Consolidated Financial Statements
(Expressed in thousands of dollars)

COASTAL COMMUNITY CREDIT UNION

Year ended December 31, 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the accompanying notes are the responsibility of the management of Coastal Community Credit Union (the Credit Union).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include, where appropriate, estimates based on the best judgment of management.

As part of its responsibilities, the Credit Union maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.

The Board of the Credit Union carries out its responsibilities with regard to the consolidated financial statements mainly through its Audit and Risk Committee (the Committee). The Committee reviews the annual consolidated financial statements and recommends them to the Board for approval. The Committee meets periodically with management, internal auditors and the external auditors. Following these meetings, the Committee meets privately with the auditors to ensure free and open discussion of any subject the Committee or the auditors wish to pursue. The Committee also recommends the engagement or reappointment of the external auditors, reviews the scope of the audit and approves the fees of the external auditors for audit and non-audit services.

These consolidated financial statements, audited by KPMG LLP, have been approved by the Board, on the recommendation of the Audit and Risk Committee.

Adrian Legin
President and Chief Executive Officer

Barbara Coe, CPA, CGA
Chief Financial and Risk Officer

March 16, 2016

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INDEPENDENT AUDITORS' REPORT

To the Members of Coastal Community Credit Union

We have audited the accompanying consolidated financial statements of Coastal Community Credit Union, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of comprehensive income, 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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Coastal Community Credit Union as at December 31, 2015, 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

March 16, 2016
Vancouver, Canada

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Assets			
Cash and cash equivalents		$ 36,902	$ 11,821
Investments	6	146,685	139,482
Loans to members	7	1,717,869	1,640,955
Premises and equipment	9	17,116	17,010
Intangible assets	9	11,606	13,409
Income taxes receivable		103	193
Deferred income tax asset	15	174	-
Other assets	10	6,736	6,395
		$ 1,937,191	$ 1,829,265
Liabilities and Members' Equity			
Member deposits	11	$ 1,804,990	$ 1,691,623
Borrowings	12	-	13,010
Derivative financial instruments	13	3,333	702
Other liabilities	14	13,540	12,679
Deferred income tax liability	15	-	547
Members' shares	17	4,669	4,930
		1,826,532	1,723,491
Members' equity:			
Retained earnings		113,121	106,165
Accumulated other comprehensive loss		(2,462)	(391)
		110,659	105,774
Commitments	23		
		$ 1,937,191	$ 1,829,265

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

Approved on behalf of the Board:

Susanne Jakobsen
Chair, Board of Directors

Lynne Fraser
Chair, Audit and Risk Committee

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Interest income:			
Interest on loans to members		$ 62,171	$ 64,031
Other interest income		1,788	1,860
		63,959	65,891
Interest expense:			
Interest on member deposits		16,527	18,219
Other interest expense		1,535	1,509
		18,062	19,728
Net interest income		45,897	46,163
Loan impairment expense	8	1,461	2,426
Other income	18	29,351	29,055
		73,787	72,792
Operating expenses:			
Chequing, electronic and other services		3,963	3,910
Data processing		3,850	3,646
Depreciation and amortization		4,247	4,090
Employee salaries and benefits		38,721	38,714
Occupancy		4,545	4,274
Other operating and administrative		10,036	9,851
		65,362	64,485
Income before income taxes		8,425	8,307
Provision for (recovery of) income taxes	15		
Current income tax		2,190	1,657
Deferred income tax		(721)	(675)
		1,469	982
Net income for the year		6,956	7,325
Other comprehensive income (loss), net of tax:			
Items that were or may be reclassified to net income:			
Change in unrealized losses on available for sale investments		(4)	(15)
Change in unrealized losses on cash flow hedges		(2,080)	(275)
Reclassification of unrealized losses on cash flow hedges		13	19
		(2,071)	(271)
Total comprehensive income		$ 4,885	$ 7,054

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

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Available for sale investments	Cash flow hedges	Total accumulated other comprehensive loss	Retained earnings	Total
Balance, December 31, 2013	$ 19	$ (139)	$ (120)	$ 98,840	$ 98,720
Net income	-	-	-	7,325	7,325
Other comprehensive loss	(15)	(256)	(271)	-	(271)
Balance, December 31, 2014	4	(395)	(391)	106,165	105,774
Net income	-	-	-	6,956	6,956
Other comprehensive loss	(4)	(2,067)	(2,071)	-	(2,071)
Balance, December 31, 2015	$ -	$ (2,462)	$ (2,462)	$ 113,121	$ 110,659

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

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Receipts:		
Interest on loans to members	$ 62,729	$ 63,853
Fees and commissions	28,897	27,266
Other interest income	1,918	1,832
Dividends	490	315
Other non-interest income	461	(50)
	94,495	93,216
Disbursements:		
Interest expense paid	(18,450)	(19,630)
Distributions to members	(61)	(70)
Operating expenses	(60,847)	(60,909)
Income taxes	(1,541)	(2,112)
	(80,899)	(82,721)
Net increase in loans to members	(78,933)	(54,781)
Net increase in member deposits	113,745	52,747
Cash provided by operating activities	48,408	8,461
Investing activities:		
Net increase in investments	(7,516)	(6,251)
Net increase in premises and equipment	(2,304)	(1,398)
Net increase in intangible assets	(246)	(119)
Cash used in investing activities	(10,066)	(7,768)
Financing activities:		
Net decrease in members' shares	(261)	(318)
Net decrease in borrowings	(13,000)	(2,153)
Cash used in financing activities	(13,261)	(2,471)
Increase (decrease) in cash and cash equivalents	25,081	(1,778)
Cash and cash equivalents, beginning of year	11,821	13,599
Cash and cash equivalents, end of year	$ 36,902	$ 11,821

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

1. Reporting entity:

Coastal Community Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporation Act (British Columbia). The operation of the Credit Union is subject to the Financial Institutions Act (British Columbia). The Credit Union is located in Canada and its registered office is 59 Wharf Street, Nanaimo, British Columbia. The Credit Union predominately serves members on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 16, 2016.

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 (AFS) 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. Financial information is presented in thousands of dollars.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical 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 5.

3. Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its wholly owned subsidiaries after the elimination of inter-company transactions and balances. The Credit Union is a financial institution comprising the following wholly owned subsidiaries: Coastal Community Insurance Services (2007) Ltd. (CCIS) and its subsidiary Van Isle Insurance Services Ltd.; and Coastal Community Financial Management Inc. (CCFMI). The consolidated results of the Credit Union include the following integrated business lines:

- CCCU: Full service retail and commercial lending and deposit products;
- CCIS: Full service general insurance including home, business, auto, RV and travel insurance; and
- CCFMI: Financial planning advice, products and services, and life insurance.

4. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand and cash held with Central 1 Credit Union (Central 1). Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

(b) Investments:

(*i*) Central 1 deposits:

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

(*ii*) Equity instruments:

These instruments are classified as AFS and 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.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income (OCI).

4. Significant accounting policies (continued):

(b) Investments (continued):

(*ii*) Equity instruments (continued):

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

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

(*iii*) Other investments:

Other investments classified as AFS are measured at fair value as at the consolidated statement of financial position date. Purchased mortgage package investments are classified as loans and receivables and are calculated using the effective interest rate method.

Realized gains and losses on investments are recorded in the consolidated statement of income. Changes in the fair values of AFS investments are recorded in other comprehensive income. Loans and receivables and held-to-maturity investments are measured and recorded at amortized cost.

(c) Loans to members:

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

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

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

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

4. Significant accounting policies (continued):

(c) Loans to members (continued):

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

For loans, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

The calculation of the present value of the estimated future cash flows of a loan reflects the cash flows that may result from repossession or foreclosure, less costs for obtaining and selling the collateral, whether or not repossession or foreclosure is probable.

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.

For the purposes of a collective evaluation of impairment, loans are analyzed in five asset groups – personal loans, personal lines of credit, residential mortgages, commercial loans and commercial lines of credit. The expected future cash outflows for each asset group with similar credit risk characteristics are estimated based on historical default and loss experience.

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

For impaired loans, the carrying amount of the assets is reduced through the use of an allowance account and the amount of the estimated loss is recognized in net income. When such an asset is uncollectible, it is written off against the related allowance.

The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical default and loss experience.

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

4. Significant accounting policies (continued):

(c) Loans to members (continued):

(*i*) Loan fees:

Loan origination fees, including renewal and renegotiation fees, are considered to be adjustments to loan yield and are deferred and amortized to loan interest income over the term of the loans using the effective interest method. Commitment fees are recorded over the expected term of the loan, unless the loan commitment will not be used. Loan discharge and administration fees are recorded directly to fee and commission income when the loan transaction is complete. Loan syndication fees are included in fee and commission income when the syndication is completed and the Credit Union has retained no part of the syndication for itself or if part has been retained, it bears the same effective interest as other participants.

(*ii*) Loans written off:

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 debt is unlikely. Loans are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

(d) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Land is carried at cost less any accumulated impairment losses. Depreciation is recognized in net income and is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful Lives
Buildings	25 years
Leasehold improvements	Lesser of 10 years and term of lease
Furniture and equipment	5 to 10 years
Computer equipment	2 years

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

4. Significant accounting policies (continued):

(e) Intangible assets:

Intangible assets include computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over the estimated useful lives as follows:

Asset	Useful Lives
Banking system	10 years
Computer software	2 years

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

Goodwill is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, excluding identifiable intangible assets which are recognized separately. Goodwill is not amortized, but is subject to a fair value impairment test at least annually. Other intangible assets, such as ICBC licenses and customer lists, are amortized using a straight-line basis over their useful lives, not exceeding ten years. The amortization of intangible assets is recorded in operating expenses.

(f) Derecognition of financial assets and liabilities:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

(g) 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.

Impairment charges are included in net income.

(h) Income taxes:

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

4. Significant accounting policies (continued):

(h) Income taxes (continued):

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

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

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

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

(i) Member deposits:

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are classified as other financial liabilities. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

(j) Derivative financial instruments and hedging:

The Credit Union, in accordance with its risk management strategies, enters into derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets when they have a positive fair value, and as liabilities when they have a negative fair value, in both cases shown on the consolidated statement of financial position.

4. Significant accounting policies (continued):

(j) Derivative financial instruments and hedging (continued):

Hedge accounting is applied to financial assets and financial liabilities only when all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecasted transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of variable rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in net income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net income.

If the Credit Union closes out its hedge position early, the cumulative unrealized gain or loss recognized in other comprehensive income is reclassified to net income using the effective interest method.

(k) Pension plans:

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting, as assets and liabilities are pooled and not tracked separately by employer group. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense on an accrual basis. The Credit Union also participates in a defined contribution plan as described in note 16.

4. Significant accounting policies (continued):

(l) Accounts payable and other payables:

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(m) Provisions:

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured as the best estimate of the expenditure required to settle the obligation at the reporting date.

(n) Members' shares:

Members’ shares are classified as liabilities according to their terms. Members’ shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

(o) Revenue recognition:

Interest income and expense for interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of comprehensive income using the effective interest method. The effective interest method calculates the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Revenue from commissions and 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.

Other interest revenue is recorded using the effective interest rate method. Dividends on equity instruments are recognized when the Credit Union’s right to receive payment is established.

4. Significant accounting policies (continued):

(p) Leased assets:

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

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

(q) Foreign currency translation:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

(r) Standards, amendments and interpretations not yet effective:

The following new standards, amendments and interpretations, which have not been applied in these consolidated financial statements, that will or may have an effect on the Credit Union's future financial statements, are:

IFRS 9 – Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9 which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ('IAS 39').

The main changes associated with the replacement of IAS 39 with IFRS 9 are summarized below.

IAS 39 was rule-based and contained many different classification categories and associated impairment models. IFRS 9 is principle-based and built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 also includes a new hedge accounting model that links the economics of risk management with its accounting treatment.

4. Significant accounting policies (continued):

(r) Standards, amendments and interpretations not yet effective (continued):

IFRS 9 – Financial Instruments (continued):

Under IFRS 9, all financial assets that are currently in the scope of IAS 39 will be classified as one of the following:

- amortized cost;
- fair value through profit or loss; or
- fair value through other comprehensive income.

The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. As such, fair value through profit or loss represents a ‘residual’ category and financial assets that are held for trading and those managed on a fair value basis are also included in this category.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model for calculating impairment on financial assets. A loss event will no longer need to occur before an impairment allowance is recognized. This will accelerate the recognition of impairment losses.

IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018 and it is expected that IFRS 9 will have a significant impact on Credit Union’s consolidated financial statements. However, the Credit Union is not able to determine such impact at this time.

IFRS 15 – Revenue from Contracts with Customers:

IFRS 15 introduces a new revenue recognition model for contracts with customers. It contains a single model that applies to contracts with customers and two approaches to recognizing revenue. Revenue may either be recognized over time, in a manner that best reflects the entity’s performance, or at a point in time, when control of the good or services is transferred to the customer.

4. Significant accounting policies (continued):

(r) Standards, amendments and interpretations not yet effective (continued):

The standard guidance applies to contracts that include variable elements such as performance bonuses, penalties or structuring fees. It also provides guidance on the capitalization of costs distinguishing between costs associated with obtaining a contract and the costs associated with fulfilling a contract. The standard requires revenue from a contract be allocated to each distinct good or service provided in terms of the contract.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss. Management is still assessing the impact, if any, that standard will have on the financial results of the Credit Union.

IFRS 16: *Leases*:

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. The Credit Union has not yet reviewed the impact of IFRS 16 as at the date of publication of these consolidated financial statements.

5. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(a) Judgments:

(*i*) Provision for impaired loans:

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

(b) Estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(Expressed in thousands of dollars, unless otherwise indicated)

5. Critical accounting estimates and judgments (continued):

(b) Estimates (continued):

(*i*) Provision for impaired loans:

In determining the collective loan loss provision, management uses estimates based on historical default and loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the collective provision for impaired loans are provided in notes 7 and 8.

(*ii*) Fair value of financial instruments:

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

The methods and assumptions applied, and the valuation techniques used, in determining the fair value of financial instruments are disclosed in notes 6, 13 and 20.

6. Investments:

	2015	2014
Term deposits with Central 1	$ 135,633	$ 128,039
Equity instruments, classified as AFS:		
Central 1 shares	6,971	6,428
Other	919	919
Other investments:		
Mortgage package, classified as loans and receivables	140	149
Subordinated debenture, classified as HTM	2,000	2,000
Other, classified as AFS	-	613
Accrued interest and dividends	1,022	1,334
	$ 146,685	$ 139,482

Credit Unions in British Columbia must maintain liquid investments with Central 1 at a minimum of 8% of their deposit and debt liabilities less cash on hand. At maturity, deposits with Central 1 are reinvested at market rates for various terms. See note 21 for the average yield on the accounts.

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 Central 1 Board of Directors. In addition, the member credit unions are subject to additional capital calls at the discretion of the Central 1 Board of Directors.

(Expressed in thousands of dollars, unless otherwise indicated)

6. Investments (continued):

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

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 Central 1 Board of Directors.

Other equity instruments are recorded at cost. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The subordinated debenture with Concentra Financial is a ten-year fixed rate commitment maturing on November 15, 2022.

7. Loans to members:

	2015	2014
Residential mortgages	$ 1,227,883	$ 1,123,793
Personal loans	123,113	135,634
Commercial loans	366,718	381,228
	1,717,714	1,640,655
Accrued interest receivable	3,416	3,974
Provision for impaired loans (note 8)	(3,261)	(3,674)
Loans to members	$ 1,717,869	$ 1,640,955

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maximum term of ten years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the member's credit worthiness.

The interest rate offered on fixed rate loans varies with the type of security offered and the member’s credit worthiness.

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

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(a) Terms and conditions (continued):

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

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

(b) Average yields to maturity:

See note 21 for the average yields on loans to members.

(c) Credit quality of loans:

A breakdown of the carrying value and estimated fair value of security held on a portfolio basis is as follows:

2015	Carrying value	Security held
Unsecured loans	$ 43,667	$ -
Loans secured by cash, deposits, government	6,459	6,459
Mortgages insured by government	484,781	484,781
Loans secured by real estate and other	1,182,807	2,209,242
	$ 1,717,714	$ 2,700,482

2014	Carrying value	Security held
Unsecured loans	$ 44,905	$ -
Loans secured by cash, deposits, government	6,544	6,544
Mortgages insured by government	423,045	423,045
Loans secured by real estate and other	1,166,161	2,013,832
	$ 1,640,655	$ 2,443,421

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(d) Fair value:

See note 20 for the fair value of loans to members.

The estimated fair value of variable rate loans approximates 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. Level 2 inputs are used to measure the fair value.

(e) Concentration of risk:

There are no individual members or related groups of members with loans exceeding 10% of members' equity.

The majority of member loans are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

8. Provision for impaired loans:

The total provision for impaired loans is comprised of:

	2015	2014
Collective provision	$ 2,758	$ 1,464
Individual specific provision	503	2,210
	$ 3,261	$ 3,674

Movement in individual specific provision and collective provision for impairment:

	Residential mortgages	Personal	Commercial	Total
Balance, December 31, 2014	$ 358	$ 633	$ 2,683	$ 3,674
Recoveries of loans previously written off	-	(164)	(2)	(166)
Provision charged (recoveries) to net income	697	935	(5)	1,627
Loans written off	(303)	(497)	(1,074)	(1,874)
Balance, December 31, 2015	$ 752	$ 907	$ 1,602	$ 3,261

(Expressed in thousands of dollars, unless otherwise indicated)

8. Provision for impaired loans (continued):

	Residential mortgages	Personal	Commercial	Total
Balance, December 31, 2013	$ 256	$ 1,345	$ 585	$ 2,186
Recoveries of loans previously written off	-	(154)	-	(154)
Provision charged to net income	364	43	2,173	2,580
Loans written off	(262)	(601)	(75)	(938)
Balance, December 31, 2014	$ 358	$ 633	$ 2,683	$ 3,674

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

	2015		2014	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency:				
Less than 30 days	$ 407	$ 407	$ 2,465	$ 1,640
30 to 90 days	16	16	48	37
Over 90 days	135	80	1,323	533
Total loans in arrears	558	503	3,836	2,210
Total loans not in arrears	1,717,156	-	1,636,819	-
	$ 1,717,714	$ 503	$ 1,640,655	$ 2,210

(a) Key assumptions in determining the collective provision 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 loan type, risk rating, geographical location, type of loan security, the length of time the loans are past due and 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 by the Credit Union to reduce any differences between loss estimates and actual loss experience.

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

(Expressed in thousands of dollars, unless otherwise indicated)

8. Provision for impaired loans (continued):

(a) Key assumptions in determining the collective provision for impaired loans: (continued):

Analysis of loans with repayments past due but not regarded as individually impaired:

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 4,664	$ 826	$ 24	$ 5,514
Over 90 days	4,753	157	18	4,928
Balance, December 31, 2015	$ 9,417	$ 983	$ 42	$ 10,442

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 4,521	$ 245	$ 770	$ 5,536
Over 90 days	3,948	235	2,478	6,661
Balance, December 31, 2014	$ 8,469	$ 480	$ 3,248	$ 12,197

(Expressed in thousands of dollars, unless otherwise indicated)

9. Premises, equipment and intangible assets:

	Premises and equipment						Intangible assets
Cost:	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2013	$ 3,219	$ 12,312	$ 10,214	$ 8,259	$ 17,853	$ 51,857	$ 29,808
Additions	62	488	394	562	530	2,036	108
Transfers	(225)	(713)	52	(40)	(137)	(1,063)	11
Disposals	-	-	(8)	(36)	(108)	(152)	-
Balance, December 31, 2014	3,056	12,087	10,652	8,745	18,138	52,678	29,927
Additions	-	-	1,000	331	1,096	2,427	134
Transfers	-	(133)	123	(395)	285	(120)	112
Disposals	-	-	(61)	(4)	(98)	(163)	-
Balance, December 31, 2015	$ 3,056	$ 11,954	$ 11,714	$ 8,677	$ 19,421	$ 54,822	$ 30,173

	Premises and equipment						Intangible assets
Accumulated depreciation and amortization:	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2013	$ -	$ 5,592	$ 6,438	$ 7,693	$ 14,446	$ 34,169	$ 14,485
Amortization	-	312	533	315	897	2,057	2,033
Transfers	-	(198)	-	(26)	(188)	(412)	-
Disposals	-	-	(7)	(36)	(103)	(146)	-
Balance, December 31, 2014	-	5,706	6,964	7,946	15,052	35,668	16,518
Amortization	-	309	580	356	953	2,198	2,049
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(61)	(4)	(95)	(160)	-
Balance, December 31, 2015	$ -	$ 6,015	$ 7,483	$ 8,298	$ 15,910	$ 37,706	$ 18,567
Net book value:							
Balance, December 31, 2015	$ 3,056	$ 5,939	$ 4,231	$ 379	$ 3511	$ 17,116	$ 11,606
Balance, December 31, 2014	3,056	6,381	3,688	799	3,086	17,010	13,409

(Expressed in thousands of dollars, unless otherwise indicated)

10. Other assets:

	2015	2014
Accounts receivable	$ 2,783	$ 2,812
Prepaid expenses	1,821	1,745
Deferred broker fee expense	1,685	1,200
Other	447	638
	$ 6,736	$ 6,395

11. Member deposits:

	2015	2014
Demand	$ 1,097,602	$ 1,037,590
Term	454,867	397,422
Registered plans	245,288	248,992
Other	28	36
	1,797,785	1,684,040
Accrued interest payable	7,205	7,583
	$ 1,804,990	$ 1,691,623

(a) Terms and conditions:

Demand deposits are due on demand. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed or variable rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity.

Registered plans can be fixed or variable rate with terms and conditions similar to those 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.

(b) Average yields to maturity:

See note 21 for the average yields on member deposits.

11. Member deposits (continued):

(c) Fair value:

See note 20 for the fair value of member deposits.

The estimated fair value of demand deposits and variable rate deposits approximates book value, as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and options. Level 2 inputs are used to measure the fair value.

(d) Concentration of risk:

There are no member deposits held by an individual or a related group of members which exceed 2% of member deposits. The majority of member deposits are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

12. Borrowings:

The Credit Union maintains operating lines of credit with Central 1 and Caisse centrale Desjardins (CCD).

The Credit Union's Board of Directors has approved an overall borrowing limit of $177,700 with Central 1 (2014 - $177,700). As of December 31, 2015, $99,000 (2014 - $55,500) of this limit was authorized which includes a $100 US dollar line of credit (2014 - $100). The authorized credit facility is secured by a registered Commercial Security Agreement.

The CCD facility is authorized to a maximum of $50,000 (2014 - $50,000) and is secured by a first charge against specific insured residential mortgages to a maximum of 110% of the outstanding balance.

At December 31, 2015, nil of these credit facilities were drawn (2014 - $13,010).

(Expressed in thousands of dollars, unless otherwise indicated)

13. Derivative financial instruments:

	2015			2014		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk:						
Pay fixed/receive floating interest rate swaps	$ 13	$ 2,995	$ 190,000	$ 82	$ 585	$ 195,000
	$ 13	$ 2,995	$ 190,000	$ 82	$ 585	$ 195,000
Accrued interest	$ -	$ 351	$ -	$ 1	$ 200	$ -
Total fair value before adjustments	$ 13	$ 3,346	$ 190,000	$ 83	$ 785	$ 195,000
Adjustment for master netting agreements	$ (13)	$ (13)	$ -	$ (83)	$ (83)	$ -
	$ -	$ 3,333	$ 190,000	$ -	$ 702	$ 195,000

(Expressed in thousands of dollars, unless otherwise indicated)

14. Other liabilities:

		2015		2014
Accounts payable and accruals	$	11,782	$	11,432
Deferred fee income		666		572
Other		1,092		675
	$	13,540	$	12,679

15. Income taxes:

The significant components of tax expense included in net income are comprised of:

		2015		2014
Current tax expense:				
Based on current year taxable income	$	2,197	$	1,983
Adjustments for under (over) provision in prior periods		(7)		(326)
		2,190		1,657
Deferred tax recovery:				
Origination and reversal of temporary differences		(721)		(675)
	$	1,469	$	982

The significant components of the tax effect of the amounts recognized in other comprehensive income are comprised of:

		2015		2014
Current tax:				
Change in unrealized losses on AFS investments	$	1	$	3
Change in unrealized losses on cash flow hedges		394		48
Reclassification of unrealized losses on cash flow hedges		(2)		(3)
	$	393	$	48

(Expressed in thousands of dollars, unless otherwise indicated)

15. Income taxes (continued):

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2014 - 26%) are as follows:

	2015	2014
Income before income taxes	$ 8,424	$ 8,307
Expected taxes based on the statutory rate	2,190	2,160
Reduction due to credit union additional deduction	(802)	(855)
Other non-deductible portion of expenses	-	3
Estimated rate changes in future tax	88	-
Under (over) provision in prior periods	(7)	(326)
	$ 1,469	$ 982

The movement in 2015 deferred tax liabilities and assets are:

2015	Opening balance	Recognized in net income	Closing balance
Deferred tax liabilities:			
Premises, equipment and intangibles	$ 1,284	$ (482)	$ 802
Deferred tax assets:			
Loan provisions	345	237	582
Other	392	2	394
	737	239	976
Net deferred tax (asset) liability	$ 547	$ (721)	$ (174)

(Expressed in thousands of dollars, unless otherwise indicated)

15. Income taxes (continued):

The movement in 2014 deferred tax liabilities and assets are:

2014	Opening balance	Recognized in net income	Closing balance
Deferred tax liabilities:			
Premises, equipment and intangibles	$ 1,694	$ (410)	$ 1,284
Deferred tax assets:			
Loan provisions	156	189	345
Other	316	76	392
	472	265	737
Net deferred tax liability	$ 1,222	$ (675)	$ 547

	2015	2014
Deferred tax liabilities:		
Deferred tax liabilities to be settled within 12 months	$ 202	$ 329
Deferred tax liabilities to be settled after more than 12 months	600	955
	802	1,284
Deferred tax assets:		
Deferred tax assets to be settled within 12 months	653	418
Deferred tax assets to be settled after more than 12 months	323	319
	976	737
Net deferred tax (asset) liability	$ (174)	$ 547

16. Pension plans:

The Credit Union and its employees contribute and participate in two pension plans offered and administered by Central 1.

(a) Group registered retirement savings plan:

Employer contributions for the majority of employees are made to a group retirement savings plan at a percentage of annual salary. Employer contributions made during the year totaled $2,965 (2014 - $2,810). Employees contributed a total of $676 (2014 - $644) during the year.

(b) Defined benefit pension plan:

The defined benefit pension plan is a multi-employer defined benefit plan with several active contributors from various credit unions. The Credit Union requires employees to make contributions, while the Credit Union assumes the remaining costs required to pay the employees' pension. The Plan is 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. The Plan at December 31, 2015 has about 3,100 active employees and approximately 550 retired plan members. Total plan assets are $354 million.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation was performed as at December 31, 2012, indicating a going concern unfunded liability of $32.3 million, and a solvency deficiency of $129.9 million. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer’s own unfunded liability. The deficit is targeted to be financed over time through increased contributions. Employer contributions made during the year totaled $221 (2014 - $236). Employees contributed a total of $96 (2014 - $109) during the year.

The next actuarial valuation is scheduled for December 31, 2015 with results available in mid - 2016.

(Expressed in thousands of dollars, unless otherwise indicated)

17. Members' shares:

		2015
	Authorized units	Outstanding (000's)
Class A membership equity	Unlimited	$ 3,104
Class B investment equity	208	1,565
		$ 4,669

		2014
	Authorized units	Outstanding (000's)
Class A membership equity	Unlimited	$ 3,299
Class B investment equity	220	1,631
		$ 4,930

Members' shares are classified as a liability and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(a) Terms and conditions:

(*i*) Class A Membership equity shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $5 in membership shares, with a maximum of $1,000. These membership shares have voting rights and are redeemable at par only when a membership is withdrawn or terminated. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC). These shares are classified as a liability because they are available for redemption at the option of the member.

(*ii*) Class B Investment equity shares:

Investment shares are voting as a separate class, can be issued only to members of the Credit Union and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are classified as a liability because they are available for redemption at the option of the member.

(Expressed in thousands of dollars, unless otherwise indicated)

17. Members' shares (continued):

(a) Terms and conditions (continued):

(*iii*) Unissued shares:

The Credit Union has authorized, but has not issued or has outstanding, share classes as follows: Class C to Class P Equity shares, Class Q to Class Y Preferred Equity shares and Class Z Non-Equity shares. Each class consists of an unlimited number of shares containing various rights and restrictions as approved at the 2012 annual general meeting of the Credit Union.

(b) Distributions to members:

	2015	2014
	Net income	Net income
Dividends on investment shares	$ 28	$ 36
Dividends on membership shares	35	36
	$ 63	$ 72

18. Other income:

	2015	2014
Building and property income	$ 426	$ 384
Dividends on AFS investments	307	472
Insurance administration fees	967	1,181
Insurance and financial commissions	16,241	16,045
Member account service fees	5,018	5,188
Member loan fees	1,666	1,653
Mortgage payout fees	1,402	802
Other service income	3,096	3,121
Safety deposit box fees	228	209
	$ 29,351	$ 29,055

(Expressed in thousands of dollars, unless otherwise indicated)

19. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and their close family members.

		2015		2014
Compensation:				
Salaries and other short-term employee benefits	$	2,272	$	2,119
Total pension and other post-employment benefits		160		147

		2015		2014
Loans to key management personnel:				
Aggregate value of loans advanced	$	3,883	$	2,803
Aggregate value of unadvanced loans		201		300
Total value of lines of credit advanced		205		221
Unused value of lines of credit		257		238

Loans must satisfy all normal lending criteria as set out in the Credit Union's Investment and Lending Policy and Lending Services Manual. All loans are subject to the same approval process as afforded regular member loans and in addition, the approval of staff and related party loans are to be in accordance with established processes.

		2015		2014
Deposits from key management personnel:				
Aggregate value of deposits	$	3,737	$	4,023

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

20. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the financial reporting 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 other financial assets and liabilities are assumed to approximate their carrying values, primarily due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. Fair values have not been determined for any other assets or liabilities that are not a financial instrument. 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 at the financial reporting date and may not be reflective of future fair value.

Assets and liabilities that are measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

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 or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

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 in its entirety.

(Expressed in thousands of dollars, unless otherwise indicated)

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

The Credit Union does not have any Level 3 fair value measurements. No transfers have been made into or out of Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Financial investments available for sale:				
Equity instruments:				
Central 1 shares	$ -	$ 7,221	$ -	$ 6,862
Other membership shares	-	919	-	919
Other investments:				
Government bonds	-	-	619	-
Other assets	-	447	-	638
Financial assets at amortized cost:				
Cash and cash equivalents	-	36,902	-	11,821
Term deposits with Central 1	-	136,398	-	128,926
Mortgage package	-	140	-	149
Subordinated debenture	-	2,007	-	2,007
Loans to members	-	1,717,869	-	1,640,955
Total assets	$ -	$ 1,901,903	$ 619	$ 1,792,277
Financial liabilities at fair value:				
Interest rate swaps	$ -	$ 3,333	$ -	$ 702
Financial liabilities at amortized cost:				
Member deposits	-	1,804,990	-	1,691,623
Borrowings	-	-	-	13,010
Total liabilities	$ -	$ 1,808,323	$ -	$ 1,705,335

The following table discloses the carrying amount and fair value by classification of the Credit Union's financial instruments, including derivatives. Differences between the carrying value and fair value of the Credit Union's financial instruments are due primarily to changes in interest rates. The Credit Union normally expects to hold the instruments to maturity, so carrying values have not been adjusted to reflect the differences. The table does not include assets and liabilities that do not meet the definition of a financial instrument:

(Expressed in thousands of dollars, unless otherwise indicated)

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

2015	Held to maturity	Available for sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ -	$ -	$ -	$ 36,902	$ -	$ 36,902	$ 36,902	$ -
Investments	2,007	8,140	-	136,538	-	146,685	148,335	1,650
Derivative instruments	-	-	(3,333)	-	-	(3,333)	(3,333)	-
Loans to members	-	-	-	1,717,869	-	1,717,869	1,733,064	15,195
Other assets	-	447	-	2,783	-	3,230	3,230	-
Member deposits	-	-	-	-	(1,804,990)	(1,804,990)	(1,807,668)	(2,678)
Members' shares	-	-	-	-	(4,669)	(4,669)	(4,669)	-
Other liabilities	-	-	-	-	(12,837)	(12,837)	(12,837)	-
Net financial instruments	$ 2,007	$ 8,587	$ (3,333)	$ 1,894,092	$ (1,822,496)	$ 78,857	$ 93,024	$ 14,167

2014	Held to maturity	Available for sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ -	$ -	$ -	$ 11,821	$ -	$ 11,821	$ 11,821	$ -
Investments	2,007	8,400	-	129,075	-	139,482	141,196	1,714
Derivative instruments	-	-	(702)	-	-	(702)	(702)	-
Loans to members	-	-	-	1,640,955	-	1,640,955	1,656,870	15,915
Other assets	-	638	-	2,812	-	3,450	3,450	-
Member deposits	-	-	-	-	(1,691,623)	(1,691,623)	(1,691,829)	(206)
Borrowings	-	-	-	-	(13,010)	(13,010)	(13,011)	(1)
Members' shares	-	-	-	-	(4,930)	(4,930)	(4,930)	-
Other liabilities	-	-	-	-	(11,995)	(11,995)	(11,995)	-
Net financial instruments	$ 2,007	$ 9,038	$ (702)	$ 1,784,663	$ (1,721,558)	$ 73,448	$ 90,870	$ 17,422

21. Financial instrument risk management:

(a) General objectives, policies and processes:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management (ERM) framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. The Board has established the Audit and Risk Committee, comprised of four Directors, to oversee the financial reporting and audit and risk management processes. The Committee receives quarterly risk reporting from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(b) Credit risk:

Credit risk is the risk of a financial loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

(*i*) Risk measurement:

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 the value of collateral available to secure the loan.

(*ii*) Objectives, policies and processes:

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 overall credit risk policies are complied with at the business and transaction level. Credit risk policies establish the minimum requirements for management of credit risk for a variety of transactions and portfolios and include the following:

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

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(b) Credit risk (continued):

(*ii*) Objectives, policies and processes (continued):

Reports summarizing delinquency, write-offs, and provisions are reviewed and approved quarterly by the investment and Lending Committee and submitted to the Board of Directors for approval.

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.

(*iii*) Exposures to credit risk:

	2015	2014
On statement of financial position exposure		
Loans to members	$ 1,721,130	$ 1,644,629
Term deposits with Central 1	136,398	128,926
Central 1 shares	7,221	6,862
	1,864,749	1,780,417
Off statement of financial position exposure		
Undisbursed loans	134,966	117,849
Unutilized lines of credit	166,462	164,234
Letters of credit	3,550	3,443
	304,978	285,526
Maximum exposure to credit risk	$ 2,169,727	$ 2,065,943

(c) Liquidity risk:

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

(*i*) Risk measurement:

The Financial Institutions Act (FIA) requires credit unions to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective Credit Union specific and market conditions and the related behaviour of its members and counterparties.

21. Financial instrument risk management (continued):

(c) Liquidity risk (continued):

(*ii*) Objectives, policies and processes:

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows.
- Monitoring the maturity profiles of financial assets and liabilities.
- Maintaining diversified funding sources which include committed facilities with Central 1 and CCD. See note 12 for the available credit facilities.
- Monitoring the liquidity ratios monthly.

Management annually reviews its liquidity plan for various scenarios.

The Board of Directors receives monthly liquidity reports. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates and currency rates. See notes 21(e) and 21(f) for more details on interest rate risk and currency risk.

(e) Interest rate risk:

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

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

21. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

(*i*) Risk measurement:

Interest rate risk is measured by its impact to earnings (earnings-at-risk or EaR) and its impact to the fair value of equity (economic value of equity or EVE). The EaR metric measures the impact changes in interest rates have on the 12-month financial margin forecast. The EVE metric measures the longer-term impact that interest rates have on the equity of the Credit Union. The amount of interest rate risk that the Credit Union will undertake depends on income and capital positions, and the risk appetite of the Board of Directors.

(*ii*) Objectives, policies and processes:

The objective for managing interest rate risk is to comply with the maximum EaR and EVE limits as established in the Investment and Lending Policy. The Asset Liability Committee (ALCO) reviews monthly simulations of the impact on EaR and EVE for various interest rate scenarios.

The Investment and Lending Policy is reviewed and approved annually by the Investment and Lending Committee. For the year ended December 31, 2015, the Credit Union was in compliance with its interest rate risk policy limits.

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

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

	Variable rate	Less than 1 year	Over 1 to 5 years	Over 5 years	Non-rate sensitive	2015 Total
Assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ 36,902	$ 36,902
Effective interest rate						-
Investments	-	53,746	82,028	2,000	8,911	146,685
Effective interest rate		*1.30%*	*1.12%*	*4.04%*		*1.16%*
Loans to members	482,033	382,237	853,112	333	154	1,717,869
Effective interest rate	*3.77%*	*3.66%*	*3.44%*	*6.15%*		*3.58%*
Other assets	-	-	-	-	35,735	35,735
Effective interest rate						-
	$ 482,033	$ 435,983	$ 935,140	$ 2,333	$ 81,702	$ 1,937,191
	3.77%	3.37%	3.24%	4.34%		3.26%
Liabilities:						
Member deposits	$ 637,808	$ 755,651	$ 404,327	$ -	$ 7,204	$ 1,804,990
Effective interest rate	*.59%*	*.62%*	*1.77%*			*.87%*
Derivative financial instruments	3,333	-	-	-	-	3,333
Effective interest rate						-
Other liabilities	-	-	-	-	18,209	18,209
Effective interest rate						-
Members' equity	-	-	-	-	110,659	110,659
Effective interest rate						-
	$ 641,141	$ 755,651	$ 404,327	$ -	$ 136,072	$ 1,937,191
	.59%	.62%	1.77%			.81%
Interest rate swaps (notional amount):						
Asset	$ -	$ 190,000	$ -	$ -	$ -	$ 190,000
Liability	-	-	(190,000)	-	-	(190,000)
2015 net mismatch	$ (159,108)	$ (129,668)	$ 340,813	$ 2,333	$ (54,370)	$ -
2014 net mismatch	$ (152,368)	$ (234,848)	$ 464,396	$ 4,162	$ (81,342)	$ -

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

The expected timing and amount of interest payments related to the hedged portion of the Credit Union's variable rate deposits are as follows:

December 31, 2015	< 1 year	1 – 5 years	Total
Assets	$ -	$ -	$ -
Liabilities	(1,288)	(2,546)	(3,834)
Net cash outflow	$ (1,288)	$ (2,546)	$ (3,834)

December 31, 2014	< 1 year	1 – 5 years	Total
Assets	$ -	$ -	$ -
Liabilities	(1,103)	(2,468)	(3,571)
Net cash outflow	$ (1,103)	$ (2,468)	$ (3,571)

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

The expected change to net interest income as a result of an immediate change in interest rates is as follows:

	2015	2014
1 per cent increase in rates	$ 1,484	$ 350
1 per cent decrease in rates	(2,310)	(103)

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

(f) Currency risk:

Currency risk is the impact on the Credit Union from the difference in the balances of foreign currency denominated assets and liabilities and from foreign currency transactions with members.

The Credit Union's currency risk is related to USD, GBP and Euro member accounts and transactions.

21. Financial instrument risk management (continued):

(f) Currency risk (continued):

(*i*) Risk measurement:

The Credit Union’s foreign currency asset and liability balances are measured and monitored daily. Foreign exchange rates charged to members and currency purchase costs are monitored daily.

(*ii*) Objectives, policies and processes:

The Credit Union manages currency risk by limiting the unhedged foreign exchange exposures to the limits established in the Investment and Lending Policy. Foreign exchange risk is mitigated by investing the USD, GBP and Euro deposits in investments denominated in the same currencies. As a result, there would be no significant impact to net income if there was an increase or decrease in foreign exchange rates.

Management reviews its foreign exchange plan annually. The Investment and Lending Committee receives quarterly foreign exchange reports. For the year ended December 31, 2015, the Credit Union's exposures to foreign exchange risk were within policy.

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

22. Capital management:

The Credit Union’s objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a three-year period.

Capital requirements are regulated by the Financial Institutions Commission of BC (FICOM). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained.

The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk weighted asset levels. At December 31, 2015, the Credit Union has met its minimum regulatory requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

23. Commitments:

(a) Credit:

The Credit Union made commitments to members for loans that had not been disbursed, unutilized portions of lines of credit and unexpired letters of credit as follows:

	2015	2014
Undisbursed loans	$ 134,966	$ 117,849
Unutilized lines of credit	166,462	164,234
Letters of credit	3,550	3,443

(b) Contractual:

The Credit Union has a banking system agreement that is effective through September 2016. The Credit Union is committed to annual maintenance costs of approximately $1,124 to 2016.

(c) Leases:

The Credit Union has committed to lease premises until 2025. The minimum lease payments, including estimated operating costs incorporated into lease agreements, in each of the next five years and thereafter are:

2016	$ 2,234
2017	2,060
2018	1,629
2019	862
2020	401
2021 and thereafter	905

(d) Other provisions:

The Credit Union is subject to litigation. Provisions are recorded for management's best estimate of the Credit Union's liability related to legal disputes for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether claims will be settled in or out of court or if the Credit Union will be successful in defending any actions.

For commentary on our 2015 corporate performance, please see Coastal Community's 2015 Annual Report – available in print and also available online at cccu.ca.

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