COASTAL COMMUNITY
CREDIT UNION

Consolidated Financial Statements of

COASTAL COMMUNITY CREDIT UNION

Year ended **December 31, 2013**

For commentary on our 2013 corporate performance, please see Coastal Community's 2013 Annual Report – available in print and also available online at cccu.ca.

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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 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 financial statements mainly through its Audit and Risk Committee (the Committee). The Committee reviews the annual 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 re-appointment 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 financial statements, audited by BDO Canada 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

To the Members of
Coastal Community Credit Union

We have audited the consolidated financial statements of Coastal Community Credit Union (the Credit Union), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then-ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Coastal Community Credit Union as at December 31, 2013 and the results of its operations and its cash flows for the year then-ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants

Nanaimo, British Columbia
March 19, 2014

COASTAL COMMUNITY CREDIT UNION
Consolidated Statement of Financial Position
December 31, 2013

	2013 ($'000)	2012 ($'000)
Assets		
Cash and cash equivalents (Note 3)	$ 13,599	$ 14,843
Investments (Note 4)	133,047	128,950
Loans to members (Note 5 and 6)	1,588,422	1,518,911
Premises and equipment (Note 7)	17,688	14,929
Intangible assets (Note 7)	15,323	17,228
Other assets (Note 8)	4,617	4,897
	$ 1,772,696	$ 1,699,758
Liabilities		
Member deposits (Note 9)	$ 1,638,788	$ 1,587,636
Borrowings (Note 10)	15,153	-
Income taxes payable	355	393
Derivative financial instruments (Note 11)	339	1,060
Other liabilities (Note 12)	12,871	13,560
Deferred income tax liability (Note 13)	1,222	1,627
Members' shares (Note 15)	4,165	4,366
	1,672,893	1,608,642
Members' equity		
Members' shares (Note 15)	1,083	1,209
Retained earnings	98,840	90,672
Accumulated other comprehensive loss	(120)	(765)
	99,803	91,116
	$ 1,772,696	$ 1,699,758

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

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
For the year ended **December 31, 2013**

		2013 ($'000)		2012 ($'000)
Interest revenue				
Interest on member loans	**$**	**62,732**	$	64,736
Other interest revenue		**2,003**		2,030
		64,735		66,766
Interest expense				
Interest on member deposits		**18,849**		20,469
Other interest expense		**966**		895
		19,815		21,364
Net interest income		**44,920**		45,402
Loan impairment expense (Note 6)		**1,378**		1,483
Other income (Note 16)		**28,492**		28,674
		72,034		72,593
Operating expenses				
Chequing, electronic and other services		**3,958**		4,004
Data processing		**3,447**		3,468
Depreciation and amortization		**4,037**		4,279
Employee salaries and benefits		**38,482**		38,337
Occupancy		**4,425**		4,547
Other operating and administrative		**9,953**		9,803
		64,302		64,438
Gain on dispositions		**2,095**		32
Income before income taxes		**9,827**		8,187
Provision (recovery) for income taxes (Note 13)				
Current income tax		**2,052**		1,592
Deferred income tax		**(405)**		(363)
		1,647		1,229
Net income for the year		**8,180**		6,958
Other comprehensive income (loss), net of tax				
Change in unrealized losses on available for sale investments		**(12)**		(22)
Change in unrealized gains on cash flow hedges		**664**		1,289
Reclassification of unrealized losses on cash flow hedges		**(7)**		(13)
		645		1,254
Total comprehensive income	**$**	**8,825**	$	8,212

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

COASTAL COMMUNITY CREDIT UNION
Consolidated Statement of Changes in Members' Equity
For the year ended **December 31, 2013**

	Available for Sale Investments	Cash Flow Hedges	Total Accumulated Other Comprehensive Income	Members' Shares	Retained Earnings	**Total** ($'000)
Balance at December 31, 2011	$ 53	$ (2,072)	$ (2,019)	$ 1,399	$ 83,728	$ 83,108
Net income	-	-	-	-	6,958	6,958
Distributions to members (Note 15)	-	-	-	-	(14)	(14)
Issue (redemption) of members' shares, net	-	-	-	(190)	-	(190)
Other comprehensive income (loss)	(22)	1,276	1,254	-	-	1,254
Balance at December 31, 2012	$ 31	$ (796)	$ (765)	$ 1,209	$ 90,672	$ 91,116
Net income	-	-	-	-	8,180	**8,180**
Distributions to members (Note 15)	-	-	-	-	(12)	**(12)**
Issue (redemption) of members' shares, net	-	-	-	(126)	-	**(126)**
Other comprehensive income (loss)	(12)	657	645	-	-	**645**
Balance at December 31, 2013	$ 19	$ (139)	$ (120)	$ 1,083	$ 98,840	**$ 99,803**

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

COASTAL COMMUNITY CREDIT UNION
Consolidated Statement of Cash Flows
For the year ended **December 31, 2013**

	2013 ($'000)	2012 ($'000)
Operating activities		
Receipts		
Interest on member loans	**$ 62,889**	$ 64,115
Fees and commissions	**28,039**	28,017
Interest on investments	**1,990**	2,064
Dividends	**114**	419
Other non-interest income	**2,599**	635
	95,631	95,250
Disbursements		
Interest expense paid	**(20,374)**	(22,059)
Dividends to members	**(71)**	(86)
Suppliers and staff expenses	**(60,759)**	(61,085)
Income taxes	**(2,166)**	(836)
	(83,370)	(84,066)
Net increase in loans to members	**(71,046)**	(46,030)
Net increase in member deposits	**51,711**	16,609
Cash outflows from operating activities	**(7,074)**	(18,237)
Investing activities		
Net increase in investments	**(3,872)**	(14,115)
Net increase in premises and equipment	**(4,778)**	(1,057)
Net increase in intangible assets	**(130)**	(218)
Cash outflows from investing activities	**(8,780)**	(15,390)
Financing activities		
Net decrease in membership shares	**(327)**	(488)
Net increase in short-term borrowings	**15,153**	-
Net decrease in finance lease obligations	**(216)**	(517)
Cash inflows (outflows) from financing activities	**14,610**	(1,005)
Net decrease in cash and cash equivalents	**(1,244)**	(34,632)
Cash and cash equivalents, beginning of year	**14,843**	49,475
Cash and cash equivalents, end of year	**$ 13,599**	$ 14,843

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

1. Nature of Operations and Summary of Significant Accounting Policies

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 and the Gulf Islands, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on March 19, 2014.

Basis of presentation

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

These 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.

The Credit Union's functional and presentation currency is the Canadian dollar. Financial information is presented in thousands of dollars.

The preparation of 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 financial statements are disclosed in Note 2.

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 an integrated 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 business lines:

CCCU	Full service retail and commercial lending and deposit products
CCIS	Personal and commercial insurance lines, Insurance Corporation of British Columbia (ICBC) Autoplan and private auto coverage, Coastal Distinction white label insurance product
CCFMI	Financial planning advice, products and services, life insurance

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash and deposits with original maturities of three months or less with Central 1 Credit Union (Central 1), and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Investments

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.

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).

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.

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. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value are reported as income. The subordinated debenture is a non-derivative financial asset with fixed payments and a fixed maturity, which the Credit Union has the positive intention and ability to hold to maturity. The subordinated debenture is classified as held to maturity (HTM) and is accounted for at amortized cost using the effective interest rate method.

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.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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.

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 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.

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 package for itself or if part has been retained, it bears the same effective interest as other participants.

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.

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:

Buildings	25 years
Leasehold improvements	10 years or term of lease including one renewal period
Furniture and equipment	5 or 10 years
Computer equipment	2 years

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

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Intangible assets

Intangible assets consist of 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:

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 the 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.

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, except to the extent they reverse gains previously recognized in other comprehensive income.

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.

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.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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).

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.

Derivative financial instruments and hedging

Hedges

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.

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 floating 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 income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in the consolidated statement of comprehensive 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 profit or loss using the effective interest method.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate. The Credit Union also participates in a defined contribution plan as described in Note 14.

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.

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.

Members' shares

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

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

Revenue recognition

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 AFS equity instruments are recognized when the Credit Union's right to receive payment is established.

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.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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.

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.

Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2014 or later periods. The Credit Union has decided not to early adopt.

i. *New standards, interpretations and amendments effective from January 1, 2013*

- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value of financial and non-financial items recognized at fair value in the statement of financial position or disclosed in the notes to the financial statements. The guidance set out in IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price.) Changes arising from the adoption of IFRS 13 are disclosure only. Additional disclosures are required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements.

ii. *New standards, interpretations and amendments not yet effective*

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

- IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Credit Union is in the process of evaluating the impact of the new standard.
- IAS 32 *Financial Instruments:* Presentation was amended to clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Credit Union has yet to assess the full impact of this amendment to IAS 32 and will adopt the standard for the annual period beginning on January 1, 2014.

There are no other IFRS standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

2. 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.

Judgments

Member loan loss provision

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.

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.

Member loan loss provision

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 5 and 6.

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 4, 5, 9, 11 and 18.

Income taxes

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

3. Cash and Cash Equivalents

		2013 ($'000)		2012 ($'000)
Cash	**$**	**13,599**	$	13,948
Short-term deposits with Central 1		**-**		895
	$	**13,599**	$	14,843

Credit Unions must maintain liquid investments with Central 1 at a minimum of 8% of their deposit and debt liabilities less cash on hand. Longer term deposits are classified as Investments and are shown in Note 4. At maturity, deposits with Central 1 are reinvested at market rates for various terms. See Note 19 for the average yield on the accounts.

4. Investments

		2013 ($'000)		2012 ($'000)
Long-term deposits with Central 1	**$**	**122,156**	$	117,542
Equity instruments, classified as AFS				
Central 1 – Class A		**5,929**		5,937
Central 1 – Class E		**1**		1
Other		**919**		896
Other investments				
Mortgage packages		**261**		1,000
Subordinated debenture, classified as HTM		**2,000**		2,000
Other, classified as AFS		**632**		646
Accrued interest and dividends		**1,149**		928
	$	**133,047**	$	128,950

The fair value of Central 1 deposits at December 31, 2013 was $122,689 (2012 - $118,335). The estimated fair value is determined by discounting the remaining contractual cash flows at current market interest rates for investments with similar terms. Level 2 inputs are used to measure the fair value.

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.

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 transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value of $0.01, however are redeemable at $100 per share at the option of Central 1. 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. As a result, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union. Dividends on these shares are at the discretion of the Central 1 Board of Directors.

4. Investments (cont.)

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. The fair value of the debenture at December 31, 2013 was $2,257 (2012 - $2,260). The fair value is determined using discounted cash flows based on current market interest rates for similar maturities. Level 2 inputs are used to measure the fair value.

5. Loans to Members

		2013 ($'000)		2012 ($'000)
Residential mortgages	**$**	**1,065,368**	$	998,320
Personal loans		**145,550**		163,083
Commercial loans		**375,894**		355,978
		1,586,812		1,517,381
Accrued interest receivable		**3,796**		3,953
Provision for impaired loans (Note 6)		**(2,186)**		(2,423)
Net loans to members	**$**	**1,588,422**	$	1,518,911

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 Credit Union's prime rate at December 31, 2013 was 3.00%.

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.

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, charges on specific equipment, investments, and personal guarantees.

Average yields to maturity

See Note 19 for the average yields on member loans.

5. Loans to Members (cont.)

Credit quality of loans

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

2013		Carrying Value ($'000)		Security Held ($'000)
Unsecured loans	**$**	**44,025**	**$**	**-**
Loans secured by cash, deposits, government		**6,383**		**6,383**
Mortgages insured by government		**394,336**		**394,336**
Loans secured by real estate and other		**1,142,068**		**1,958,768**
	$	**1,586,812**	**$**	**2,359,487**

2012		Carrying Value ($'000)		Security Held ($'000)
Unsecured loans	$	44,514	$	-
Loans secured by cash, deposits, government		7,577		7,577
Mortgages insured by government		352,295		352,295
Loans secured by real estate and other		1,112,995		*1,768,353
	$	1,517,381	$	2,128,225

*Comparative figure restated (increased $182,323).

Fair value

The fair value of member loans at December 31, 2013 was $1,605,256 (2012 - $1,536,419).

The estimated fair value of 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. Level 2 inputs are used to measure the fair value.

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 and the Gulf Islands, British Columbia.

6. Provision for Impaired Loans

The total provision for impaired loans is comprised of:

		2013 ($'000)		2012 ($'000)
Collective provision	**$**	**914**	$	804
Individual specific provision		**1,272**		1,619
	$	**2,186**	$	2,423

6. Provision for Impaired Loans (cont.)

Movement in individual specific provision and collective provision for impairment:

	Residential Mortgages	Personal	Commercial	**Total ($'000)**
Balance at Dec 31, 2012	$ 716	$ 1,481	$ 226	$ 2,423
Recoveries of loans previously written off	-	86	-	**86**
Provision charged to net income (recoveries)	61	881	436	**1,378**
Loans written off	(521)	(1,103)	(77)	**(1,701)**
Balance at Dec 31, 2013	$ 256	$ 1,345	$ 585	**$ 2,186**
Gross principal balance of individually impaired loans as at Dec 31, 2013	$ 592	$ 540	$ 2,909	**$ 4,041**

	Residential Mortgages	Personal	Commercial	Total ($'000)
Balance at Dec 31, 2011	$ 101	$ 1,790	$ 82	$ 1,973
Recoveries of loans previously written off	-	66	-	66
Provision charged to net income (recoveries)	668	528	287	1,483
Loans written off	(53)	(903)	(143)	(1,099)
Balance at Dec 31, 2012	$ 716	$ 1,481	$ 226	$ 2,423
Gross principal balance of individually impaired loans as at Dec 31, 2012	$ 2,262	$ 732	$ 815	$ 3,809

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

	Dec 31, 2013 ($'000)		Dec 31, 2012 ($'000)	
	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of delinquency				
Less than 30 days	**$ 2,421**	**$ 584**	$ 1,528	$ 809
30 to 90 days	**89**	**82**	66	54
Over 90 days	**1,531**	**606**	2,215	756
Total loans in arrears	**4,041**	**1,272**	3,809	1,619
Total loans not in arrears	**1,582,771**	**-**	1,513,572	-
	$ 1,586,812	**$ 1,272**	$ 1,517,381	$ 1,619

6. Provision for Impaired Loans (cont.)

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 the regional unemployment rate, loan type, risk rating, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly 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.

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

	Residential Mortgages	Personal	Commercial	**Total** ($'000)
30 to 90 days	$ 6,225	$ 28	$ 40	**$ 6,293**
Over 90 days	5,448	725	3,442	**9,615**
Balance at Dec 31, 2013	$ 11,673	$ 753	$ 3,482	**$ 15,908**
30 to 90 days	$ 4,208	$ 432	$ 2,704	$ 7,344
Over 90 days	7,953	534	2,169	10,656
Balance at Dec 31, 2012	$ 12,161	$ 966	$ 4,873	$ 18,000

7. Premises, Equipment and Intangible Assets

	Premises and Equipment							
	Land	Buildings	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Equipment under Finance Lease	**Total** ($'000)	**Intangible Assets*** ($'000)
Cost								
Balance at Dec 31, 2011	$ 3,219	$ 11,831	$ 8,041	$ 7,612	$ 15,398	$ 2,407	$ 48,508	$ 29,460
Additions	-	218	218	135	486	-	1,057	218
Disposals	-	-	-	-	-	(219)	(219)	-
Balance at Dec 31, 2012	3,219	12,049	8,259	7,747	15,884	2,188	49,346	29,678
Additions	-	263	1,976	512	2,109	-	4,860	130
Disposals	-	-	(21)	-	(140)	(2,188)	(2,349)	-
Balance at Dec 31, 2013	$ 3,219	$ 12,312	$ 10,214	$ 8,259	$ 17,853	$ -	**$ 51,857**	**$ 29,808**
Accumulated depreciation and amortization								
Balance at Dec 31, 2011	$ -	$ 4,983	$ 5,764	$ 7,137	$ 12,826	$ 1,703	$ 32,413	$ 10,377
Depreciation and amortization expense	-	300	302	298	824	482	2,206	2,073
Disposals	-	-	-	-	-	(202)	(202)	-
Balance at Dec 31, 2012	-	5,283	6,066	7,435	13,650	1,983	34,417	12,450
Depreciation and amortization expense	-	309	379	258	850	191	1,987	2,035
Disposals	-	-	(7)	-	(54)	(2,174)	(2,235)	-
Balance at Dec 31, 2013	$ -	$ 5,592	$ 6,438	$ 7,693	$ 14,446	$ -	**$ 34,169**	**$ 14,485**
Net book value								
Dec 31, 2012	$ 3,219	$ 6,766	$ 2,193	$ 312	$ 2,234	$ 205	$ 14,929	$ 17,228
Dec 31, 2013	$ 3,219	$ 6,720	$ 3,776	$ 566	$ 3,407	$ -	**$ 17,688**	**$ 15,323**

* Included within intangible assets is $7,475 (2012 - $7,475) goodwill, which is not amortized.

8. Other Assets

		2013 ($'000)		2012 ($'000)
Accounts receivable	**$**	**2,220**	$	2,630
Prepaid expenses		**1,351**		1,434
Deferred broker fee expense		**1,046**		833
	$	**4,617**	$	4,897

9. Member Deposits

		2013 ($'000)		2012 ($'000)
Demand	**$**	**1,023,392**	$	965,652
Term		**358,194**		362,942
Registered plans		**249,663**		250,938
Non-equity shares		**44**		50
		1,631,293		1,579,582
Accrued interest payable		**7,495**		8,054
	$	**1,638,788**	$	1,587,636

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.

Included in the deposits above is an amount of $15,326 denominated in US dollars, $1,508 in Great Britain Pound Sterling (GBP), and $193 in Euro.

Average yields to maturity

See Note 19 for the average yields on member deposits.

Fair value

The fair value of member deposits at December 31, 2013 was $1,638,049 (2012 - $1,587,473).

The estimated fair value of demand deposits and variable rate deposits is assumed to be equal to the 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.

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 and the Gulf Islands, British Columbia.

10. Borrowings

The Credit Union's Board of Directors has approved an overall borrowing limit of $170,600 with Central 1 (2012 - $168,200). As of December 31, 2013, $34,100 of this limit was authorized which includes a $100 US dollar line of credit (2012 - $33,600). Borrowings under the Canadian dollar and US dollar operating lines were charged prime less 1.25% and US base rate respectively (2012 – prime less 1.25% and US base rate). Under the Canadian dollar facility, fixed term loans are based on market rates at the time of advance and there is a standby fee on the unutilized portion. The authorized credit facility is secured by a registered Commercial Security Agreement.

At December 31, 2013, $15,153 of this credit facility was drawn (2012 - $1,984 netted against cash and cash equivalents).

11. Derivative Financial Instruments

The Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risk. As at December 31, 2013, the Credit Union had entered into interest rate swap contracts for a total of $177,500 of notional principal (2012 - $147,500) whereby it has agreed to receive at variable interest rates based on Banker's Acceptance Canadian Deposit Offered Rates for one or three months and pay at fixed interest rates. These swap contracts have fixed interest rates ranging from 1.20% to 2.90% (2012 – 1.20% to 2.90%) and will mature from May 28, 2014 to April 18, 2018 (2012 – May 28, 2014 to June 1, 2017). The agreements are secured by a registered Commercial Security Agreement. The fair value of derivative instruments is calculated as the present value of the estimated future cash flows based on observable market data.

12. Other Liabilities

Financing lease obligation

Other liabilities include obligations related to financing leases that are classified as premises and equipment.

		2013 ($'000)		2012 ($'000)
Balance, beginning of the year	**$**	**216**	$	733
Released during the year		**(216)**		(517)
Balance, end of the year	**$**	**-**	$	216

Minimum lease payments remaining

		2013 ($'000)		2012 ($'000)
Within 1 year	**$**	**-**	$	217
1 to 5 years		**-**		-
Less interest		**-**		(1)
	$	**-**	$	216

12. Other Liabilities (cont.)

Other provisions

The Credit Union is subject to litigation. Other liabilities include provisions 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, as well as regular trade payables. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether the claim will be settled in or out of court or if the Credit Union will be successful in defending the action. Because of the nature of disputes, the Credit Union has not disclosed any additional information on the basis that it believes this would be seriously prejudicial to the Credit Union's position in defending the cases brought against it.

13. Income Taxes

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

		2013 ($'000)		2012 ($'000)
Current tax expense				
Based on current year taxable income	**$**	**1,993**	$	1,606
Adjustments for over (under) provision in prior periods		**59**		(14)
		2,052		1,592
Deferred tax expense				
Origination and reversal of temporary differences		**(405)**		(363)
	$	**1,647**	$	1,229

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

		2013 ($'000)		2012 ($'000)
Deferred tax				
Change in unrealized losses on AFS investments	**$**	**1**	$	4
Change in unrealized gains on cash flow hedges		**(97)**		(199)
	$	**(96)**	$	(195)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2012 – 25%) are as follows (prior year restated):

		2013 ($'000)		2012 ($'000)
Income before income taxes	**$**	**9,827**	$	8,187
Expected taxes based on the statutory rate		**2,555**		2,047
Reduction due to credit union additional deduction		**(731)**		(816)
Capital gains taxed at lower rate		**(286)**		-
Other non-deductible portion of expenses		**50**		12
Over (under) provision in prior periods		**59**		(14)
	$	**1,647**	$	1,229

13. Income Taxes (cont.)

The movement in 2013 deferred tax liabilities and assets are:

	Opening Balance 2013 ($'000)	Recognized in Net Income ($'000)	Closing Balance **2013** ($'000)
Deferred tax liabilities			
Premises, equipment and intangibles	$ 1,981	$ (287)	**$ 1,694**
Deferred tax assets			
Loan provisions	128	(28)	**156**
Other	226	(90)	**316**
	354	(118)	**472**
Net deferred tax liability	$ 1,627	$ (405)	**$ 1,222**

The movement in 2012 deferred tax liabilities and assets are:

	Opening Balance 2012 ($'000)	Recognized in Net Income ($'000)	Closing Balance 2012 ($'000)
Deferred tax liabilities			
Premises, equipment and intangibles	$ 2,431	$ (450)	$ 1,981
Deferred tax assets			
Loan provisions	155	27	128
Other	286	60	226
	441	87	354
Net deferred tax liability	$ 1,990	$ (363)	$ 1,627

	2013 ($'000)	2012 ($'000)
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**$ 336**	$ 323
Deferred tax liabilities to be settled after more than 12 months	**1,358**	1,658
	1,694	1,981
Deferred tax assets		
Deferred tax assets to be settled within 12 months	**194**	-
Deferred tax assets to be settled after more than 12 months	**278**	354
	472	354
Net deferred tax liability	**$ 1,222**	$ 1,627

14. Pension Plans

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

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. Contributions made during the year totaled $2,778 (2012 - $2,700). Employees contributed a total of $508 (2012 - $566) during the year.

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. An actuarial valuation as at December 31, 2012 was completed and filed with the BC pension regulator and the Canada Revenue Agency in September 2013. Under this plan, assets and liabilities are pooled and not tracked separately by employer group. Therefore, insufficient information is available to apply defined benefit accounting and as a result, the plan is accounted for under a defined contribution basis and each employer expenses contributions to the plan in the year in which payment is made. Contributions made during the year totaled $197 (2012 - $187). Employees contributed a total of $114 (2012 - $115) during the year.

As of the September 2013 report for valuation as at December 31, 2012 the going concern funding position is 92%. The solvency liabilities depend largely on the current interest rate environment and have been valued at 73% (market value of assets as a percentage of plan termination liabilities).

15. Members' Shares

			2013 ($'000)		
	Authorized		Equity		Liability
Class A membership equity	Unlimited	**$**	**709**	**$**	**2,727**
Class B investment equity	244		**374**		**1,438**
		$	**1,083**	**$**	**4,165**

			2012 ($'000)		
	Authorized		Equity		Liability
Class A membership equity	Unlimited	$	784	$	2,830
Class B investment equity	259		425		1,536
		$	1,209	$	4,366

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

15. Members' Shares (cont.)

Terms and conditions

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 are redeemable at par only when a membership is withdrawn. 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 (CUDIC). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 20), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Investment equity shares

Investment shares are voting, can be issued only to members of the Credit Union and pay dividends at the discretion of the directors in the form of cash or additional shares. These shares, initially issued in 1993, are redeemable subject to the Credit Union maintaining adequate regulatory capital (see Note 20).

Where the Credit Union has met its regulatory capital requirements, through subordinate classes of shares, the investment shares are deemed to be a compound instrument. The liability component is measured as the present value of the amount redeemable and the equity component, which represents the discretionary dividends, is measured as the residual.

Where the Credit Union has not met its regulatory capital requirements, investment shares that are available for redemption are classified as a liability, measured at the present value of the amount redeemable, and the difference is classified as equity.

Unissued shares

The Credit Union has authorized, but not issued or 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.

Distributions to members

	2013 ($'000)		2012 ($'000)	
	Net Income	Equity	Net Income	Equity
Dividends on investment shares	**$ 29**	**$ 7**	$ 28	$ 8
Dividends on membership shares	**27**	**7**	27	8
Less related income taxes	**-**	**(2)**	-	(2)
	$ 56	**$ 12**	$ 55	$ 14

16. Other Income

		2013 ($'000)		2012 ($'000)
Building and property income	**$**	**412**	$	484
Chequing and savings accounts		**5,320**		4,968
Commission from subsidiaries		**15,693**		14,977
Dividends on AFS investments		**322**		363
Insurance administration fees		**936**		1,251
Loan fees		**1,577**		1,697
Mortgage payout fees		**925**		1,193
Other service income		**3,091**		3,518
Safety deposit boxes		**216**		223
	$	**28,492**	$	28,674

17. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, who are defined by IAS24, *Related Party Disclosures*, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

		2013 ($'000)		2012 ($'000)
Compensation				
Salaries and other short-term employee benefits	**$**	**2,313**	$	2,045
Total pension and other post-employment benefits		**142**		134

		2013 ($'000)		2012 ($'000)
Loans to key management personnel				
Aggregate value of loans advanced	**$**	**3,751**	$	3,437
Aggregate value of unadvanced loans		**487**		12
Total value of lines of credit advanced		**295**		313
Unused value of lines of credit		**241**		271

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.

		2013 ($'000)		2012 ($'000)
Deposits from key management personnel				
Aggregate value of deposits	**$**	**5,674**	$	5,056

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.

18. Financial Instrument Classification and Fair Value

The following table represents the carrying amount by classification:

December 31, 2013	Available for Sale ($'000)	Held to Maturity ($'000)	Cash Flow Hedges ($'000)	Loans and Receivables ($'000)	Other Financial Liabilities ($'000)
Cash and cash equivalents	**$ -**	**$ -**	**$ -**	**$ 13,599**	**$ -**
Investments	**7,764**	**2,000**	**-**	**123,283**	**-**
Loans to members	**-**	**-**	**-**	**1,588,422**	**-**
Other assets	**-**	**-**	**-**	**2,220**	**-**
Member deposits	**-**	**-**	**-**	**-**	**(1,638,788)**
Borrowings	**-**	**-**	**-**	**-**	**(15,153)**
Derivative financial instruments	**-**	**-**	**(339)**	**-**	**-**
Members' shares	**-**	**-**	**-**	**-**	**(4,165)**
Other liabilities	**-**	**-**	**-**	**-**	**(12,150)**
	$ 7,764	**$ 2,000**	**$ (339)**	**$ 1,727,524**	**$ (1,670,256)**

December 31, 2012	Available for Sale ($'000)	Held to Maturity ($'000)	Cash Flow Hedges ($'000)	Loans and Receivables ($'000)	Other Financial Liabilities ($'000)
Cash and cash equivalents	$ -	$ -	$ -	$ 14,843	$ -
Investments	7,555	2,000	-	119,395	-
Loans to members	-	-	-	1,518,911	-
Other assets	-	-	-	2,630	-
Member deposits	-	-	-	-	(1,587,636)
Derivative financial instruments	-	-	(1,060)	-	-
Members' shares	-	-	-	-	(4,366)
Other liabilities	-	-	-	-	(12,815)
	$ 7,555	$ 2,000	$ (1,060)	$ 1,655,779	$ (1,604,817)

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

18. Financial Instrument Classification and Fair Value (cont.)

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.

December 31, 2013	Level 1	Level 2	Level 3	**Total** ($'000)
Derivative financial instruments	$ -	$ (339)	$ -	**$ (339)**
Other investments	639	-	-	**639**
	$ 639	$ (339)	$ -	**$ 300**

December 31, 2012	Level 1	Level 2	Level 3	Total ($'000)
Derivative financial instruments	$ -	$ (1,060)	$ -	$ (1,060)
Other investments	653	-	-	653
	$ 653	$ (1,060)	$ -	$ (407)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012. There are no level 3 fair value measurements.

19. Financial Instrument Risk Management

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.

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.

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.

19. Financial Instrument Risk Management (cont.)

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.

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.

Liquidity risk

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

Risk measurement

The 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.

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 an $85,300 committed facility with Central 1. See Note 10 for the available credit facility at Central 1.
- Monitoring the liquidity ratios monthly

Management annually reviews its liquidity plan for various scenarios.

19. Financial Instrument Risk Management (cont.)

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

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.

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 statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

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 will be based on tolerance limits within a minimum 90% confidence interval based on simulated interest rates.

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, 2013, the Credit Union was in compliance with the 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.

19. Financial Instrument Risk Management (cont.)

Interest rate sensitivity

	Variable Rate	0 – 12 Months	Over 1 to 5 Years	Over 5 Years	Non-Rate Sensitive	**Total 2013 ($'000)**
Assets						
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ 13,599	**$ 13,599**
Effective interest rate						**-**
Investments	-	45,662	84,382	2,103	900	**133,047**
Effective interest rate		1.72%	1.52%	4.17%		**1.62%**
Loans to members	436,637	355,360	793,787	1,275	1,363	**1,588,422**
Effective interest rate	4.22%	3.90%	3.92%	5.90%		**4.00%**
Other assets	-	-	-	-	37,628	**37,628**
Effective interest rate						**-**
	$ 436,637	$ 401,022	$ 878,169	$ 3,378	$ 53,490	**$ 1,772,696**
	4.22%	3.66%	3.69%	4.82%		**3.71%**
Liabilities						
Member deposits	$ 637,731	$ 636,705	$ 356,843	$ -	$ 7,509	**$ 1,638,788**
Effective interest rate	1.02%	0.73%	1.75%			**1.06%**
Borrowings	15,153	-	-	-	-	**15,153**
Effective interest rate	1.75%					**1.75%**
Derivative financial instruments	339	-	-	-	-	**339**
Effective interest rate						**-**
Other liabilities	-	-	-	-	18,613	**18,613**
Effective interest rate						**-**
Members' equity	-	-	-	-	99,803	**99,803**
Effective interest rate						**-**
	$ 653,223	$ 636,705	$ 356,843	$ -	$ 125,925	**$ 1,772,696**
	1.04%	0.73%	1.75%			**1.00%**
Derivatives	$ -	$ 115,000	$ (115,000)	$ -	$ -	**$ -**
Effective interest rate		0.95%	1.75%			
2013 net mismatch	$ (216,586)	$ (120,683)	$ 406,326	$ 3,378	$ (72,435)	**$ -**
2012 net mismatch	$ (102,558)	$ (178,617)	$ 346,452	$ 1,214	$ (66,491)	$ -

19. Financial Instrument Risk Management (cont.)

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:

		2013 ($'000)		2012 ($'000)
1 per cent increase in rates	$	**(80)**	$	422
1 per cent decrease in rates		**62**		(282)

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

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 US dollar, GBP and Euro member accounts and transactions.

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.

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, 2013, 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.

20. 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.

20. Capital Management (cont.)

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, 2013, the Credit Union's estimated capital ratio of 13.02% (2012 – 12.47% as reported) exceeded the required capital ratio.

21. Commitments

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:

		2013 ($'000)		2012 ($'000)
Undisbursed loans	$	**116,604**	$	104,714
Unutilized lines of credit		**159,109**		156,280
Letters of credit		**3,218**		3,462

Contractual

The banking system agreement is effective through September 2016. The Credit Union is committed to annual maintenance costs of approximately $1,001 to 2016.

Leases

The Credit Union has committed to lease premises until 2019. The minimum lease payments, including estimated operating costs incorporated into lease agreements, in each of the next five years are $2,004 in 2014; $1,704 in 2015; $1,409 in 2016; $1,213 in 2017; and $821 in 2018.

For commentary on our 2013 corporate performance, please see Coastal Community's 2013 Annual Report – available in print and also available online at cccu.ca.

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