Consolidated Financial Statements of Northern Savings Credit Union

Year ended
December 31, 2016

NORTHERN SAVINGS
CREDIT UNION

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INDEPENDENT AUDITORS' REPORT

To the Members of Northern Savings Credit Union

We have audited the accompanying consolidated financial statements of Northern Savings Credit Union, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of income (loss), comprehensive income (loss), changes in members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Northern Savings Credit Union as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 28, 2017
Vancouver, Canada

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Cash and cash equivalents (note 5)	$ 28,663,005	$ 69,741,850
Investments (note 6)	93,639,198	130,835,782
Derivative instruments (note 7)	-	136,271
Loans (note 8)	573,111,962	677,706,965
Property and equipment (note 10)	11,386,880	11,392,755
Intangible assets (note 11)	1,558,326	1,678,142
Deferred income tax asset (note 17)	542,585	746,850
Other assets (note 13)	3,012,050	3,588,042
	$ 711,914,006	$ 895,826,657
Liabilities and Members' Equity		
Deposits (note 14)	$ 626,201,470	$ 787,898,616
Secured and other borrowings (note 15)	43,232,482	65,291,730
Payables and other liabilities	6,035,011	7,568,492
	675,468,963	860,758,838
Members' equity:		
Contributed surplus	950,936	950,936
Accumulated other comprehensive income	-	171,694
Retained earnings	35,494,107	33,945,189
	36,445,043	35,067,819
	$ 711,914,006	$ 895,826,657

Commitments and contingencies (note 26)

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

Approved on behalf of the Board:

________________________ Director ________________________ Director

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Income (Loss)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Interest income:		
Interest on loans	$ 22,320,225	$ 28,948,429
Cash resources and investments	2,064,458	1,707,723
	24,384,683	30,656,152
Interest expense:		
Interest on deposits	10,849,667	15,099,678
Borrowings	1,074,754	2,032,142
	11,924,421	17,131,820
Net interest income	12,460,262	13,524,332
Provision for credit losses (note 9)	196,255	(500,000)
Other income (note 19)	9,878,924	15,134,515
Total operating income	22,535,441	28,158,847
Operating expenses (note 20)	20,561,152	27,184,076
Other expenses (note 21)	-	3,418,284
Change in fair value of derivative instruments	-	(30,684)
Income (loss) from operations	1,974,289	(2,412,829)
Distributions to members	85,067	-
Income (loss) before income taxes	1,889,222	(2,412,829)
Provision for income taxes (recovery) (note 17):		
Current income tax	138,238	368,218
Deferred income tax	202,066	(274,923)
	340,304	93,295
Net income (loss)	$ 1,548,918	$ (2,506,124)

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Comprehensive Income (Loss)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Net income (loss)	$ 1,548,918	$ (2,506,124)
Items that were or may be reclassified to net income:		
Cash flow hedges:		
Net change in unrealized gains on derivative hedging instruments including amounts reclassified to net income, net of tax of nil (2015 - $8,091)	(171,694)	42,797
Total comprehensive income (loss)	$ 1,377,224	$ (2,463,327)

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2016, with comparative information for 2015

	Contributed surplus	Accumulated other comprehensive income	Retained earnings
Balance, December 31, 2014	$ 950,936	$ 128,897	$ 36,451,313
Loss for the year	-	-	(2,506,124)
Cash flow hedges	-	42,797	-
Balance, December 31, 2015	950,936	171,694	33,945,189
Income for the year	-		1,548,918
Cash flow hedges	-	(171,694)	-
Balance, December 31, 2016	$ 950,936	$ -	$ 35,494,107

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 1,548,918	$ (2,506,124)
Items not involving cash:		
Amortization and impairment	1,518,277	1,358,044
Impairment of property and equipment	-	297,484
Provision for credit losses	(196,255)	500,000
Income tax expense (recovery)	340,304	(285,039)
Change in derivative instrument	78,220	(91,967)
Adjustments for:		
Interest income	(24,384,683)	(30,656,152)
Interest expense	11,924,421	17,131,820
	(9,170,798)	(14,251,934)
Change in loans	104,352,636	164,767,463
Change in deposits	(159,237,597)	(71,935,009)
Change in other assets	575,992	448,878
Change in payables and other liabilities	(1,265,204)	97,548
Interest received	24,823,305	30,595,466
Interest paid	(14,383,969)	(17,055,320)
Income taxes paid	(268,277)	(93,295)
	(54,770,167)	92,573,797
Financing activities:		
Repayment of secured borrowings	(22,059,248)	(16,033,453)
Investing activities:		
Change in investments, net	37,143,156	(48,764,804)
Purchase of property and equipment	(1,392,586)	(822,157)
Disposal (purchase) of intangible assets	-	2,008,557
	35,750,570	(47,578,404)
Increase (decrease) in cash and cash equivalents	(41,078,845)	28,961,940
Cash and cash equivalents, beginning of year	69,741,850	40,779,910
Cash and cash equivalents, end of year	$ 28,663,005	$ 69,741,850

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

1. Governing legislation and operations:

Northern Savings Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members primarily in the Prince Rupert, Terrace, Haida Gwaii and coastal areas of British Columbia. Deposits are gathered from the Credit Union’s main service area as well as the Lower Mainland of British Columbia. Securitized loan pools are drawn primarily from Vancouver Island, the Lower Mainland and the Okanagan. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

The Credit Union is domiciled in Canada and its registered office and principal place of business is 138 Third Avenue West, Prince Rupert, British Columbia. These consolidated financial statements have been approved and authorized for issue by the Board of Directors on February 28, 2017.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Basis of measurement:

These consolidated financial statements were prepared on the historical cost basis, except for available-for-sale financial assets and derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

The Credit Union’s functional and presentation currency is the Canadian dollar.

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

3. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and all of its wholly-owned subsidiaries as of December 31, 2016. A parent company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of December 31.

All transactions and balances between the Credit Union and its subsidiaries are eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union.

Net income and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Special purpose entities (“SPEs”) are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated, if based on an evaluation of the substance of its relationship with the Credit Union, and the SPEs’ risks and rewards, the Credit Union concludes that it controls the SPE. The Credit Union’s activities have not resulted in any entity meeting the circumstances that would require an SPE to be consolidated within these consolidated financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents are non-derivative assets and include cash on hand, unrestricted balances held with Central 1 Credit Union (“Central 1”), and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are held at amortized cost on the consolidated statement of financial position.

(c) Financial instruments:

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

Subsequent measurement of financial assets and financial liabilities is as described below:

(*i*) Financial assets:

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss or held-for-trading;
- held-to-maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in net income or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Credit Union has not designated any of its non-derivative financial assets as fair value through profit or loss. The Credit Union's derivative financial assets are classified as held-for-trading.

(*ii*) Loans and receivables:

Cash and cash equivalents, other receivables and member loans have been classified as loans and receivables.

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.

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 for all loans is accounted for on the accrual basis.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*ii*) Loans and receivables (continued):

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.

The Credit Union maintains a collective allowance to absorb credit losses that management estimates have occurred at the financial reporting date for which specific allowances cannot yet be determined. The Credit Union applies a methodology that tests the adequacy of the collective allowance by utilizing a number of modeling tools. These tools stress test the collective allowance and the underlying security values held by the Credit Union in a variety of market condition scenarios.

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 income.

Loans 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 amount is unlikely. Loans are written-off against the allowances for impairment if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write-offs are recognized as expenses in net income.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*iii*) Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Central 1 term deposits designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in net income. Term deposits at Central 1 are classified as held-to-maturity.

(*iv*) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost. Impairment charges are recognized in net income.

The Credit Union's available-for-sale financial assets include its equity investments.

(*v*) Financial liabilities:

The Credit Union's financial liabilities include deposits (inclusive of member shares), payables and other liabilities, and secured borrowings.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held-for-trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in net income.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*vi*) Derivative financial instruments:

Derivative financial instruments, are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The notional contract amounts related to derivatives are not included on the consolidated statement of financial position. In the ordinary course of business, the Credit Union enters into interest rate swaps primarily to manage its exposure to fluctuations in interest rates.

Derivatives are carried at fair value, and are recorded as assets when they have a net positive fair value and liabilities when they have a net negative fair value.

Non-hedging derivative instruments:

Swaps that are not designated as hedging instruments are classified as held-for-trading.

Non-hedging derivative instruments are measured at fair value, both initially and subsequently. Gains and losses arising from changes in fair values of these instruments are recognized in net income.

Hedging derivative instruments:

Swap contracts can be designated for accounting purposes as either cash flow hedging instruments or fair value hedging instruments. The Credit Union has only entered into cash flow hedges at this time. Cash flow hedges modify exposure to variability in cash flows for variable interest bearing instruments. The Credit Union's cash flow hedges are primarily hedges of variable rate mortgages and deposits.

Each hedge undertaken by the Credit Union is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The Credit Union formally assesses prospectively and retrospectively at the hedge's inception and on an ongoing basis whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recognized in other comprehensive income. The ineffective portion is immediately recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the same period that the hedged cash flows affect net income.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*vi*) Derivative financial instruments (continued):

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time either remains in accumulated other comprehensive income and is amortized into net income over the remaining term of the original hedge or immediately when the hedged item is derecognized.

(d) De-recognition of financial assets:

A financial asset is derecognized when:

(*i*) The rights to receive cash flows from the asset have expired; or

(*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:

- The Credit Union has transferred substantially all the risks and rewards of the asset; or
- 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 nor retained substantially all 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

(e) Property and equipment:

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated.

3. Significant accounting policies (continued):

(e) Property and equipment (continued):

Depreciation is recognized in net income and is provided on a straight-line or declining balance basis over the estimated useful life of the assets to a maximum as follows:

Asset	Basis	Rate
Buildings and renovations	Declining balance	2.5%
Building components	Straight-line	10 - 20 years
Computer hardware	Straight-line	3 - 5 years
Furniture and fixtures	Straight-line	5 - 10 years
Leasehold improvements		Lease term

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income within 'other income' or 'other expenses'.

(f) Intangible assets:

Intangible assets represent finite-lived and indefinite-lived intangible assets. Finite-lived intangible assets consist of customer lists and software and are amortized over their estimated useful lives. Amortization is included in net income. Finite-lived intangible assets are tested for impairment by management whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Indefinite-lived intangible assets consist of insurance licenses and are tested by management annually for impairment and between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the intangible assets below their carrying value.

(*i*) Acquired software:

Acquired computer software are capitalized on the basis of the costs incurred to acquire and install the specific software. Brand names and customer lists acquired in a business combination that qualify for separate recognition are recognized as intangible assets at their fair values.

3. Significant accounting policies (continued):

(f) Intangible assets (continued):

(*ii*) Internally developed software:

Expenditure on the research phase of projects to develop new customized software for IT and telecommunication systems is recognized as an expense as incurred. Costs that are directly attributable to a project's development phase are recognized as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Credit Union intends to and has sufficient resources to complete the project;
- the Credit Union has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

(g) Goodwill:

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is reviewed by management on at least an annual basis to determine whether there is an impairment in value. Goodwill is tested between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the goodwill below its carrying value. Any loss on impairment during the year is charged to net income.

(h) 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 costs to sell, the asset is written-down accordingly.

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

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

3. Significant accounting policies (continued):

(i) Income taxes:

Tax expense recognized in net income comprises the sum of deferred tax and current tax not recognized directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date.

Current tax is payable on taxable profit, which differs from net income in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and their tax bases; however, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in net income.

(j) 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.

3. Significant accounting policies (continued):

(k) Post-employment benefit and short-term employee benefits:

Short-term employee benefits, including holiday entitlement, are included in ‘other liabilities’ and are measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

The Credit Union provides a defined contribution pension plan to its employees. Under this plan, employees each receive a specified flat rate as the employer’s contribution. The Credit Union has no further payment obligations once these contributions have been made. The contributions are recognized as salaries and benefits expenses in the period during which services are rendered by the employees.

The Credit Union also 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.

(l) Provisions:

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset; however, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(m) Members’ shares:

Class A membership shares are classified as liabilities based on their terms as they are redeemable at the option of the member, either on demand or on withdrawal from membership. Class B voluntary shares are classified as liabilities as they are redeemable at the request of the members to a maximum amount of 10% of such shares in any one year, subject to minimum capital requirements.

3. Significant accounting policies (continued):

(n) Patronage distributions:

Patronage distributions are accrued and recognized in net income when approved by the Board of Directors.

(o) Revenue recognition:

Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

The accounting treatment for loan and deposit fees varies depending on the transaction. Fees that are considered to be adjustments to yield are recognized using the effective interest method. The effective interest rate method capitalizes fees and transaction costs on the consolidated statement of financial position and amortizes them to interest income or expense over the expected life of the related loan or deposit. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the average term of the loan using the effective interest method. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan and deposit fees that are recognized using the effective interest method are included with the respective loan and deposit balances on the consolidated statement of financial position.

(p) Leased assets:

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Currently, the Credit Union does not have any finance leases.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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 net income on a straight-line basis over the lease term.

3. Significant accounting policies (continued):

(q) Foreign currency translation:

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year end exchange rates are recognized in net income.

(r) Securitization:

The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which include securitization of residential mortgages into special purpose entities which issue bonds to third party investors at specified interest rates.

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

Monies raised from securitization transactions whereby the Credit Union did not transfer substantially all of the risks and rewards of ownership of the mortgages in the securitization are accounted for as a secured borrowing.

(s) Standards and interpretations issued but not effective:

At December 31, 2016, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements.

Those which may be relevant to the Credit Union’s consolidated financial statements are set out below:

IFRS 9 - *Financial Instruments:*

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

3. Significant accounting policies (continued):

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

Gains and losses on re-measurement of financial assets measured at fair value will be recognized in net income, except those for an investment in an equity instrument which is not classified as held-for-trading. For financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the changes in fair value recognized in net income. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from an investment in OCI. The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to net income at a later date.

IFRS 9 has introduced a new expected credit loss model for calculating impairment that will require recognition of expected credit losses. Specifically, it requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.

IFRS 9 also includes a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity.

The mandatory effective date of IFRS 9 is January 1, 2018 and the standard is required to be applied retrospectively when initially applied. As at the date of publication of these consolidated financial statements, the Credit Union has not yet completed its determination of the potential impact of IFRS 9.

IFRS 15 - *Revenue from Contracts with Customers:*

IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and related interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The mandatory effective date of IFRS 15 is January 1, 2018 and the standard is required to be applied retrospectively when initially applied. As at the date of publication of these consolidated financial statements, the Credit Union has not yet completed its determination of the potential impact of IFRS 15.

3. Significant accounting policies (continued):

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

IFRS 16 - *Leases:*

IFRS 16 was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided that the Credit Union has adopted IFRS 15. The Credit Union has not yet reviewed the impact of IFRS 16 on the consolidated financial statements.

4. Judgments and estimates:

When preparing these consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

(a) Judgments:

Recognition of deferred tax assets:

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

(b) Estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in net 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. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

(*i*) Allowance for impaired loans:

In determining whether an impairment loss should be recorded in net income the Credit Union makes judgments on whether objective evidence of impairment exists for individual 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 allowance management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment.

4. Judgments and estimates (continued):

(b) Estimates (continued):

(*ii*) Impairment of long-lived assets:

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

(*iii*) Fair value of financial instruments:

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques, management makes maximum use of market inputs and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5. Cash and cash equivalents:

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2016 is 1.42% (2015 - 1.16%).

	2016	2015
Cash and current accounts	$ 5,657,630	$ 12,573,234
Term deposits and accrued interest: Callable or maturing in three months or less	23,005,375	57,168,616
	$ 28,663,005	$ 69,741,850

6. Investments:

The following table provides information on the investments by type of security and issuer.

	2016	2015
Term deposits at Central 1 callable or maturing in more than three months	$ 89,172,758	$ 126,364,113
Shares:		
Central 1 Credit Union	3,660,244	3,757,535
Co-operators Group Ltd.	124,500	124,500
Other shares and investments	273,907	283,717
Other debt securities (note 15)	407,789	305,917
	$ 93,639,198	$ 130,835,782

The Credit Union must maintain liquidity reserves with Central 1 at 8.0% of total deposits and borrowings 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 year. At maturity, these deposits are reinvested at market rates for various terms.

Non-callable term deposits are due between three months and one year. The carrying amounts for deposits approximate fair value due to having similar characteristics as cash and cash equivalents.

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 a par value of one dollar per share. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value of one cent per share; however, they are redeemable at one hundred dollars per share at the option of Central 1. There is no separately quoted market value for these shares. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, the Class E Central 1 shares are carried in the consolidated financial statements 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.

7. Derivative instruments:

At December 31, 2016, the Credit Union has no outstanding interest rate swap contracts.

	2016			2015		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk: Receive fixed/pay variable interest rate swaps	$ -	$ -	$ -	$ 126,741	$ -	$ 4,000,000
Other derivatives: Interest rate swaps	-	-	-	27,844	18,314	15,000,000
Total fair value before adjustment	-	-	-	154,585	18,314	19,000,000
Adjustment for master netting agreements	-	-	-	(18,314)	(18,314)	-
	$ -	$ -	$ -	$ 136,271	$ -	$ 19,000,000

8. Loans:

	2016	2015
Personal loans:		
Residential mortgages	$ 423,301,706	$ 521,836,573
Other term loans and lines of credit	25,909,064	28,720,321
	449,210,770	550,556,894
Commercial loans:		
Mortgages	114,767,521	116,514,615
Other term loans and lines of credit	11,284,209	12,570,818
	126,051,730	129,085,433
	575,262,500	679,642,327
Accrued interest receivable	1,124,858	1,563,479
	576,387,358	681,205,806
Allowance for impaired loans (note 9)	(3,275,396)	(3,498,841)
Net loans to members	$ 573,111,962	$ 677,706,965

8. Loans (continued):

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maturity date of up to 10 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.85% to prime plus 12.00%. The Credit Union's prime rate at December 31, 2016, was 2.85% (2015 - 2.85%).

The interest rate offered on fixed rate loans being advanced at December 31, 2016, ranges from 1.99% to 7.00% (2015 - 1.85% to 18.00%).

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 also include other term loans and lines of credit that are non-real estate secured and 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.

Loans in the amount of $43,310,439 (2015 - $57,402,898) have been securitized by the Credit Union and are pledged as security for secured borrowings (note 15).

(b) Average yields to maturity:

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

	2016		2015	
	Principal	Yield	Principal	Yield
Variable rate	$ 81,458,495	4.17%	$ 103,984,232	3.94%
Fixed rate due less than one year	80,616,414	3.65%	199,346,107	3.85%
Fixed rate due between one and ten years	413,187,591	3.57%	376,311,988	3.62%
	$ 575,262,500	3.67%	$ 679,642,327	3.71%

8. Loans (continued):

(c) Fair value:

The fair value of member loans at December 31, 2016 was $580,837,000 (2015 - $686,731,000).

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.

(d) Credit quality of loans:

Valuations of collateral are updated periodically depending on the nature of the collateral. It is not practical to value all collateral as at the financial reporting date due to the variety of assets and conditions.

A breakdown of loans by type of collateral held is as follows:

	2016	2015
Loans - insured by government	$ 202,875,646	$ 242,796,004
Loans - real estate secured	346,912,572	407,788,480
Loans - otherwise secured	13,722,132	16,629,115
Loans – unsecured	11,752,150	12,428,728
	$ 575,262,500	$ 679,642,327

9. Allowance for impaired loans:

Total allowance for impaired loans:

	2016	2015
Specific allowance	$ 902,534	$ 748,297
Collective allowance	2,372,862	2,750,544
	$ 3,275,396	$ 3,498,841

9. Allowance for impaired loans (continued):

Change in the specific allowance and collective allowance during the year:

	Beginning balance	Allowance	Write-offs	Recoveries	2016 Ending balance	2015 Ending balance
Residential mortgages	$ 1,549,458	$ (364,855)	$ (112,667)	$ 70,671	$ 1,142,607	$ 1,549,458
Commercial mortgages	1,058,554	369,572	-		1,428,126	1,058,554
Other loans	890,829	(200,972)	(63,788)	78,594	704,663	890,829
	$ 3,498,841	$ (196,255)	$ (176,455)	$ 149,265	$ 3,275,396	$ 3,498,841
Percentage of total loans and accrued interest					0.53%	0.51%

(a) Impaired loans:

Impaired loans and related allowances:

	Loan balance	Specific allowance	2016 Carrying amount	2015 Carrying amount
Personal loans	$ 590,169	$ 79,237	$ 510,932	$ 2,124,091
Commercial loans	1,832,683	823,297	1,009,386	1,412,133
	$ 2,422,852	$ 902,534	$ 1,520,318	$ 3,536,224

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

	2016		2015	
	Carrying value	Specific allowance	Carrying value	Specific allowance
Period of delinquency:				
Less than 30 days	$ 8,662,791	$ 30,426	$ 4,698,933	$ 18,000
30 to 90 days	1,399,107	5,181	2,094,082	106,226
Over 90 days	7,128,759	852,829	6,068,380	584,016
Total loans in arrears	17,190,657	888,436	12,861,395	708,242
Total loans not in arrears	559,196,701	14,098	668,344,411	40,055
Total loans	$ 576,387,358	$ 902,534	$ 681,205,806	$ 748,297

9. Allowance for impaired loans (continued):

(b) Collective allowance:

A collective allowance is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience.

For purposes of the collective allowance, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security. The breakdown of the collective allowance is as follows:

	2016	2015
Personal loans	$ 1,514,565	$ 1,917,703
Commercial loans	858,296	832,841
	$ 2,372,861	$ 2,750,544

10. Property and equipment:

	Land	Buildings	Leasehold improvement	Furniture and computer equipment	Total
Cost:					
Balance, December 31, 2014	$ 828,597	$ 13,244,832	$ 710,785	$ 6,871,307	$ 21,655,521
Additions	-	80,505	-	995,571	1,076,076
Disposals	-	-	(47,629)	(1,125,403)	(1,173,032)
Balance, December 31, 2015	828,597	13,325,337	663,156	6,741,475	21,558,565
Additions	-	547,541	-	845,045	1,392,586
Disposals	-	-	(663,156)	(68,711)	(731,867)
Balance, December 31, 2016	$ 828,597	$ 13,872,878	$ -	$ 7,517,809	$ 22,219,284
Accumulated depreciation and impairment losses:					
Balance, December 31, 2014	$ -	$ 3,705,955	$ 347,877	$ 5,495,379	$ 9,549,211
Depreciation expense	-	330,530	19,054	888,644	1,238,228
Disposals	-		(1,259)	(917,854)	(919,113)
Impairment	-		297,484	-	297,484
Balance, December 31, 2015	-	4,036,485	663,156	5,466,169	10,165,810
Depreciation expense	-	385,660	-	1,012,801	1,398,461
Disposals	-	-	(663,156)	(68,711)	(731,867)
Impairment	-	-	-	-	-
Balance, December 31, 2016	$ -	$ 4,422,145	$ -	$ 6,410,259	$ 10,832,404
Net book value:					
December 31, 2015	$ 828,597	$ 9,288,852	$ -	$ 1,275,306	$ 11,392,755
December 31, 2016	828,597	9,450,733	-	1,107,552	11,386,880

11. Intangible assets:

	Licences	Goodwill	Software	Total
Gross carrying amount:				
Non-depreciable intangible assets				
Balance, December 31, 2014	$ 739,736	$ 134,224	$ -	$ 873,960
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2015	739,736	134,224	-	873,960
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2016	$ 739,736	$ 134,224	$ -	$ 873,960

	Licences	Goodwill	Software	Total
Gross carrying amount:				
Depreciable intangible assets				
Balance, December 31, 2014	$ -	$ -	$ 3,378,634	$ 3,378,634
Additions:				
Internally developed	-	-	-	-
Disposals	-	-	(2,047,226)	(2,047,226)
Balance, December 31, 2015	-	-	1,331,408	1,331,408
Additions:				
Internally developed	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2016	$	$	$ 1,331,408	$ 1,331,408
Amortization:				
Depreciable intangible assets				
Balance, December 31, 2014	$ -	$ -	$ 566,895	$ 566,895
Amortization	-	-	119,816	119,816
Disposals	-	-	(159,485)	(159,485)
Balance, December 31, 2015	-	-	527,226	527,226
Amortization	-	-	119,816	119,816
Disposals	-	-	-	-
Balance, December 31, 2016	$ -	$ -	$ 647,042	$ 647,042
Carrying amount				
December 31, 2015	$ 739,736	$ 134,224	$ 804,182	$ 1,678,142
December 31, 2016	739,736	134,224	684,366	1,558,326

12. Interest in subsidiaries:

Name of subsidiary	Principal activity	2016	2015
		Proportion of ownership interest held	
Northern Savings Insurance Services Ltd.	Sale of insurance products	100%	100%
Northern Savings Financial Services Ltd.	Financial planning and sales of investment products	100%	100%
CU Technical and Administrative Services Corp.	Computer banking system holding company	100%	100%
1010693 BC Ltd.	Holding company	100%	100%

13. Other assets:

	2016	2015
Receivables and prepaid expenses	$ 2,616,160	$ 3,588,042
Supplies and miscellaneous	-	-
Taxes receivable	395,890	-
	$ 3,012,050	$ 3,588,042

14. Deposits:

	2016	2015
Demand	$ 227,173,033	$ 210,145,643
Term	238,484,524	372,446,503
Registered savings plans	105,406,785	143,973,437
Tax free savings accounts	47,463,052	51,012,407
Members' shares (note 18)	3,491,311	3,677,964
Accrued interest and dividends	4,182,765	6,642,662
	$ 626,201,470	$ 787,898,616

14. Deposits (continued):

(a) Terms and conditions:

Chequing and savings deposits are due on demand and bear interest at variable rates up to 0.95% at December 31, 2016 (2015 - 1.25%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued as at December 31, 2016, range from 0.25% to 3.65% (2015 - 0.25% to 3.65%).

The registered retirement savings plan ("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 0.95% at December 31, 2016 (2015 - 0.95%).

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 chequing and term deposits at December 31, 2016 is an amount of $4,226,727 (2015 - $4,511,954) denominated in United States dollars.

(b) Average yields to maturity:

	2016		2015	
	Principal	Yield	Principal	Yield
Variable rate	$ 136,736,714	0.91%	$ 122,843,802	0.86%
Fixed rate due less than one year	182,280,000	1.96%	287,359,633	1.97%
Fixed rate due between one and ten years	164,998,458	1.80%	237,784,373	2.13%
Non-interest sensitive	139,484,771	0.23%	133,268,146	0.24%
	$ 623,499,943	1.30%	$ 781,255,954	1.55%

15. Secured and other borrowings:

During 2013 and 2014, the Credit Union securitized and sold the rights to the cash flows arising from a portfolio of loans. The Credit Union has determined that the substantial risks and rewards of ownership have not transferred and, accordingly, continues to record the loans in the consolidated financial statements and also recognizes a related secured borrowing obligation. The carrying value of such loans at December 31, 2016 is $43,232,482 (2015 - $57,402,898).

In relation to these securitization transactions, the Credit Union is required to provide security and, as such, debt securities of $407,789 (2015 - $305,917) are pledged (note 6).

In addition, the Credit Union has credit facilities available with Central 1 in the amount of $13,779,401 (2015 - $38,779,401). At December 31, 2016, the Credit Union had nil borrowings outstanding with Central 1 (2015 - $8 million).

16. Employee future benefits:

(a) BC Credit Union Employees' Pension Plan:

The BC Credit Union Employees' Pension Plan is a contributory, multiemployer, multidivisional pension plan governed by a 12-member Board of Trustees, which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. Northern Savings Credit Union is one of several employers participating in the 1.75% Division of the Plan. At December 31, 2015, this Division covered about 3,200 active employees and approximately 760 retired plan members, and had assets of approximately $559.4M.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability in the 1.75% Division of $25.1M and a solvency deficiency of $123.0M. As this is a multi-employer plan, the assets and liabilities are pooled and assets are not tracked separately by participating employer. Although the actuaries may be able to determine a breakdown of the current liabilities based on each employer's individual demographic profile and allocate a proportionate share of the assets based on the solvency ratio of the entire Plan, the Plan does not track accumulated contributions and investment earnings for each employer.

(b) Northern Savings Credit Union Pension Plan:

The Credit Union participates in a defined contribution pension plan. Employees are eligible to enroll in the pension plan after one year of fulltime employment. Employee contributions are based on a percentage of salary and matched by the Credit Union.

The Credit Union's contribution to the two plans during the year was $521,197 (2015 - $706,806).

17. Income taxes:

The total provision for income taxes on the consolidated statement of income is at a rate less than combined federal and provincial rates for the following reasons:

	2016	2015
Combined federal and provincial statutory income tax rate	26.0%	26.0 %
Credit union rate reduction	(1.7)%	3.5 %
Changes in future rates	0.0%	(6.0)%
Utilization of non-capital loss previously not recognized	(2.0)%	0.0%
Deferred tax assets not recognized	(3.0)%	(28.7)%
Other	(1.2)%	1.3 %
Effective income tax rate	18.1%	(3.9)%

The components of deferred income tax balances are as follows:

	2016	2015
Allowance for credit losses	$ 493,212	$ 501,256
Premises and equipment	(419,950)	(456,441)
Non-capital loss carry forwards	185,992	267,356
Onerous lease provision	161,271	281,969
Non-deductible termination benefits	83,014	145,973
Other	39,047	6,737
Net deferred income tax asset	$ 542,585	$ 746,850

The Credit Union has approximately $2.5 million of non-capital losses for income tax purposes available at December 31, 2016 to reduce taxable income in future years. The benefit of these losses has not been recorded and those losses expire in 2035.

18. Members' shares:

Members' shares issued and outstanding are included in deposit balances (note 14).

Capital of the Credit Union is divided into two classes of members' shares designated as follows:

- Class A membership shares; and
- Class B voluntary shares.

The Credit Union is authorized to issue an unlimited number of non-transferable, Class A voting membership shares, with a par value of $1. With certain exceptions, all members are required to own twenty-five membership shares.

The Credit Union is authorized to issue a maximum of 20,000,000 Class B voluntary shares at a price of $1 per share, up to 25,000 shares per member.

18. Members’ shares (continued):

Class A members’ shares and Class B voluntary shares are redeemable at the option of the member, either on demand or on withdrawal from membership. Annual withdrawals on Class B shares are limited to 10% of the outstanding balance of the class and only after obtaining approval by the regulator. The Board of Directors of the Credit Union have the ability to cease withdrawals in a given year if the 10% threshold is met. The Class A and Class B shares are classified as liabilities.

Dividends are declared by the Board and paid out annually. The 2016 amount is $85,067 (2015 - nil).

	2016	2015
Members' shares issued:		
Class A membership shares	$ 1,297,465	$ 1,333,184
Class B voluntary shares	2,193,846	2,344,780
	$ 3,491,311	$ 3,677,964

19. Other income:

	2016	2015
Insurance, commissions and fees	$ 5,305,154	$ 4,946,555
Technical support services	1,280,478	3,380,604
Account and merchant service fees	1,812,632	2,523,012
Loan administration fees	566,833	464,491
Loan penalty income	570,759	579,182
Foreign exchange	150,901	221,833
Realized gain on sale of financial instruments held at amortized cost	-	2,555,087
Other	192,167	463,751
	$ 9,878,924	$ 15,134,515

20. Operating expenses:

	2016	2015
Salaries and benefits	$ 10,293,320	$ 14,699,505
Severance payments	119,875	1,502,103
Advertising and member relations	265,398	781,097
Data processing	1,616,028	1,622,533
Amortization	863,636	1,358,044
Regulatory costs	744,786	788,045
Other administrative	2,390,765	2,973,101
Premises and office services	2,008,376	1,993,936
Dues and assessments	2,258,968	1,465,712
	$ 20,561,152	$ 27,184,076

21. Business reorganization:

During 2015, the Credit Union entered into a number of transactions to reduce the complexity of the organization. This included the asset sale of the Credit Union's subsidiary, 1010693 BC Ltd, reduction of the Credit Union's broker sourced mortgages, exiting the agent deposit business and certain changes to the organizational structure. Costs related to these changes were non-recurring and no additional reorganization costs were experienced in 2016.

22. Related party transactions:

The Credit Union's related parties include key personnel, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key personnel.

	2016	2015
Compensation:		
Salaries and other short-term employee benefits	$ 367,307	$ 1,068,190
Total pension and other post-employment benefits	36,835	137,206
Severance payments	119,875	278,381
	$ 524,017	$ 1,483,777

22. Related party transactions (continued):

	2016	2015
Loans and lines of credit to key personnel:		
Aggregate value of loans advanced	$ 1,557,947	$ 2,776,827
Interest received on loans advanced	26,348	132,637
Total value of lines of credit advanced	38,978	276,433
Interest received on lines of credit advanced	1,804	28,840
Unused value of lines of credit	174,522	1,540,259

The Credit Union's policy for lending to key personnel is that all such loans were granted in accordance with normal lending terms.

	2016	2015
Deposits from key personnel:		
Aggregate value of term and savings deposits	$ 5,073,961	$ 4,785,779
Total interest paid on term and savings deposits	49,627	69,395

The Credit Union's policy for receiving deposits from key personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

23. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discontinued cash flow techniques based on the interest rates being offered for similar types of assets and liabilities with similar term and risks as at the statement of financial position date. The fair values of financial assets and liabilities with floating interest rates are assumed to equal their book values, as the interest rates on these instruments automatically re-price to market rates. Fair values of receivables and payables are assumed to approximate their carrying values, primarily due to their short-term nature.

Fair values have not been determined for other assets or liabilities that are not a financial instruments. Due to the judgment used in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions as at the date of the reporting period and may not be reflective of future fair value.

23. Financial instrument classification and fair value (continued):

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only Level 1 of three levels. The Credit Union does not have any Level 1 measurements. There were no transfers into or out of the three levels during the year.

2016	Level 2	Level 3	Total
Financial investments available-for-sale:			
Central 1 shares	$ -	$ 3,660,244	$ 3,660,244
Other equity investments	-	397,323	397,323
Financial assets at amortized cost:			
Cash and cash equivalents	28,663,005	-	28,663,005
Investments held-to-maturity	89,173,842	-	89,173,842
Other debt securities	407,789	-	407,789
Loans	573,111,962	-	573,111,962
Financial liabilities at amortized cost:			
Deposits	626,201,470	-	626,201,470
Borrowings	43,232,482	-	43,232,482

23. Financial instrument classification and fair value (continued):

2015	Level 2	Level 3	Total
Financial assets held-for-trading:			
Derivative financial instruments:			
Interest rates swaps	$ 136,271	$ -	$ 136,271
Financial investments available-for-sale:			
Central 1 shares	-	3,757,535	3,757,535
Other equity investments	-	408,217	408,217
Financial assets at amortized cost:			
Cash and cash equivalents	69,741,850	-	69,741,850
Investments held-to-maturity	126,364,113	-	126,364,113
Other debt securities	305,917	-	305,917
Loans	677,706,965	-	677,706,965
Financial liabilities at amortized cost:			
Deposits	787,898,616	-	787,898,616
Borrowings	65,291,730	-	65,291,730

The calculation of estimated fair values is based on market conditions at the reporting date and may not be reflective of future fair values. Changes in interest rates are the main cause of changes in the fair value of the Credit Union’s financial instruments.

	Book value	Estimated fair value	2016 Fair value over (under) book value	2015 Fair value over (under) book value
Assets				
Cash resources	$ 28,663	$ 28,663	$ -	$ -
Investments	93,639	94,024	385	947
Loans	573,112	580,837	7,725	8,942
Derivatives	-	-	-	-
Other assets	3,147	3,147	-	-
	698,561	706,671	8,110	9,889
Liabilities				
Deposits	626,201	629,365	(3,164)	(3,628)
Secured and other borrowings	43,232	43,232	-	-
Payables and accruals	5,811	5,811	-	-
	675,244	678,408	(3,164)	(3,628)
Fair value difference			$ 4,946	$ 6,261

23. Financial instrument classification and fair value (continued):

For the assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the table above, the fair value measurements are determined using Level 2 inputs, with the exception of cash resources, for which fair value measurements are determined using Level 1 inputs.

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

(a) Credit risk:

Credit risk is the risk of financial loss resulting from the failure of a member or counter party to meet its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy annually.

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:

(*i*) General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;

(*ii*) Loan lending limits including board of director limits, schedule of assigned limits and exemptions from aggregate indebtedness;

(*iii*) Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;

(*iv*) Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations; and

24. Financial instrument risk management general objectives, policies and processes (continued):

(a) Credit risk (continued):

(v) Loan delinquency controls regarding procedures followed for loans in arrears.

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 delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

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

(i) Maximum exposure to credit risk:

The following table presents the maximum exposure to credit risk of financial instruments, before taking into account any collateral held or other credit enhancements. For financial assets recognized on the statement of financial position, the exposure to credit risk equals their carrying amount. For loan commitments and other credit-related commitments, that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	2016	2015
On balance sheet exposure:		
Loans	$ 575,262,500	$ 679,642,327
Cash, Term deposits, short term investments, and accrued interest	117,030,368	196,105,963
Central 1 and other shares	3,660,244	3,757,535
Derivative financial investments	-	136,271
	$ 695,953,112	$ 879,642,096
Off balance sheet exposure:		
Loan commitments	$ 50,549,798	$ 46,251,958
Letters of credit	826,880	891,380
	$ 51,376,678	$ 47,143,338

(ii) Concentration of credit risk:

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

24. Financial instrument risk management general objectives, policies and processes (continued):

(a) Credit risk (continued):

(*iii*) Collateral and other credit enhancements:

The Credit Union's lending policy requires the assessment of the member's capacity to repay, rather than relying excessively on the underlying collateral security. Nevertheless, collateral can be an important mitigating factor of credit risk. Depending on the Member's standing and the type of product, facility may be unsecured.

The collateral and other credit enhancements held by the Credit Union as security for loans include:

- Insurance;
- Mortgages over residential lots and properties;
- Recourse to the commercial real estate properties being financed;
- Recourse to business assets such as real estate, equipment, inventory and accounts receivable; and
- Recourse to liquid assets, guarantees and securities.

(b) Liquidity risk:

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

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

The Credit Union is required to maintain a prudent amount of liquid assets in order to meet member withdrawals. There is a regulatory limit of 8.0% and the Credit Union has set a minimum internal liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

(*i*) Continuously monitoring actual daily cash flows and longer term forecasted cash flows;

(*ii*) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;

(*iii*) Monitoring the maturity profiles of financial assets and liabilities; and

(*iv*) Monitoring the liquidity ratios monthly.

24. Financial instrument risk management general objectives, policies and processes (continued):

(b) Liquidity risk (continued):

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 regulatory requirements throughout the fiscal year.

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

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

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other price risk. The Credit Union is not significantly exposed to other price risk.

Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to interest rate risk on its loans and other interest bearing financial instruments.

The sensitivity of the Credit Union’s financial position to movements in interest rates results from differences in the maturities or re-pricing dates of interest rate sensitive assets and liabilities, including the notional amount of interest rate swaps. Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates or due on demand are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

24. Financial instrument risk management general objectives, policies and processes (continued):

(c) Market risk (continued):

Interest rate risk (continued):

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

		Interest sensitive balances				
	Effective rate	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
			(in thousand dollars)			
Assets						
Cash resources	0.66%	$ 26,100	$ -	$ -	$ 2,563	$ 28,663
Loans	3.69%	125,348	105,903	344,012	(2,151)	573,112
Other	1.14%	10,000	31,673	47,018	21,907	110,598
		$ 161,448	$ 137,576	$ 391,030	$ 22,319	$ 712,373
Liabilities and Member's Equity						
Deposits and shares	1.29%	$ 191,393	$ 127,623	$ 164,998	$ 142,187	$ 626,201
Other	1.54%	2,176	6,060	35,074	42,862	86,172
		$ 193,569	$ 133,683	$ 200,072	$ 185,049	$ 712,373

	Interest sensitive balances				
	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
		(in thousand dollars)			
Balance sheet mismatch	$ (32,117)	$ 3,891	$ 190,957	$ (162,731)	$ -
Derivatives	-	-	-	-	
	$ (32,117)	$ 3,891	$ 190,957	$ (162,731)	$ -
Interest sensitivity position December 31, 2015	$ 20,102	$ (14,598)	$ 153,368	$ (158,872)	$ -
Interest sensitivity position December 31, 2016	(32,117)	3,891	190,957	(162,731)	-

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union can use 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.

24. Financial instrument risk management general objectives, policies and processes (continued):

(c) Market risk (continued):

Interest rate risk (continued):

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net income of $322,000 while a decrease in interest rates of 1% could result in an increase to net income of $106,000.

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.

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 deposits and cash and cash equivalents.

As at December 31, 2016, the Credit Union has $3,171,935 (2015 - $3,250,882) of United States dollars included in cash, cash equivalents and investments, and deposits of $3,141,565 (2015 - $3,250,773).

25. Capital management:

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union included retained earnings and contributed surplus totaling $37 million (2015 - $35 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. The Credit Union has set an internal limit of 15%.

The Credit Union’s current capital base is equal to approximately 17.6% (2015 - 15%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Contingency Policy that are reviewed by management and the Board of Directors.

25. Capital management (continued):

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

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk-weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk-weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

26. Commitments and contingencies:

(a) Credit facilities:

The Credit Union has authorized lines of credit with Central 1 totaling $13,779,401; however, $829,401 is held as security for secured letters of credit. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

(b) Member loans:

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2016	2015
Unadvanced loans	$ 17,542,658	$ 13,173,979
Unused lines of credit	33,007,140	33,077,979
Letter of credit	826,880	891,380

26. Commitments and contingencies (continued):

(c) Contractual obligations:

The Credit Union leases land and building for several offices. The commitments for the next five years are as follows:

2017	$ 277,320	$ 301,301
2018	277,320	301,301
2019	277,320	302,453
2020	184,880	189,880
2021	-	-

Included in the above commitments are contractual lease payments for an office leased by the Credit Union, which the Credit Union is no longer using. The Credit Union is committed to the office space for five years after December 31, 2016 and has recognized a provision for this lease.

	2016	2015
Provision, beginning of year	$ 1,272,177	$ -
Provision for onerous lease recognized		1,272,177
Provision for onerous lease sublease recovery	(218,022)	
Lease and sublease net payments	(248,761)	
Provision, end of year	$ 805,394	$ 1,272,177

The amount of the provision has been included in payables and other liabilities.

(d) Servicing agreement:

The Credit Union entered into a ten year banking system and technology servicing agreement with CDSL Canada Ltd. The annual minimum commitment is $800,000 per year and expires in 2025.

(e) Funds under administration:

Funds under administration by the Credit Union are comprised of loans that have been syndicated and are administered in the capacity as an agent. These funds are not included in the statement of financial position and the balance as at year-end is $3,749,984 (2015 - $3,866,665).

27. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.