Moya Financial Credit Union Limited
Financial Statements
For the year ended December 31, 2017

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For the year ended December 31, 2017

Management’s Responsibility

To the Members of Moya Financial Credit Union Limited:

The accompanying financial statements of Moya Financial Credit Union Limited are the responsibility of management and have been approved by the Board of Directors.

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

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

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Audit and Risk Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit and Risk Committee is also responsible for recommending the appointment of the Credit Union’s external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit and Risk Committee and management to discuss their audit findings.

February 8, 2018

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CEO

Independent Auditors' Report

To the Members of Moya Financial Credit Union Limited:

We have audited the accompanying financial statements of Moya Financial Credit Union Limited, which comprise the statement of financial position as at December 31, 2017, the statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Moya Financial Credit Union Limited as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

February 8, 2018 — Licensed Public Accountants

Moya Financial Credit Union Limited
Statement of Financial Position
As at December 31, 2017

In $	***2017***	*2016*
Assets		
Cash	**5,075,390**	8,724,644
Investments *(Note 6)*	**54,894,405**	62,986,395
Member loans *(Note 7)*	**166,198,381**	148,623,986
Prepaid expenses	**23,949**	83,306
Taxes receivable *(Note 13)*	**24,949**	-
Interest rate swaps *(Note 8)*	**1,363,398**	532,391
Property and equipment *(Note 9)*	**1,847,713**	1,766,110
Intangible assets *(Note 10)*	**299,306**	401,362
	229,727,491	223,118,194
Liabilities		
Member deposits *(Note 11)*	**210,433,489**	204,769,735
Accounts payable and other liabilities	**501,895**	358,825
Taxes payable *(Note 13)*	**-**	290,551
Deferred income taxes *(Note 13)*	**93,702**	169,873
Member shares *(Note 12)*	**634,627**	659,711
	211,663,713	206,248,695
Commitments *(Note 17)*		
Members' Equity		
Contributed surplus	**8,352,253**	8,352,253
Retained earnings	**9,700,795**	8,244,507
Accumulated other comprehensive income	**10,730**	272,739
	18,063,778	16,869,499
	229,727,491	223,118,194

Approved on behalf of the Board

Director **Director**

The accompanying notes form part of the financial statements

Moya Financial Credit Union Limited

Statement of Income

For the year ended December 31, 2017

In $	***2017 (12 months)***	*2016 (15 months)*
Interest income		
Member loans	**5,347,847**	5,051,390
Investments	**936,333**	1,338,199
	6,284,180	6,389,589
Interest expense		
Member deposits	**2,095,319**	2,322,674
Net interest income	**4,188,861**	4,066,915
Provision for impaired loans *(Note 7)*	**9,585**	7,745
Net interest income after provision for impaired loans	**4,179,276**	4,059,170
Other income	**291,379**	360,516
Net interest and other income	**4,470,655**	4,419,686
Operating expenses		
Administrative expenses *(Schedule)*	**1,508,838**	1,713,513
Salaries and benefits	**1,682,077**	1,738,277
	3,190,915	3,451,790
Income before distributions and other items	**1,279,740**	967,896
Distribution to members	**(225,000)**	-
Income before other items	**1,054,740**	967,896
Other items		
Amortization of amalgamation fair value adjustments	**(212,461)**	(264,831)
Unrealized change in fair value of financial instruments	**688,401**	637,538
Gain realized on available for sale investments	**354,776**	-
Income before income taxes	**1,885,456**	1,340,603
Income taxes *(Note 13)*		
Current	**505,339**	436,176
Deferred	**(76,171)**	(168,416)
	429,168	267,760
Net income	**1,456,288**	1,072,843

The accompanying notes form part of the financial statements

Moya Financial Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2017

In $	***2017 (12 months)***	*2016 (15 months)*
Net income for the period	**1,456,288**	1,072,843
Other comprehensive income		
Will be reclassified to net income when certain conditions are met:		
Gain realized on available for sale investments transferred to investment income	**(354,776)**	-
Unrealized (loss) gain on available for sale investments	**(1,699)**	11,904
Income tax recovery (expense) relating to other comprehensive income	**94,466**	(1,845)
Total other comprehensive (loss) income	**(262,009)**	10,059
Total comprehensive (loss) income for the period	**1,194,279**	1,082,902

The accompanying notes form part of the financial statements

Moya Financial Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2017

In $	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance, September 30, 2015	-	7,171,664	262,680	7,434,344
Net income for the period	-	1,072,843	-	1,072,843
Other comprehensive income for the period, net of tax	-	-	10,059	10,059
Amalgamation of Slovenia Parishes (Toronto) Credit Union Limited and Krek Slovenian Credit Union Ltd.	8,352,253	-	-	8,352,253
Balance, December 31, 2016	**8,352,253**	**8,244,507**	**272,739**	**16,869,499**
Net income for the year	**-**	**1,456,288**	**-**	**1,456,288**
Other comprehensive loss for the year, net of tax	-	**-**	**(262,009)**	**(262,009)**
Balance, December 31, 2017	**8,352,253**	**9,700,795**	**10,730**	**18,063,778**

The accompanying notes form part of the financial statements

Moya Financial Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2017

In $	***2017 (12 months)***	*2016 (15 months)*
Cash provided by (used for) the following activities		
Operating activities		
Net income for the period	**1,456,288**	1,072,843
Adjustments for:		
Interest revenue	**(6,284,180)**	(6,389,589)
Interest expense	**2,095,319**	2,322,674
Provision for impaired loans	**9,585**	7,745
Depreciation and amortization	**161,315**	137,773
Amortization of amalgamation fair value adjustments	**212,461**	264,831
Unrealized gain on interest rate swap agreements	**(688,401)**	(637,538)
Provision for income taxes	**429,168**	267,760
Net change in prepaid expenses	**59,357**	600
Net change in accounts payable and other liabilities	**464**	278,065
Net change in deferred income taxes	**(76,171)**	171,230
Interest received on member loans	**5,290,194**	5,172,642
Interest received on investments	**1,154,884**	473,418
Interest paid on member deposits	**(2,115,247)**	(1,696,481)
Income taxes recovered (paid)	**(650,202)**	18,484
	1,054,834	1,464,457
Investing activities		
Purchase of property and equipment and software	**(209,301)**	(852,180)
Net change in member loans	**(17,650,757)**	(89,201,804)
Net change in investments	**7,497,372**	(16,303,429)
	(10,362,686)	(106,357,413)
Financing activities		
Net change in member deposits	**5,683,682**	100,262,792
Net change in member shares	**(25,084)**	180,192
Net assets acquired through business combination	**-**	6,913,709
	5,658,598	107,356,693
Net change in cash during the period	**(3,649,254)**	2,463,737
Cash, beginning of period	**8,724,644**	6,260,907
Cash, end of period	**5,075,390**	8,724,644

The accompanying notes form part of the financial statements

1. Reporting entity information

Moya Financial Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 725 Browns Line, Toronto, Ontario.

2. Basis of presentation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board and interpretations adopted by the International Accounting Standards Board (“IASB”). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2017.

As a result of an amalgamation between Slovenia Parishes (Toronto) Credit Union Limited (“Slovenia”) and Krek Slovenian Credit Union Ltd. (“Krek”) on January 1, 2016, the Credit Union was required to adopt a December 31 year-end in accordance with the Credit Unions and Caisses Populaires Act, 1994. The comparative figures reflecting a 15-month period ended December 31, 2016, include the activity of Slovenia for the period from October 1, 2015 to December 31, 2015 and the amalgamated operations of the Credit Union from January 1, 2016 to December 31, 2016. The comparative information being presented may not be entirely comparable.

These financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on February 8, 2018.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 3.

Functional and presentation currency

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

3. Significant accounting policies

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

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with Central 1 and Canadian banks.
Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

i) Deposits and withdrawals from members’ deposit accounts;
ii) Issuance and redemption of member shares;
iii) Purchase and sale proceeds of investments.

3. Significant accounting policies (continued)

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Member loans

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

Impairment of financial assets

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

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Financial assets are considered impaired when contractual payments are in arrears in excess of 90 days, unless the loan is fully secured. Fully secured loans are classified as impaired after a delinquency period of greater than 180 days. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in current period income.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no expectation of future recovery. Interest income is accrued until the financial asset becomes a credit loss.

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

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

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

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 current period income.

3. Significant accounting policies (continued)

Property and equipment

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

Depreciation is provided using the following methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Building and components	declining balance	5 – 15%
Furniture and equipment	declining balance	20%
Computer hardware	declining balance	30%

The residual value, useful life, and depreciation method applied to each class of assets are reassessed at each reporting date. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of income.

Intangible assets

Intangible assets include a core deposit intangible asset and computer software.

The core deposit intangible asset was acquired through a business combination, and represents the fair market value of the cost savings inherent in acquiring a portfolio of demand deposits with a lower cost of funding versus attracting funds in the open market. Amortization is recorded on a straight-line basis over 4 years, from the date of the business combination.

Computer software is amortized to profit or loss on a declining balance basis at an annual rate of 30%. The useful life of computer software will be reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognised in profit or loss as other operating income or other operating costs, respectively

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. Significant accounting policies (continued)

Member deposits

Member deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest method.

Member shares

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

Revenue recognition

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

Interest income is recognized in profit or loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. Other revenue and expenses that relate to the return on a loan or investment are incorporated into the effective interest rate and amortized to revenue over the life of the loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Other income is recognized when services are provided to members and collection is reasonably assured.

Distribution to members

Patronage distributions are recognized in net income when declared by the board of directors.

Post-employment benefits

The Credit Union participates in a defined contribution pension plan with eligible employees. Contributions are recognized as an expense in the year to which they relate.

Income taxes

Current and deferred taxes are recognized in net income except to the extent that the tax is recognized either in other comprehensive income, or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities where the Credit Union operates and generates income. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities generally arise where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies (continued)

Income taxes (continued)

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

Financial instruments

All financial instruments are initially recognized on the statement of financial position at fair value upon acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassification of financial instruments. For instruments classified as other than fair value through profit and loss, transaction costs related to the acquisition of the instrument are added to the fair value upon initial recognition.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union has cash and interest rate swaps classified as fair value through profit or loss.

Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in other comprehensive income, is recognized in net income. The Credit Union has some investments that are not traded in an active market classified as available for sale.

Financial assets classified as loans and receivables are initially measured at fair value plus transaction costs, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include deposits with Central 1 and member loans.

Financial assets classified as held to maturity are initially measured at fair value, then subsequently carried at amortized cost using the effective interest rate method. The Credit Union holds bonds which are classified as held to maturity.

Financial instruments classified as other financial liabilities include member deposits, accounts payable and other liabilities, and membership shares classified as liabilities. Other financial liabilities are initially measured at fair value and then subsequently carried at amortized cost.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In ordinary course of business, the Credit Union may enter into derivative transactions to manage exposure to these types of market risk. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

3. Significant accounting policies (continued)

Financial instruments (continued)

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounted for as a derivative when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivatives are the same as those of a free standing derivative; and c) the combined instrument or contract is not measured at fair value with changes therein recognized in net income. The Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Derivative instruments are recorded on the statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income, with exception of derivative instruments designated as effective cash flow hedges which are recorded in other comprehensive income.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

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

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

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

Hedge accounting

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

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

The Credit Union uses derivative financial instruments as part of its risk management activities. When hedge accounting is appropriate, the hedging relationship is designated a fair value hedge or a cash flow hedge.

The Credit Union hedges its interest rate risk using pay fixed, receive floating interest rate swaps. Certain interest rate swaps are designated as fair value hedges.

3. Significant accounting policies (continued)

Hedge accounting (continued)

In a fair value hedge, the Credit Union mainly uses interest rate swaps to hedge changes in the fair value of a hedged item. The difference between the carrying value and the fair value of the hedged item is reported in accounts payable and other liabilities. The change in the fair value of the hedging item will be recognized in other income in the statement of income. Hedge accounting is discontinued prospectively when the hedging relationship no longer qualifies as an effective hedge or if the hedging item is terminated or sold. The hedged item is no longer adjusted to reflect changes in fair value. Amounts previously recorded as cumulative fair value adjustments to the carrying amount of the hedged item are amortized using the effective interest rate method and presented in the statement of income over the remaining useful life of the hedged item. Hedge accounting is also discontinued if the hedged item is sold or terminated before maturity. In such a situation, the cumulative fair value adjustments of the carrying amount of the hedged item are immediately carried to other income in the statement of income.

The Credit Union held no cash flow hedges during the current or previous period.

4. Standards and interpretations effective in the current year and issued but not effective

Standards and interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2017. Adoption of these amendments had no material effect on the Credit Union's financial statements.

- IAS 7 *Statement of Cash Flows*
- IAS 12 *Income Taxes*

Standards and interpretations issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations, or amendments to standards that have been issued as at December 31, 2017 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. Although the classification of financial instruments will change, there will be no change to their measurement basis and, thus, no related adjustment on transition. The impact of the change in methodology for determining the loan loss allowance and a possible adjustment on transition continues to be assessed by the Credit Union.

IFRS 15 Revenue from contracts with customers

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

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

IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. Due to the nature of its revenues, the Credit Union does not expect to incur a transition adjustment.

4. Standards and interpretations effective in the current year and issued but not effective (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

5. Significant accounting judgements, estimates, and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Allowance for impaired loans

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 losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Financial instruments not traded in active markets

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

6. Investments

In $	***2017***	*2016*
Loans and receivables		
Central 1 liquidity reserve deposit	**13,526,700**	13,406,340
Central 1 term deposit	**5,900,000**	5,500,000
Other term deposits	**29,542,765**	39,786,363
Accrued interest	**353,095**	591,238
	49,322,560	59,283,941
Held to maturity		
Bonds	**3,961,910**	1,597,466
Available for sale		
Central 1 Class A shares	**816,859**	844,710
Central 1 Class E shares	**773,400**	812,000
CUCO Cooperative Association Class B Investment shares	**12,630**	441,232
Corporate equities	**7,046**	7,046
	1,609,935	2,104,988
	54,894,405	62,986,395

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the Credit Union's total assets updated at each month end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

CUCO Cooperative Association Shares

CUCO Cooperative Association (“CUCO Co-op”) held a portfolio of asset backed notes that resulted from the restructuring of non-bank asset-backed commercial Paper (“ABCP”) that was completed in January 2009. The Credit Union holds a 0.849% interest in CUCO Co-op in proportion to its relative interest in Credit Union Central of Ontario, where the ABCP holdings originated, immediately prior to its merger with Credit Union Central of British Columbia.

The CUCO Co-op is a co-operative corporation governed by a Board of Directors that are elected by the Ontario member credit unions.

The fair value of the investments is directly related to the value of the underlying asset backed notes held. As there is not an active market for the notes, the fair value is estimated. The Credit Union relies on the valuation provided for the entire portfolio to CUCO Co-op from the independent portfolio management firm. The Credit Union has reviewed and agrees with the significant assumptions and estimates in the valuation. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

Previous unrealized gains were realized through the receipt of distributions totalling $354,776. As a result, the gains were transferred from accumulated other comprehensive income to net income.

7. Member loans

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	***2017***
Residential mortgages	**116,126,637**	**-**	**-**	**(3,000)**	**116,123,637**
Personal	**2,860,944**	**109,998**	**(109,998)**	**(32,154)**	**2,828,790**
Commercial	**19,564,222**	**17,509**	**(17,509)**	**-**	**19,564,222**
Syndicated commercial	**21,303,041**	**1,256,877**	**(115,572)**	**(173,313)**	**22,271,033**
Unincorporated associations	**5,030,404**	**-**	**-**	**-**	**5,030,404**
Accrued interest	**380,295**	**-**	**-**	**-**	**380,295**
	165,265,543	**1,384,384**	**(243,079)**	**(208,467)**	**166,198,381**

In $	Principal Performing	Principal Impaired	Allowance Specific	Allowance Collective	*2016*
Residential mortgages	100,540,641	430,435	-	(3,000)	100,968,076
Personal	2,994,651	-	-	(32,154)	2,962,497
Commercial	19,716,651	-	-	-	19,716,651
Syndicated commercial	22,742,132	-	(188,421)	(218,386)	22,335,325
Unincorporated associations	2,194,365	-	-	-	2,194,365
Accrued interest	447,072	-	-	-	447,072
	148,635,512	430,435	(188,421)	(253,540)	148,623,986

The loan classifications set out above are as defined in the regulations to the Act.

Residential mortgages are repayable in blended principal and interest instalments, over a maximum term of five years based on a maximum amortization period of thirty years. Some mortgages are open and, at the option of the borrower, may be paid off without notice or penalty.

Personal loans are repayable in blended principal and interest instalments, over a maximum amortization period of five years. Personal loans are open and may be repaid at any time without notice.

Lines of credit, included in residential mortgages, personal loans and commercial loans, are repayable on a revolving credit basis and require minimum monthly payments. The lines of credit are open and may be paid off at any time at the option of the borrower.

Commercial loans are repayable in blended interest and instalments over a maximum term of five years and a maximum amortization period of twenty-five years.

7. Member loans (continued)

Loan allowance details

In $	*2017*	*2016*
Balance, beginning of period	**441,961**	65,060
Additional loan allowance as a result of amalgamation	**-**	403,641
Provision for impaired loans	**9,585**	7,745
	451,546	476,446
Less: accounts written off	**-**	(74,545)
Add: loans recovered	**-**	40,060
Balance, end of period	**451,546**	441,961

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either less than 90 days past due, or fully secured and less than 180 days past due, and collection efforts are reasonably expected to result in repayment.

In $	1-30 days	31-60 days	61-90 days	91 days and greater	*2017*
Residential mortgages	**378,976**	**-**	**-**	**-**	**378,976**
Personal	**29,912**	**-**	**-**	**-**	**29,912**
Commercial	**156,094**	**-**	**-**	**-**	**156,094**
	564,982	**-**	**-**	**-**	**564,982**

In $	1-30 days	31-60 days	61-90 days	91 days and greater	*2016*
Residential mortgages	861,497	-	-	-	861,497
Personal	-	9,255	-	-	9,255
Commercial	1,232,113	-	-	-	1,232,113
	2,093,610	9,255	-	-	2,102,865

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

8. Interest rate swaps

The Credit Union has entered into interest rate swap agreements with Central 1 to hedge its exposure to changes in interest rates. The swap agreements are derivative financial instruments that are recorded at their fair value with changes in value being recognized into income. Under the terms of the agreement, the Credit Union will pay the counterparty, Central 1, a fixed rate of interest and will receive a variable rate of interest equal to the 1 month or 3 month Canadian Dealer Offered Rate (CDOR) based on the notional amounts.

	Notional Amount	Receiving rate	Paying rate	**2017 Fair value**	2016 Fair value
Derivative financial instruments - no hedge accounting:					
May 2018	3,000,000	CDOR	1.205%	**3,767**	(7,414)
May 2019	3,000,000	CDOR	1.340%	**23,783**	(12,119)
May 2020	3,000,000	CDOR	1.490%	**41,340**	(18,451)
February 2021	12,000,000	CDOR	0.855%	**472,905**	259,846
May 2021	2,000,000	CDOR	1.090%	**67,175**	22,549
May 2021	2,000,000	CDOR	1.110%	**67,135**	21,630
June 2021	3,000,000	CDOR	0.990%	**113,410**	48,294
August 2021	5,000,000	CDOR	0.955%	**213,245**	108,500
September 2021	5,000,000	CDOR	0.975%	**218,032**	109,556
	38,000,000			**1,220,792**	532,391
Derivative financial instruments - hedge accounting:					
March 2022	5,000,000	CDOR	1.510%	**142,606**	-
	43,000,000			**1,363,398**	532,391

Interest due and receivable under the agreements is recorded on a net basis to interest income. During the year, net interest paid under the agreements was $37,451 (2016 - $47,990).

Included in accounts payable and other liabilities is $142,606 (2016 - $ nil) related to the change in fair value of hedged items.

9. Property and equipment

In $	Land	Buildings and components	Furniture and equipment	Computer hardware	**2017 Total**
Cost					
Opening balance	**671,988**	**1,198,719**	**223,591**	**377,246**	**2,471,544**
Additions *(Note 14)*	**-**	**113,380**	**64,999**	**14,322**	**192,701**
	671,988	**1,312,099**	**288,590**	**391,568**	**2,664,245**
Accumulated depreciation					
Opening balance	**-**	**(275,468)**	**(185,265)**	**(244,701)**	**(705,434)**
Depreciation	**-**	**(55,021)**	**(14,165)**	**(41,912)**	**(111,098)**
	-	**(330,489)**	**(199,430)**	**(286,613)**	**(816,532)**
Net book value	**671,988**	**981,610**	**89,160**	**104,955**	**1,847,713**

In $	Land	Buildings and components	Furniture and equipment	Computer hardware	2016 Total
Cost					
Opening balance	310,788	459,919	182,556	246,744	1,200,007
Additions	361,200	738,800	41,035	130,502	1,271,537
	671,988	1,198,719	223,591	377,246	2,471,544
Accumulated depreciation					
Opening balance	-	(221,598)	(171,878)	(227,619)	(621,095)
Depreciation	-	(53,870)	(13,387)	(17,082)	(84,339)
	-	(275,468)	(185,265)	(244,701)	(705,434)
Net book value	671,988	923,251	38,326	132,545	1,766,110

10. Intangible assets

In $	Core deposit intangible	Computer software	***2017***
Cost			
Opening balance	**273,754**	**249,481**	**523,235**
Additions	**-**	**16,600**	**16,600**
	273,754	**266,081**	**539,835**
Accumulated amortization			
Opening balance	**(68,439)**	**(53,434)**	**(121,873)**
Amortization	**(68,439)**	**(50,217)**	**(118,656)**
	(136,878)	**(103,651)**	**(240,529)**
Net book value	**136,876**	**162,430**	**299,306**

In $	Core deposit intangible	Computer software	*2016*
Cost			
Opening balance	-	-	-
Additions	273,754	249,481	523,235
	273,754	249,481	523,235
Accumulated amortization			
Opening balance	-	-	-
Amortization	(68,439)	(53,434)	(121,873)
	(68,439)	(53,434)	(121,873)
Net book value	205,315	196,047	401,362

11. Member deposits

In $	***2017***	*2016*
Chequing accounts	**21,565,281**	16,107,846
Savings accounts	**70,834,067**	67,580,626
Term deposits	**83,863,065**	87,496,501
Registered retirement income fund	**7,122,062**	7,085,814
Registered retirement savings plans	**13,409,783**	13,899,297
Registered tax-free savings accounts	**12,693,977**	11,634,469
	209,488,235	203,804,553
Accrued interest	**945,254**	965,182
	210,433,489	204,769,735

Registered plans

Central 1 Trust Company is the trustee of the registered plans offered to members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates by the Credit Union on behalf of the trust company.

12. Member shares

As a condition of membership, each adult voting member must hold a minimum of 10 membership shares with an issue price of $5 each. Shares are redeemable on withdrawal from the membership, subject to the Credit Union meeting capital adequacy requirements.

13. Income tax

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

	2017	*2016*
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Rate reduction for credit unions	**-**	(3.7%)
Increase in future tax rate	**-**	(3.1%)
Non-deductible, non-taxable, and other items	**(3.7%)**	0.3%
	22.8%	20.0%

The tax effects of temporary differences which give rise to the deferred tax amounts reported on the statement of financial position arise from differences between amounts deducted for accounting and income tax purposes. The deferred income tax asset comprises the following:

13. Income tax (continued)

In $	**2017**	2016
Property and equipment	**(90,769)**	(121,292)
Allowance for impaired loans	**61,685**	72,181
Deferred revenue	**12,872**	12,706
Other fair value adjustments as a result of amalgamation	**(77,490)**	(133,468)
	(93,702)	(169,873)

14. Post employment benefits

The Credit Union has a defined contribution pension plan for employees. Contributions to defined contribution plans are recognized as an expense when employees have rendered service to the Credit Union during the year, entitling them to the contributions. Pension plan benefits expense included in salaries and benefits for the year were $45,912 (2016 - $54,319).

15. Capital management

The Credit Union is subject to the capital requirements set out in the Act. The Act prescribes capital adequacy measures and minimum capital requirements. The Credit Union must comply with a leverage ratio of eligible capital to total assets. The Act also requires a risk weighted asset calculation for credit, operational and interest rate risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk adjusted capital and risk weighted assets, including off balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of eligible capital to risk weighted assets is calculated and compared to the standard outlined by the Act.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital of the Credit Union includes retained earnings and membership shares and other member equity. Tier 2 capital of the Credit Union includes eligible accumulated other comprehensive income and the collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets. For eligible capital purposes, Tier 2 capital cannot exceed Tier 1 capital.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the Act's regulatory standards to the Credit Union's board policy for the year:

	Regulatory standards	**Policy standards**
Total eligible capital to total assets	4%	5%
Total eligible capital to risk weighted assets	8%	11%

As at December 31, 2017, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

15. Capital management (continued)

Total eligible capital is comprised of Tier 1 and Tier 2 capital as follows:

In $	***2017***	*2016*
Tier 1 capital		
Membership shares	**634,627**	659,711
Retained earnings	**9,700,795**	8,244,507
Contributed surplus	**8,352,253**	8,352,253
Less: fair values related to business combination	**(632,474)**	(650,004)
	18,055,201	16,606,467
Tier 2 capital		
Accumulated other comprehensive income - equity investments, net of tax	**10,730**	272,739
Collective allowance	**208,467**	253,540
	219,197	526,279
Total eligible capital	**18,274,398**	17,132,746
Capital tests		
Total eligible capital to total assets	**8.0%**	7.7%
Total eligible capital to risk weighted assets	**15.8%**	15.8%

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

i. Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
ii. Co-ordinate strategic risk management and capital management;
iii. Develop financial performance targets/budgets/goals;
iv. Administer a patronage program that is consistent with capital requirements;
v. Administer an employee incentive program that is consistent with capital requirements;
vi. Develop a planned growth strategy that is coordinated with capital growth; and
vii. Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

16. Related party transactions

Related parties include the key management personnel ("KMP"), which incorporates senior management and Directors of the Credit Union as well as each of their spouses, their children, and any entities they control.

Management of the Credit Union are the Chief Executive Officer, Vice President of Credit Operations, and Finance Manager.

Loans made to related parties are approved under the same lending criteria applicable to all members. Transactions with related parties occur under the same terms and conditions as offered by the Credit Union to other members.

The following tables reflect balances with related parties at year end and the value of interest income and expenses recorded in relation to them during the year.

16. Related party transactions (continued)

Member loans to related parties at year end:

In $	2017	2016
Member loans	**2,181,660**	2,341,579
Approved but unadvanced loans and lines of credit	**392,000**	396,998
	2,573,660	2,738,577

Member deposits by related parties at period end:

In $	2017	2016
Chequing and savings deposits	**1,756,006**	1,356,281
Term deposits	**2,123,713**	2,365,865
Registered plans	**1,117,299**	912,291
Member shares	**5,260**	6,760
	5,002,278	4,641,197

Interest income and expense recorded with related parties:

In $	2017	2016
Interest and other revenue earned on loans	**48,814**	42,795
Interest paid on deposits	**71,918**	57,590

Aggregate compensation of KMP during the year consisted of:

In $	2017	2016
Salaries and short-term benefits	**488,413**	615,976
Post-employment benefits	**12,296**	20,606
	500,709	636,582

Honoraria paid to directors during the year amounted to $41,150 (2016 - $62,350). Board and committee expenses during the year totalled $48,608 (2016 - $57,075).

17. Financial instrument risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

17. Financial instrument risk management (continued)

The Credit Union's risk management policies and procedures include the following:

i. Ensure all activities are consistent with the mission, vision and values of the Credit Union;
ii. Balance risk and return;
iii. Manage credit, market and liquidity risk through preventative and detective controls;
iv. Ensure credit quality is maintained;
v. Ensure credit, market, and liquidity risk is maintained at acceptable levels;
vi. Diversify risk in transactions, member relationships and loan portfolios;
vii. Price according to risk taken; and
viii. Using consistent credit risk exposure tools.

In addition to the Board of Directors, the Audit and Risk Committee is involved in financial instrument risk management oversight. There have been no significant changes from the previous year in the exposure to financial instrument risks nor the Credit Union's policies, procedures and methods used to measure and manage those risks.

Credit risk

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

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

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

i. Loan security requirements;
ii. Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
iii. Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
iv. Borrowing member capacity (repayment ability) requirements;
v. Borrowing member character requirements;
vi. Limits on aggregate credit exposure per individual and/or related parties;
vii. Limits on concentration to credit risk by loan type, industry and economic sector;
viii. Limits on types of credit facilities and services offered;
ix. Internal loan approval processes;
x. Loan documentation standards;
xi. Loan re-negotiation, extension and renewal processes;
xii. Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
xiii. Control and monitoring processes including portfolio risk identification and delinquency tolerances;
xiv. Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
xv. Collection processes that include action plans for deteriorating loans;
xvi. Overdraft control and administration processes; and
xvii. Loan syndication processes.

17. Financial instrument risk management (continued)

Credit commitments

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

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

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit), guarantees or letters of credit.

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

In $	***2017***	*2016*
Unadvanced lines of credit	**28,758,018**	25,233,948
Guarantees and standby letters of credit	**1,722,463**	-
Commitments to extend credit	**4,811,000**	10,291,000

Market risk

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

Fair value risk

Fair value risk is the potential loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits, and investments held. The Credit Union has deemed its fair value risk to be negligible and does not hedge it.

Interest rate risk

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

The Credit Union has implemented interest rate risk management policies that limit the mix and maturities of capital, deposits, loans and investments; set criteria for pricing deposits and loans; upholds limits on the exposure to changes in interest rates; applies the user of appropriate techniques for measuring the Credit Union's risk under current and forecasted scenarios; and provide for the use of derivatives financial instruments to manage the risk where appropriate.

17. Financial instrument risk management (continued)

Contractual re-pricing and maturity

All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date. The schedule does not identify management's expectation of future events where re-pricing and maturity dates differ from contractual dates.

The table below summarizes amounts by maturity dates and effective interest rates for the following significant financial instruments:

In $	Variable rate	Less than one year	One to five years	Non-interest sensitive	2017	Effective yield
Assets						
Cash	**-**	**-**	**-**	**5,075,390**	**5,075,390**	**1.30%**
Investments	**12,885,949**	**36,910,568**	**3,134,857**	**1,963,031**	**54,894,405**	**1.56%**
Member loans	**29,930,432**	**22,439,260**	**113,828,689**	**-**	**166,198,381**	**3.39%**
Interest rate swaps (notional)	**43,000,000**	**-**	**-**	**-**	**43,000,000**	**1.42%**
Total	**85,816,381**	**59,349,828**	**116,963,546**	**7,038,421**	**269,168,176**	
Liabilities						
Member deposits	**94,131,692**	**79,907,711**	**35,448,832**	**945,254**	**210,433,489**	**0.99%**
Accounts payable	**-**	**-**	**-**	**501,895**	**501,895**	**-**
Member shares	**-**	**-**	**-**	**634,627**	**634,627**	**-**
Interest rate swaps (notional)	**-**	**3,000,000**	**40,000,000**	**-**	**43,000,000**	**1.09%**
Total	**94,131,692**	**82,907,711**	**75,448,832**	**2,081,776**	**254,570,011**	
Difference	**(8,315,311)**	**(23,557,883)**	**41,514,714**	**4,956,645**	**14,598,165**	

17. Financial instrument risk management (continued)

In $	Variable rate	Less than one year	One to five years	Non-interest sensitive	2016	Effective yield
Assets						
Cash	-	-	-	8,724,644	8,724,644	0.90%
Investments	10,185,949	45,035,991	5,068,229	2,696,226	62,986,395	1.40%
Member loans	29,915,340	16,841,073	101,811,628	55,945	148,623,986	3.40%
Interest rate swaps (notional)	38,000,000	-	-	-	38,000,000	0.90%
Total	78,101,289	61,877,064	106,879,857	11,476,815	258,335,025	
Liabilities						
Member deposits	89,258,916	78,302,531	36,243,106	965,182	204,769,735	1.11%
Accounts payable	-	-	-	358,825	358,825	-
Member shares	-	-	-	659,711	659,711	-
Interest rate swaps (notional)	-	-	38,000,000	-	38,000,000	1.04%
Total	89,258,916	78,302,531	74,243,106	1,983,718	243,788,271	
Difference	(11,157,627)	(16,425,467)	32,636,751	9,493,097	14,546,754	

Based on the current financial instruments, management estimates its earnings at risk for a 1.0% increase in the prime interest rate would increase net interest income by approximately $68,690 and a 0.5% decrease in the prime interest rate would decrease net interest income by approximately $14,970.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to meet a demand for cash or fund its obligations as they come due.

The Credit Union's liquidity management policy defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; mandatory lines of credit with Central 1; and regular reporting of actual liquidity levels against policy minimums to the Board of Directors.

The Credit Union has available a credit facility with Central 1, totalling $5,100,000, consisting of clearing facilities of CAD 1,500,000 and USD 50,000; letters of credit of $3,050,000; and a capital market account of $500,000. The facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2017, $1,722,463 (2016 - $155,673) in letters of credit were utilized.

The liquidity risk management policy requires no less than 12% of the Credit Union's total deposits and borrowings to be held in cash, deposits, investment savings accounts, term deposits, and government bonds.

17. Financial instrument risk management (continued)

At December 31, 2017, liquid assets amount to 15.8% (2016 – 17.5%) of deposits and borrowings and consist of the following:

In $	***2017***	*2016*
Cash and current account	**5,141,274**	2,602,551
Liquidity reserve deposits with Central 1	**4,040,751**	3,220,391
Other term deposits	**23,985,682**	29,834,061
	33,167,707	35,657,003

18. Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics. Fair values have not been determined for assets or liabilities that are not a financial instrument.

Methods and assumptions:

The following methods and assumptions were used to estimate fair values of financial instruments:

a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value due to their short term nature;

b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments;

c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates;

d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits;

e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date; and

f) fair value of member shares reflects their redemption amount.

Estimated fair values of significant financial instruments are summarized as follows:

18. Fair value of financial instruments (continued)

In $	**Fair value**	**Book value**	**2017 Fair value over book value**	Fair value	Book value	2016 Fair value over book value
Financial assets						
Cash	**5,075,390**	**5,075,390**	**-**	8,724,644	8,724,644	-
Investments	**55,008,219**	**54,894,405**	**113,814**	63,160,364	62,986,395	173,969
Member loans	**166,361,269**	**166,198,381**	**162,888**	149,076,146	148,623,986	452,160
Interest rate swaps	**1,363,398**	**1,363,398**	**-**	532,391	532,391	-
	227,808,276	**227,531,574**	**276,702**	221,493,545	220,867,416	626,129
Financial liabilities						
Member deposits	**210,628,173**	**210,433,489**	**194,684**	204,940,719	204,769,735	170,984
Accounts payable	**501,895**	**501,895**	**-**	358,825	358,825	-
	211,130,068	**210,935,384**	**194,684**	205,299,544	205,128,560	170,984
Difference	**16,678,208**	**16,596,190**	**82,018**	16,194,001	15,738,856	455,145

Fair value measurements

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

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

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

The financial instruments measured at fair value on the statement of financial position, other than cash have been classified in the fair value hierarchy as follows:

In $	***2017***	*2016*
Level 2		
Investments - CUCO cooperative Association Class B Investment shares	**12,630**	441,232
Interest rate swaps	**1,363,398**	532,391

In $	**2017 (12 months)**	2016 (15 months)
Administrative expenses		
Consulting	**252,878**	355,175
Member security	**214,622**	234,581
Data processing	**204,768**	248,652
Office and general	**134,473**	136,545
Occupancy	**123,824**	107,122
Board reimbursement and training	**89,758**	119,426
Professional fees	**94,813**	96,430
Advertising and promotion	**57,791**	104,849
Service charges	**55,910**	50,659
Meeting and travel	**38,623**	12,334
Telephone	**22,278**	23,781
Utilities	**20,705**	28,572
League dues	**15,537**	15,208
Registered plan fees	**15,514**	18,481
Collection costs	**6,029**	23,925
Depreciation and amortization	**161,315**	137,773
	1,508,838	1,713,513