$ 231,876,874	3.58%

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FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

5. LOANS AND NOTES RECEIVABLE *(continued)*

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:

	<u>2015</u>	<u>2014</u>
Unsecured loans	\$ 10,734,082	\$ 9,056,286
Loans otherwise secured	5,761,056	5,144,107
Loans guaranteed by government	3,954,891	4,151,788
Residential mortgages insured by government	107,406,754	94,958,689
Loans secured by residential mortgages	109,758,416	94,337,581
Loans commercial real estate secured	28,445,696	24,228,423
	<u>\$ 266,060,895</u>	<u>\$ 231,876,874</u>

The fair value of member loans at December 31, 2015 was \$268,379,358 (December 31, 2014 - \$234,275,026).

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.

	<u>2015</u>	<u>2014</u>
Residential mortgages	\$ 201,465,520	\$ 174,944,642
Personal loans	30,412,925	28,753,758
Commercial loans	32,785,345	28,178,474
Other note receivable	1,397,105	-
	<u>\$ 266,060,895</u>	<u>\$ 231,876,874</u>

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.

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FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

6. LOANS AND ALLOWANCE FOR IMPAIRMENT

Impairment reconciliation - by year

Total allowance for impaired loan provision comprises:

	2015		2014
Collective provision	\$ 306,329	\$	133,520
Individual specific provision	132,489		62,222
	<u>\$ 438,818</u>	\$	<u>195,742</u>

Movement in individual specific provisions and collective provisions for impairment

	Residential Mortgage	Personal	Commercial	2015
<u>2015</u>				
Balance at January 1, 2015	\$ 69,288	\$ 10,168	\$ 116,286	\$ 195,742
Provisions charged to net income	55,000	174,842	30,000	259,842
Recoveries on loans previously written off	99,998	-	-	99,998
	224,286	185,010	146,286	555,582
Write offs	(24,238)	(92,526)	-	(116,764)
Balance at December 31, 2015	<u>\$ 200,048</u>	<u>\$ 92,484</u>	<u>\$ 146,286</u>	<u>\$ 438,818</u>
Gross principal balance on individually impaired loans	<u>\$ 1,041,235</u>	<u>\$ 792</u>	<u>\$ -</u>	<u>\$ 1,042,027</u>

	Residential Mortgage	Personal	Commercial	2014
<u>2014</u>				
Balance at January 1, 2014	\$ 101,433	\$ 9,279	\$ 117,768	\$ 228,480
Provisions charged to net income	43,945	102,539	(1,482)	145,002
	145,378	111,818	116,286	373,482
Write offs	(76,090)	(101,650)	-	(177,740)
Balance at December 31, 2014	<u>\$ 69,288</u>	<u>\$ 10,168</u>	<u>\$ 116,286</u>	<u>\$ 195,742</u>
Gross principal balance on individually impaired loans	<u>\$ 1,051,300</u>	<u>\$ 78,608</u>	<u>\$ -</u>	<u>\$ 1,129,908</u>

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

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

	2015 Carrying Value	2015 Individual Specific Provisions	2014 Carrying Value	2014 Individual Specific Provisions
Less than 30 days	\$ -	\$ -	\$ -	\$ -
30 to 90 days	100,278	-	831,643	-
Over 90 days	941,749	132,489	311,676	74,489
Total loans in arrears	1,042,027	132,489	1,143,319	74,489
Total loans not in arrears	265,018,868	306,329	230,733,555	121,253
	\$ 266,060,895	\$ 438,818	\$ 231,876,874	\$ 195,742

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:

<u>2015</u>	Residential Mortgage	Personal	Commercial	Total
30 to 90 days	\$ -	\$ 99,486	\$ 792	\$ 100,278
Over 90 days	901,885	39,864	-	941,749
Balance at December 31, 2015	\$ 901,885	\$ 139,350	\$ 792	\$ 1,042,027
<u>2014</u>	Residential Mortgage	Personal	Commercial	Total
30 to 90 days	\$ 753,897	\$ 77,746	\$ -	\$ 831,643
Over 90 days	297,403	862	-	298,265
Balance at December 31, 2014	\$ 1,051,300	\$ 78,608	\$ -	\$ 1,129,908

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Computer equipment	Computer software	Equipment	Furniture and fixtures	Motor vehicles	Automated teller machines	Total	(Note 25)
Cost											
Balance at Jan 1, 2015	\$ 977,337	\$ 4,855,209	\$ 568,626	\$ 730,817	\$ 1,112,809	\$ 167,359	\$ 1,304,488	\$ 61,134	\$ 136,381	\$ 9,914,160	
Additions	-	22,458	8,360	77,380	148,400	26,628	18,385	-	13,566	315,176	
Disposals	-	-	(76,289)	(180,131)	(117,625)	(8,954)	(154,674)	-	-	(537,673)	
Balance at December 31, 2015	\$ 977,337	\$ 4,877,666	\$ 500,697	\$ 628,066	\$ 1,143,584	\$ 185,033	\$ 1,168,199	\$ 61,134	\$ 149,947	\$ 9,691,663	
Depreciation											
Balance at Jan 1, 2015	\$ -	\$ (1,656,843)	\$ (312,224)	\$ (663,244)	\$ (773,039)	\$ (76,317)	\$ (1,027,511)	\$ (61,134)	\$ (72,375)	\$ (4,642,686)	
Depreciation	-	(164,757)	(63,182)	(50,901)	(145,947)	(23,457)	(45,896)	-	(25,292)	(519,432)	
Impairment (loss)	-	-	34,886	180,131	117,625	2,612	154,674	-	-	489,928	
Balance at December 31, 2015	\$ -	\$ (1,821,600)	\$ (340,520)	\$ (534,014)	\$ (801,361)	\$ (97,162)	\$ (918,733)	\$ (61,134)	\$ (97,667)	\$ (4,672,190)	
Net Book value Balance at December 31, 2015	\$ 977,337	\$ 3,056,066	\$ 160,177	\$ 94,052	\$ 342,223	\$ 87,871	\$ 249,466	\$ -	\$ 52,280	\$ 5,019,473	

	Land	Buildings	Leasehold improvements	Computer equipment	Computer software	Equipment	Furniture and fixtures	Motor vehicles	Automated teller machines	Total
Cost										
Balance at Jan 1, 2014	\$ 989,337	\$ 5,065,353	\$ 381,546	\$ 693,871	\$ 961,650	\$ 164,755	\$ 1,267,400	\$ 61,134	\$ 136,381	\$ 9,721,427
Additions	-	31,009	187,080	36,946	151,159	2,604	37,087	-	-	445,886
Disposals	(12,000)	(241,153)	-	-	-	-	-	-	-	(253,153)
Balance at December 31, 2014	\$ 977,337	\$ 4,855,209	\$ 568,626	\$ 730,817	\$ 1,112,809	\$ 167,359	\$ 1,304,488	\$ 61,134	\$ 136,381	\$ 9,914,160
Depreciation										
Balance at Jan 1, 2014	\$ -	\$ (1,658,837)	\$ (249,637)	\$ (629,629)	\$ (652,629)	\$ (53,721)	\$ (979,367)	\$ (61,134)	\$ (48,439)	\$ (4,333,392)
Depreciation	-	(161,222)	(62,587)	(33,616)	(120,410)	(22,596)	(48,144)	-	(23,936)	(472,510)
Impairment (loss)	-	163,216	-	-	-	-	-	-	-	163,216
Balance at December 31, 2014	\$ -	\$ (1,656,843)	\$ (312,224)	\$ (663,244)	\$ (773,039)	\$ (76,317)	\$ (1,027,511)	\$ (61,134)	\$ (72,375)	\$ (4,642,686)
Net Book value Balance at December 31, 2014	\$ 977,337	\$ 3,198,366	\$ 256,402	\$ 67,573	\$ 339,770	\$ 91,042	\$ 276,977	\$ -	\$ 64,006	\$ 5,271,474

Included above in computer equipment are computer assets under finance lease with a net book value of \$41,730.

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

8. 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 2015
<u>2015</u>			
Cost			
Balance at January 1,2015	\$ 956,597	\$ 324,633	\$ 1,281,230
Additions	-	87,626	87,626
Disposals	-	-	-
Balance at December 31,2015	<u>\$ 956,597</u>	<u>\$ 412,259</u>	<u>\$ 1,368,856</u>
Amortization			
Balance at January 1,2015	\$ -	\$ (309,708)	\$ (309,708)
Amortization	-	(32,450)	(32,450)
Balance at December 31,2015	<u>\$ -</u>	<u>\$ (342,158)</u>	<u>\$ (342,158)</u>
Carrying Amount			
At January 1,2015	<u>\$ 956,597</u>	<u>\$ 14,925</u>	<u>\$ 971,522</u>
At December 31,2015	<u>\$ 956,597</u>	<u>\$ 70,101</u>	<u>\$ 1,026,698</u>

	Indefinite life ICBC Contracts	Finite life Customer Lists	Total 2014
<u>2014</u>			
Cost			
Balance at January 1,2014	\$ 956,597	\$ 324,633	\$ 1,281,230
Addition	-	-	-
Disposals	-	-	-
Balance at December 31,2014	<u>\$ 956,597</u>	<u>\$ 324,633</u>	<u>\$ 1,281,230</u>
Amortization			
Balance at January 1,2014	\$ -	\$ (294,763)	\$ (294,763)
Amortization	-	(14,945)	(14,945)
Balance at December 31,2014	<u>\$ -</u>	<u>\$ (309,708)</u>	<u>\$ (309,708)</u>
Carrying Amount			
At January 1,2014	<u>\$ 956,597</u>	<u>\$ 29,870</u>	<u>\$ 986,467</u>
At December 31,2014	<u>\$ 956,597</u>	<u>\$ 14,925</u>	<u>\$ 971,522</u>

Based on the history and expected future use of the ICBC contracts, they have been assigned indefinite lives.

The carrying amount of customer lists have a remaining amortization period of 4 years.

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9. GOODWILL

	2015	2014
Cost		
Opening Balance	\$ 12,694,968	\$ 12,694,968
	12,694,968	12,694,968
Amortization		
Opening Balance	(324,932)	(324,932)
Impairment	-	-
Disposals	-	-
	(324,932)	(324,932)
	<u>\$ 12,370,036</u>	<u>\$ 12,370,036</u>

Impairment test of goodwill

The Credit Union performed its annual test for goodwill impairment at the year-end in accordance with its policy described in Note 1. The estimated fair value less cost to sell of all units exceeded their carrying values. As a result, no goodwill impairment was recorded.

The Credit Union has one cash generating unit ("CGU"), the insurance unit, which includes goodwill.

Valuation techniques

The Credit Union did not make any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covering a twenty-one year period, and a discount rate of 5.7% (2014 - 6.0%). Cash flows have been extrapolated using an average 1.5% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the CGUs operate.

Significant assumptions

Growth

The assumptions used were based on the Credit Union's internal budget. Cash flows beyond the budget year are extrapolated using a 1.5% growth rate (2014 - 1.5%). In arriving at its forecasts, the Credit Union considered past experience, economic trends and inflation as well as industry and market trends. The projections also considered the expected impact from customer retention and the maturity of the markets in which the CGU operates.

Discount rate

The Credit Union assumed a discount rate in its projected cash flows of a weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU.

(continues)

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Notes to Consolidated Financial Statements
Year Ended December 31, 2015

9. GOODWILL *(continued)*

Sensitivity analysis

Management recognises that the possibility of new entrants in the insurance markets can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts. An increase in interest rates, and therefore expectations of greater returns on investment, could have a significant impact on WACC assumptions. Based on sensitivity analysis, reasonably possible changes in assumptions would cause the carrying amount of the CGU to exceed its recoverable amount, resulting in impairment. The headroom in the analysis is such that a reduction in the perpetual growth rate of 1.3% or an increase in the WACC rate of 1.1% would result in the recoverable amount falling below the carrying value.

10. MEMBER DEPOSITS

	2015	2014
Member deposits listing		
Chequing	\$ 57,277,852	\$ 50,579,174
Demand	91,035,136	79,424,042
Term	74,957,133	67,094,236
Registered savings plan	24,898,702	24,022,946
Registered retirement income funds	7,810,225	6,697,284
Tax free savings accounts	21,558,790	12,613,410
Non equity shares	-	697,101
	277,537,838	241,128,193
Accrued interest and dividends	1,264,553	1,369,156
	\$ 278,802,391	\$ 242,497,349

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.20% at December 31, 2015.

Demand deposits are due on demand and bear interest at a variable rate up to 1.50% at December 31, 2015. 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 on December 31, 2015 range from 0.25% to 6.00%.

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, 2015.

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 \$3,046,484 (2014 - \$3,174,016) CDN dollars of US denominated dollars.

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Notes to Consolidated Financial Statements
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10. MEMBER DEPOSITS (continued)

Fair value

The fair value of member deposits at December 31, 2015 was \$277,976,159 (December 31, 2014- \$242,177,196)

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:

	<u>Principal</u>	<u>2015</u>	<u>Principal</u>	<u>2014</u>
Variable rate	\$ 169,641,665	0.55%	\$ 136,970,819	0.60%
Fixed rate due less than one year	55,657,119	1.83%	60,616,933	2.28%
Fixed rate due between one and five years	52,239,053	1.78%	43,540,441	1.83%
	<u>\$ 277,537,837</u>	<u>1.04%</u>	<u>\$ 241,128,193</u>	<u>1.24%</u>

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

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

11. DEFERRED INCOME TAXES

The movement in 2015 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2015	Recognized in Net Income	Recognized directly in Equity	Closing Balance Dec 31, 2015
Deferred tax liabilities				
Property, plant and equipment	\$ (88,764)	\$ (21,544)	\$ (1,798)	\$ (112,106)
Bad debts reserve	-	-	-	-
Intangible assets	(177,311)	(1,171)	-	(178,482)
Other	(1,426)	1,693	-	267
	(267,501)	(21,022)	(1,798)	(290,321)
Deferred tax assets				
Provision reserve	-	-	-	-
Cumulative eligible capital	4,214	745	-	4,959
Property, plant and equipment	6,527	4,267	-	10,794
Tax losses carried forward	43,463	103,673	-	147,136
	54,204	108,685	-	162,889
2015 net deferred tax liability	\$ (213,297)	\$ 87,663	\$ (1,798)	\$ (127,432)

The movement in 2014 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2014	Recognized in Net Income	Recognized directly in Equity	Closing Balance Dec 31, 2014
Deferred tax liabilities				
Property, plant and equipment	\$ (69,231)	\$ (13,999)	\$ (5,534)	\$ (88,764)
Bad debts reserve	(34,272)	34,272	-	-
Intangible assets	(177,311)	-	-	(177,311)
Other	(2,997)	1,571	-	(1,426)
	(283,811)	21,844	(5,534)	(267,501)
Deferred tax assets				
Provision reserve	4,261	(4,261)	-	-
Cumulative eligible capital	4,531	(317)	-	4,214
Property, plant and equipment	7,396	(869)	-	6,527
Tax losses carried forward	43,706	(243)	-	43,463
Other	-	-	-	-
	59,894	(5,690)	-	54,204
2014 net deferred tax liability	\$ (223,917)	\$ 16,154	\$ (5,534)	\$ (213,297)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

12. SECURED BORROWINGS

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of residential 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 residential mortgages that are insured against borrower's default. Once the mortgages are securitized, the Credit Union may periodically transfer these MBS to Canada Housing Trust under the CMB Program.

During the year, the Credit Union participated in the CMB program by transferring \$21.231 million in MBS into the program. At December 31, 2015, the carrying amount of the secured borrowings was \$19.444 million (2014 -nil) and the carrying amount of the assets held as security was \$19.491 million (2014 - nil). The security comprises \$19.420 million of mortgages, \$0 million of reinvestment assets and \$0.071 million in cash. The Credit Union received 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 24.

13. OBLIGATIONS UNDER FINANCE LEASE

	2015	2014
Computer leases bearing interest at 13.25% per annum, repayable in monthly blended payments of \$497. These leases mature on dates between August 2018 and November 2018 and are secured by the equipment.	\$ 13,749	\$ 17,614
Computer leases bearing interest at 13.25% to 18.50% per annum, repayable in monthly blended payments of \$1,753. These leases mature on dates between January 2016 and March 2017 and are secured by the equipment.	10,205	28,186
Computer lease.	-	236
	\$ 23,954	\$ 46,036

Future minimum capital lease payments are approximately:

2016	\$ 15,962
2017	7,091
2018	4,559
Total minimum lease payments	27,612
Less: amount representing interest at various rates	3,658
	\$ 23,954

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Notes to Consolidated Financial Statements
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14. MEMBER SHARES

	2015	2014
Issued:		
554,417 Membership	\$ 554,417	\$ 563,491
4,262,999 Investment	4,262,999	4,401,265
	\$ 4,817,416	\$ 4,964,756

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 25).

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, initially issued in 2009, are only redeemable by Board approval, and to a maximum of 10% of the outstanding opening balance of the year.

15. 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 (2014 - \$1,423,824) as well as the fair value increments (including deductions for deferred income taxes) on land and buildings held by CDCU \$184,137 (2014 - \$193,193). 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.

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Notes to Consolidated Financial Statements
Year Ended December 31, 2015

16. COMMITMENTS

Credit facilities

The Credit Union has authorized lines of credit with Central 1 totaling \$ 7,000,000. 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, 2015, are as follows:

	Premises	\$	Equipment	\$	Total
No later than one year	\$ 198,938		\$ 10,116		\$ 209,054
Later than one year but not later than five years	312,869		4,178		317,047
Later than five years	223,508		-		223,508
	\$ 735,315		\$ 14,294		\$ 749,609

17. 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.

18. OTHER INCOME

	2015	\$	2014
Credit card discounts and fee	\$ 5,930		\$ 5,743
Loan fees and penalties	187,349		188,626
Service charges	769,032		730,463
Finance Fees	153,366		143,650
Rental revenue and other	227,545		246,246
	\$ 1,343,222		\$ 1,314,728

19. LOSSES ON DISPOSAL OF ASSETS

	2015	\$	2014
Loss on acquisition	\$ -		\$ (15,480)
Loss on disposal of assets	(1,428)		(83,210)
	\$ (1,428)		\$ (98,690)

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20. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 17.47% (2014 - 19.50%) to the income for the year and is reconciled as follows:

	2015	2014
Income before income taxes	\$ 1,187,588	\$ 1,640,332
Income tax expense at the combined basic federal and provincial tax rate:	\$ 207,472	\$ 319,400
Increase (decrease) resulting from:		
Non-deductible expenses	3,046	2,758
Reduction for tax deductible dividends	(47,965)	(53,164)
Capital cost allowance claimed in excess of amortization	(6,967)	(3,073)
Loss on asset disposal	-	3,014
Temporary differences on tax reserves	-	38,954
Non deductible losses from subsidiary	32,759	23,781
Taxable lease payments	387	1,310
Other	(3,741)	(321)
Deferred tax provision	(87,663)	(16,154)
Capital loss carry back	-	(1,084)
Tax adjustments relating to prior years	(34,250)	(74,774)
Effective tax expense	\$ 63,078	\$ 240,647

Bill C-60, the Economic Action Plan 2013 Act, No. 1, included a measure which initiated the phase-out of the additional deduction for credit unions over a five year period, beginning with fiscal years ending on or after March 21, 2013. The additional deduction has been reduced at a rate of 20% per year from 2013 until 2017 and beyond. This change will result in an additional increase of federal taxes payable year over year.

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Notes to Consolidated Financial Statements
Year Ended December 31, 2015

21. 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 2015.

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 2015 was \$40,455.

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

	2015	2014
Compensation for key management		
Salaries and other short-term employee benefits	\$ 741,833	\$ 629,841
Total pension and other post-employment benefits	45,612	44,495
	\$ 787,445	\$ 674,336
	2015	2014
Loans to key management personnel		
Aggregate value of loans advanced	\$ 441,450	\$ 234,345
Interest received on loans advanced	5,560	6,423
Total value of lines of credit advanced	85,779	38,425
Interest received on lines of credit advanced	802	467
Unused value of lines of credit	79,021	71,575

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.

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Notes to Consolidated Financial Statements
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22. PENSION PLAN

The Credit Union makes contributions to the BC Credit Unions Employees' Pension Plan, which is a multi-employer plan, 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 only one of a number of employers that participate in the plans and the financial information provided to the Credit Union on the basis of the contractual agreements, is usually insufficient to reliably measure the Credit Union's proportionate share in the plan assets and liabilities under defined benefit accounting requirements. The plan is subject to actuarial valuation every three years; the next valuation scheduled for December 31, 2015, with delivery expected by mid 2016.

The amount contributed to the plan for 2015 was \$208,223 (2014 - \$196,420). The contributions were made for current service and these have been recognized in net and comprehensive income.

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 2015 was \$226,264 (2014 - \$209,674). The contributions were made for current service and have been recognized in net and comprehensive income.

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Notes to Consolidated Financial Statements
Year Ended December 31, 2015

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

December 31, 2015

	Held to Maturity	Available-for- sale	Fair value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
Cash	\$ -	\$ -	\$ 23,022,157	\$ -	\$ -
Treasury deposits	11,260,932	-	-	-	-
Investments	-	-	-	-	-
Loans to members	-	-	-	266,060,895	-
Member deposits	-	-	-	-	(277,537,837)
Members' shares	-	-	-	-	(4,817,416)
Other liabilities	-	-	-	-	(22,927,033)
	<u>\$ 11,260,932</u>	<u>\$ -</u>	<u>\$ 23,022,157</u>	<u>\$ 266,060,895</u>	<u>\$ (305,282,286)</u>

December 31, 2014

	Held to Maturity	Available-for- sale	Fair value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
Cash	\$ -	\$ -	\$ 4,084,149	\$ -	\$ -
Treasury deposits	15,919,900	-	-	-	-
Investments	-	-	-	-	-
Loans to members	-	-	-	231,876,874	-
Member deposits	-	-	-	-	(241,128,193)
Members' shares	-	-	-	-	(4,964,756)
Other liabilities	-	-	-	-	(11,248,289)
	<u>\$ 15,919,900</u>	<u>\$ -</u>	<u>\$ 4,084,149</u>	<u>\$ 231,876,874</u>	<u>\$ (257,341,238)</u>

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
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24. 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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FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

24. 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 and 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 monthly.

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

As at December 31, 2015, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	Maximum exposure
Cash	\$ 22,960,662
Liquidity reserve deposit	11,260,932
Discount deposits and term deposit	-
	34,221,594
Excess liquidity requirement	\$ 12,101,565

(continues)

FIRST CREDIT UNION
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

24. 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	3.77%	0.98%	\$ 82,870,837	\$ 179,112,363	\$ (96,241,526)
4-12 months	3.09%	1.79%	49,463,004	29,799,984	19,663,020
1-2 years	2.92%	1.75%	48,727,227	50,670,752	(1,943,525)
2-5 years	3.25%	1.99%	96,260,759	17,954,738	78,306,021
Interest Sensitive	3.32%	1.27%	277,321,827	277,537,837	(216,010)
Non-interest sensitive	-	-	45,605,496	45,389,486	216,010
+					
Total	-	-	\$ 322,927,323	\$ 322,927,323	\$ -

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 \$60,500 while a decrease in interest rates of 1% could result in an increase to net income of \$407,490.

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 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 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.

(continues)

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24. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

For the year-ended December 31, 2015, 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.

25. 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 what the Credit Union considers to be 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, 2015 was \$92,448,374 (2014 - \$78,532,034)

As at December 31, 2015, the Credit Union met the capital requirements of the Act with a calculated risk weighted asset ratio of 13.62% (2014 - 14.22%).

b. Regulatory capital consists of the following:

	2015	2014
Tier I capital		
Membership shares	\$ 4,817,416	\$ 4,964,756
Retained earnings	15,983,041	15,136,734
Contributed surplus	1,687,501	1,696,557
Deferred income tax credit	88,764	88,764
	<u>22,576,722</u>	<u>21,886,811</u>
Tier II capital		
Proportion of system retained earnings	2,248,304	1,920,961
Deductions from capital		
Goodwill	(12,370,036)	(12,370,036)
Other intangible assets	(347,023)	(345,226)
	<u>(12,717,059)</u>	<u>(12,715,262)</u>
	<u>\$ 12,107,967</u>	<u>\$ 11,092,510</u>

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26. OPERATING SEGMENTS

2015	Banking	Insurance	Total
Interest income	\$ 9,081,786	\$ -	\$ 9,081,786
Interest expense	(3,279,218)	-	(3,279,218)
Fee and commission income	1,854,221	5,502,413	7,356,634
Other income	216,262	164,650	380,912
	<u>7,873,051</u>	<u>5,667,063</u>	<u>13,540,114</u>
Office	(985,614)	(240,763)	(1,226,377)
Other expenses	(2,876,215)	(829,093)	(3,705,308)
Salaries and employee benefits	(4,500,008)	(2,920,834)	(7,420,842)
Income before income taxes	<u>\$ (488,786)</u>	<u>\$ 1,676,373</u>	<u>\$ 1,187,587</u>
Segment assets	\$ 306,121,483	\$ 16,937,570	
Segment liabilities	\$ 299,317,963	\$ 1,346,993	
2014	Banking	Insurance	Total
Interest income	\$ 8,525,603	\$ -	\$ 8,525,603
Interest expense	(3,194,975)	-	(3,194,975)
Fee and commission income	1,787,466	5,781,866	7,569,332
Other income	233,297	156,599	389,896
	<u>7,351,391</u>	<u>5,938,465</u>	<u>13,289,856</u>
Office	(960,690)	(252,257)	(1,212,947)
Other expenses	(2,404,756)	(916,261)	(3,321,017)
Salaries and employee benefits	(3,534,068)	(3,581,492)	(7,115,560)
Income before income taxes	<u>\$ 451,877</u>	<u>\$ 1,188,455</u>	<u>\$ 1,640,332</u>
Segment assets	\$ 258,678,538	\$ 15,773,285	
Segment liabilities	\$ 251,229,201	\$ 1,504,115	