EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Financial Statements

Year Ended December 31, 2016

EAST KOOTENAY COMMUNITY CREDIT UNION
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Year Ended December 31, 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of East Kootenay Community Credit Union have been prepared in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of East Kootenay Community Credit Union 's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and meets periodically with management and the members' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Audit Committee reports to the Board of Directors prior to its approval of the financial statements. The Committee also considers, for review by the Board and approval by the members, the engagement or re-appointment of the external auditors.

The financial statements have been audited on behalf of the members by Adams Wooley, Chartered Professional Accountants, in accordance with International Financial Reporting Standards.

Ms. Jean-Ann Debreceni, Chair

Mr. Jody Burk, CEO

Cranbrook, BC
February 16, 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of East Kootenay Community Credit Union

We have audited the accompanying consolidated financial statements of East Kootenay Community Credit Union, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of income, retained earnings, comprehensive income and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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.

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David M.W. Adams, BSc, CPA, CGA, CFP*
James R. Wooley, BPE, CPA, CGA*
Brian F. Adams, FCPA, FCGA* (Associate)

** Denotes Professional Corporation*

Opinion

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

Adams Wooley

Cranbrook, BC
February 16, 2017

Adams Wooley
Chartered Professional Accountants

EAST KOOTENAY COMMUNITY CREDIT UNION
Consolidated Statement of Financial Position
December 31, 2016

	2016	2015
ASSETS		
CASH AND TERM DEPOSITS *(Note 6)*	$ 64,911,329	$ 34,548,432
INVESTMENTS *(Note 7)*	5,513,510	5,416,152
DERIVATIVE ASSETS *(Note 8)*	107,453	-
MEMBERS' LOANS *(Notes 9 and 10)*	256,343,866	247,904,808
PROPERTY HELD FOR RESALE	-	427,601
PROPERTY, PLANT AND EQUIPMENT *(Note 11)*	5,412,879	5,645,693
INTANGIBLE ASSETS *(Note 12)*	176,453	144,104
OTHER ASSETS *(Note 13)*	799,976	665,825
	$ 333,265,466	$ 294,752,615
LIABILITIES AND MEMBERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,352,271	$ 1,342,319
MEMBERS' DEPOSITS *(Note 14)*	295,290,356	256,189,948
MEMBERS' SHARES *(Note 15)*	1,249,131	1,165,561
DEFERRED INCOME TAXES *(Note 16)*	595,535	635,980
LOANS PAYABLE *(Note 17)*	13,571,054	14,601,334
DEFERRED INCOME *(Note 18)*	41,206	65,239
	312,099,553	274,000,381
MEMBERS' EQUITY		
Share capital *(Note 15)*	2,494,536	2,502,242
Accumulated other comprehensive income	696,323	840,737
Retained earnings	17,975,054	17,409,255
	21,165,913	20,752,234
	$ 333,265,466	$ 294,752,615

ON BEHALF OF THE BOARD

_______________ *Director*

_______________ *Director*

The attached notes are an integral part of these financial statements.

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Income

Year Ended December 31, 2016

	2016	2015
INTEREST INCOME		
Interest from Loans	**$ 10,105,012**	$ 10,762,548
Interest and Income from Investments	**630,546**	451,225
	10,735,558	11,213,773
INTEREST EXPENSES		
Interest on Deposits	**2,868,852**	3,096,272
Interest on Secured Borrowings	**344,358**	225,965
Interest on Borrowed Funds	**-**	163,079
	3,213,210	3,485,316
NET INTEREST INCOME AFTER IMPAIRMENT CHARGES	**7,522,348**	7,728,457
Impairment Charges on Member Loans	**(389,426)**	(626,508)
NET INTEREST INCOME AFTER IMPAIRMENT CHARGES	**7,132,922**	7,101,949
NON-INTEREST INCOME (EXPENSES)		
Service Fees and Commissions	**785,123**	786,708
Loans Services	**253,879**	289,043
Rental Income	**135,213**	123,770
Foreign Exchange	**75,166**	75,631
Other	**899,665**	1,253,844
Consolidated non-financial expenses	**(8,470,403)**	(8,238,406)
	(6,321,357)	(5,709,410)
INCOME FROM OPERATIONS	**811,565**	1,392,539
OTHER INCOME (EXPENSES)		
Income (Loss) from Equity Investment	**11,843**	1,294
Gain on Disposal of Assets	**-**	2,997
	11,843	4,291
INCOME BEFORE DONATIONS AND REWARD TO MEMBERS AND INCOME TAXES	**823,408**	1,396,830
DONATIONS AND REWARD TO MEMBERS		
Community Donations	**59,798**	72,043
Rewards to Members *(Note 15)*	**139,644**	221,464
	199,442	293,507
INCOME BEFORE INCOME TAXES	**623,966**	1,103,323
INCOME TAXES		
Current Income Taxes *(Note 16)*	**69,713**	141,477
Deferred Income Taxes *(Note 16)*	**(11,546)**	(3,776)
	58,167	137,701
NET INCOME	**$ 565,799**	$ 965,622

The attached notes are an integral part of these financial statements.

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Non-Financial Expenses *(Schedule 1)*

Year Ended December 31, 2016

		2016		2015
Non-Financial Expenses				
Salaries and Benefits	**$**	**4,548,253**	$	4,508,134
Data Processing		**794,542**		762,645
Amortization		**468,402**		505,345
Premises and Equipment		**410,393**		415,115
Consulting Fees		**388,877**		273,229
Stabilization Assessment Fees		**350,777**		400,760
Miscellaneous Financial Item Costs		**238,616**		222,463
Professional Fees		**225,203**		102,575
Loan Expenses		**203,465**		182,435
Director and Committee Costs		**157,765**		185,185
Advertising and Marketing		**147,205**		124,601
Staff Travel and Training		**88,294**		83,750
Staff Miscellaneous		**117,270**		165,625
Postage		**56,975**		60,795
Stationery and Supplies		**55,073**		42,370
Central 1 Dues		**48,984**		43,132
Dues and Subscriptions		**43,777**		46,642
Telephone		**36,942**		23,720
Inspection Fees		**35,727**		28,248
Bonding and Insurance		**32,053**		33,126
Financial Planner Commissions		**20,066**		22,578
Miscellaneous		**1,744**		5,933
	$	**8,470,403**	$	8,238,406

The attached notes are an integral part of these financial statements.

EAST KOOTENAY COMMUNITY CREDIT UNION
Consolidated Statement of Comprehensive Income
Year Ended December 31, 2016

	2016	2015
NET INCOME	**$ 565,799**	$ 965,622
CHANGES IN COMPREHENSIVE INCOME		
Revaluation of Intangible Assets of Equity Investment (Net of Deferred Income Taxes)	**-**	290,000
Unrealized Gain (Loss) on Financial Assets Adjusted to Fair Value (Net of Deferred Income Tax)	**(144,414)**	310,826
COMPREHENSIVE INCOME FOR THE YEAR	**$ 421,385**	$ 1,566,448

The attached notes are an integral part of these financial statements.

EAST KOOTENAY COMMUNITY CREDIT UNION
Consolidated Statement of Retained Earnings
Year Ended December 31, 2016

	2016	2015
RETAINED EARNINGS - BEGINNING OF YEAR *(Note 19)*	**$ 17,409,255**	$ 16,443,633
NET INCOME FOR THE YEAR	**565,799**	965,622
RETAINED EARNINGS - END OF YEAR	**$ 17,975,054**	$ 17,409,255

The attached notes are an integral part of these financial statements.

EAST KOOTENAY COMMUNITY CREDIT UNION
Consolidated Statement of Cash Flow
Year Ended December 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Net income	$ 565,799	$ 965,622
Items not affecting cash:		
Amortization	468,402	505,345
Gain on Disposal of Assets	-	(2,997)
Deferred Income Taxes	(11,546)	(3,776)
Unrealized Gain on Financial Assets Adjusted to Fair Value	(173,312)	365,119
Unrealized Gain on Intangible Assets Adjusted to Fair Value	-	333,333
	849,343	2,162,646
Changes in non-cash working capital:		
Property Held for Resale	427,601	(427,601)
Accounts Payable and Accrued Liabilities	9,951	168,267
Deferred income	(24,033)	(24,033)
Other Assets	(134,151)	(73,987)
	279,368	(357,354)
Cash flow from operating activities	1,128,711	1,805,292
INVESTING ACTIVITIES		
Purchase of Assets	(134,434)	(416,837)
Proceeds on Disposal of Assets	-	2,997
Purchase of Intangible Assets	(133,503)	(113,786)
Increase in Derivative Assets	(107,453)	-
Members' Loans	(8,439,058)	6,284,720
Investments	(97,358)	(428,593)
Cash flow from (used by) investing activities	(8,911,806)	5,328,501
FINANCING ACTIVITIES		
Members' Deposits	39,100,408	7,098,288
Members' Shares	83,570	(105,119)
Loan Payable	(1,030,280)	(8,900,066)
Equity Shares	(7,706)	(11,609)
Cash flow from (used by) financing activities	38,145,992	(1,918,506)
INCREASE IN CASH FLOW	30,362,897	5,215,287
Cash - beginning of year	34,548,432	29,333,145
CASH - END OF YEAR	$ 64,911,329	$ 34,548,432
CASH CONSISTS OF:		
Cash and Current Accounts	$ 17,698,278	$ 13,142,849
Deposits - Special and Term	47,007,000	21,232,000
Accrued Interest	206,051	173,583
	$ 64,911,329	$ 34,548,432

The attached notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

East Kootenay Community Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act (the "Act") of British Columbia and is a member of Central 1 Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, automated banking machines ("ABMs"), debit and credit cards and Internet banking. The Credit Union head office is located at 920 Baker Street, Cranbrook, British Columbia.

2. BASIS OF PRESENTATION

These consolidated financial statements include the accounts of the Credit Union and its subsidiaries for both 2016 and 2015, as follows:

- East Kootenay Community Financial Services Ltd. - 100%
- East Kootenay Community Insurance Services Ltd. - 100%
- East Kootenay Community Property Holdings Ltd. - 100%

All significant intercompany transactions and balances have been eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The Credit Union's functional and presentational currency is the Canadian dollar. The financial statements are presented in Canadian 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 5*.

These financial statements have been authorized for issue by the Board of Directors on February 16, 2017.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

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

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

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, adjusted to recognize other than a temporary impairment in the underlying value.

Equity instruments

These instruments 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 market 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.

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.

Associated companies

Associated companies are those in which the investor has a significant controlling interest. A significant controlling interest arises when the investor holds 20% or more of the company's voting power, or over which the investor is able to exercise significant control. Associated companies are consolidated using the equity method. Investments in associated companies include any goodwill arising from their acquisition. If the investor's share of the associated company's losses exceeds the book value of the investment, this investment is entered at zero value on the balance sheet and any losses in excess of this value are not recognized unless the investor has obligations with respect to the associated company. The investor's share of the results of its associated companies is shown as a separate item under operating profit. The investor's share of its associated companies' other changes in comprehensive income, if any, are recognized in the consolidated comprehensive income statement under other comprehensive income.

Derivative financial instruments and hedging

Derivative financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. The notional contract amounts related to derivatives are not included on the consolidated statement of financial position. In the ordinary course of business, the Credit Union enters into interest rate swaps and equity index-linked option contracts. The Credit Union enters into such contracts primarily to manage its exposure to fluctuations in interest rates and other financial indices as part of the Credit Union's asset/liability management program.

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

Non-hedging derivative instruments

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

(continues)

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

Upon initial recognition, the Credit Union's derivatives related to equity index-linked option contracts are classified as held-for-trading in order to avoid an accounting mismatch in relation to changes in fair value between the option contract and the underlying equity index-linked member deposit.

Non-hedging derivatives are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recognized in net income.

<u>Hedging derivative instruments</u>

The Credit Union, in accordance with its risk management strategies, enters into various 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 where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where 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 forecast 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 assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

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 income as other income.

If the Credit Union closes out its hedge position early, the cumulative gains (losses) recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains (losses) on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

(continues)

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

Members' loans

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

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

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

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

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

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

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

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision of impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

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

Loan securitization

For securitization transactions initiated prior to the date of transaction to IFRS, in accordance with pre-changeover Canadian GAAP, loan securitizations were treated as a sale, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. Gains on these transactions were reported as other income. The amount of these gains are based on the present value of expected future cash flows using management's best estimates and key assumptions such as prepayment rates, excess spread, credit (losses) and discount rates. The Credit Union has a contractual obligation to service the loans on behalf of the transferee.

For securitization transactions initiated after the date of transition to IFRS, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and remeasured at fair value on reporting dates.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized and was written up as detailed in *Note 11.* Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	2.5%
Furniture and Equipment	5 - 100%
Motor Vehicles	5 years
Land improvements	15 years
Parking Lot	15 years

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

Intangible assets

Intangible assets consist of computer software which are 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 its estimated useful life, but no more than 7 years.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

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

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

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

Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax is 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 at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for 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 which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when 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 subsequently measured at amortized cost, using the effective interest rate method.

Pension plan

The Credit Union participates in a defined benefit plan administered by the BC Credit Union Employees' Pension Plan. The Credit Union accounts for the plan by recognizing contributions as an expense in the year to which they relate.

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 at the best estimate of the expenditure required to settle the obligation at the reporting date.

(continues)

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

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.

Patronage distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no direction to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Revenue recognition

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

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 "financial 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 analysed between capital and interest. The interest element is charged to the statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at the 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. Exchange gains and (losses) arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and (losses) on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

4. IFRSs ISSUED BUT NOT YET EFFECTIVE

Following is a listing of amendments, revisions and new International Financial Reporting Standards (IFRSs) issued and the effective date. Unless otherwise indicated, earlier application is permitted. The company is currently evaluating the impact of adopting the changes, which it intends to do when required.

IFRS 2 - Share-based Payment (annual periods beginning on or after January 1, 2018)

The amendments provide guidance on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments.
- Share-based payment transactions with a net settlement feature for withholding tax obligations.
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

IFRS 9 - Financial instruments (annual periods beginning on or after January 1, 2018)

This standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model. The main features of this new standard are:

- Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is to both collect contractual cash flows and sell financial assets, and the contractual cash flows are solely payments of principal and interest.
- All gains and losses on financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the financial asset is impaired, reclassified to fair value through profit or loss, or derecognized.
- An expected credit loss impairment model is applicable to financial instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes 12-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses if credit risk has increased significantly since initial recognition.

IFRS 15 - Revenue from contracts with customers (annual periods beginning on or after January 1, 2018)

The amendments provide additional transitional relief relating to completed contracts and modified contracts, and clarify:

- The factors that indicate when two or more promises to transfer goods or services are not separately identifiable and, therefore, constitute a single performance obligation.
- That the principal (versus an agent) in an arrangement controls a specified good or service before it is transferred to a customer.
- The considerations affecting the determination of whether the revenue from granting a licence should be recognized at a point in time or over time.

IFRS 16 - Leases (annual periods beginning on or after January 1, 2019)

Introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. The main features of the new standard are:

(continues)

4. IFRSs ISSUED BUT NOT YET EFFECTIVE *(continued)*

- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets

- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments

- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income

- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly, and provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

IAS 7 - Statement of cash flows (annual periods beginning on or after January 1, 2017)

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IAS 12 - Income taxes (annual periods beginning on or after January 1, 2017)

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Credit Union is in the process of evaluating the impact of the new standards.

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 experiences may differ from these estimates and assumptions.

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.

Fair value of financial instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. 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, for financial instruments that are not quoted in an active market are disclosed in *Note 5*.

Member loan loss provision

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

In determining the collective loan loss provision Management uses estimates based on the understanding of possible risks in the economy and objective evidence of impairment.

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 for the tax liability including the related interest and penalties in the current tax provision. Management believes it has 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.

6. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1. The average yield in the accounts at December 31, 2016 is 1.16% (2015 - 1.43%).

	2016	2015
Liquidity reserve deposit	**$ 47,007,000**	$ 21,232,000
Current account deposits - Canadian	**14,060,530**	8,402,442
Current account deposits - US	**1,445,781**	1,304,751
Accrued interest	**206,053**	173,583
Total Central 1 deposits	**62,719,364**	31,112,776
Other cash and deposit accounts	**2,191,965**	3,435,656
	$ 64,911,329	$ 34,548,432

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 8% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

Discount deposits at Central 1 are due within one year. The carrying amounts for deposits at Central 1 approximate fair value due to having similar characteristics as cash and cash equivalents.

7. INVESTMENTS

	2016	2015
Equity Instruments (at cost)		
Central 1 Credit Union - Class A	**$ 1,158,725**	$ 1,123,432
Shares in CUPP Services	**90,181**	90,181
Shares in BC Co-operative Association	**1,612**	1,612
Stabilization Central Shares	**219**	219
Central 1 Credit Union - Class E	**88**	88
Subtotal	**1,250,825**	1,215,532
Accrued Dividends - Central 1 Shares	**39,086**	43,451
	$ 1,289,911	$ 1,258,983

The Credit Union is a member of a national financial services entity named Central 1. The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the direction of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

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 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Class E Central 1 shares are redeemable at $100 per share, but are recorded at cost since the Credit Union is not intending to dispose of the shares.

The CUPP Services shares are participating preference shares. There is no separately quoted market value for these shares; however, as these are preferred shares, fair value is determined to be carrying value.

	2016	2015
Investments with Significant Influence (at cost)		
Kootenay Insurance Services Ltd. - Shares	**$ 3,674,977**	$ 3,617,692
0948859 B.C. Ltd. - Shares	**535,184**	537,883
Kootenay Insurance Services Ltd. - Shares	**100**	100
0948859 B.C. Ltd. - Shares	**100**	100
	$ 4,210,361	$ 4,155,775

As a result of a valuation prepared by Berris Mangan Valuations Inc. on March 9, 2011, the carrying value of the investment in Kootenay Insurance Services Ltd. (KIS), an insurance agency of which East Kootenay Community Insurance Services Ltd. (EKCIS) owns 33.33% of the participating shares, has been increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 27. The valuation identified an increase in the value of the ICBC AutoPlan licences, resulting in an increase in the recognised investment of KIS held by EKCIS. The carrying value of the investment was increased by $1,947,915 at January 1, 2010. A further revaluation of the ICBC AutoPlan licenses in KIS during 2012 and 2015 resulted in an additional increase in the recognised investment held by EKCIS of $275,759 and $333,333 respectively. The Credit Union accounts for its investment in KIS using the Equity Method.

(continues)

7. INVESTMENTS *(continued)*

	2016	2015

The investment in 0948859 B.C. Ltd. (o/a MoneyWorks) is based on a valuation prepared by Grant Thornton, LLP on February 6, 2012, with an effective date of January 1, 2010. East Kootenay Community Financial Services Ltd. transferred its book of business and equipment to 0948859 B.C. Ltd. on January 1, 2013 in exchange for 505,000 Class B shares. The company now holds 33.33% of the participating, non-voting shares of 0948859 B.C. Ltd., and has significant control of the entity. The Credit Union, through its subsidiary, has committed to financing the operations until the company is able to function on its own. The Credit Union accounts for its investment in 0948859 B.C. Ltd. using the Equity Method.

The Credit Union holds 33.33% of the voting shares of both Kootenay Insurance Services Ltd. and 0948859 B.C. Ltd. (o/a MoneyWorks). The shares are non-participating and are recorded at cost.

	2016	2015
Investments with Significant Influence (equity method)		
Kootenay Risk Services Ltd. - Shares	**$ 13,238**	$ 1,394
	$ 5,513,510	$ 5,416,152

The Credit Union holds 25% of the voting shares of Kootenay Risk Services Ltd. and the investment is recorded using the equity method.

8. DERIVATIVE ASSETS

	Asset	Liability	Notional
2016			
Index-linked option contracts	$ 107,453	$ -	**$ 996,136**

Equity options are transactions in which the Credit Union manages its exposure to changes in the value of index-linked deposit products. Equity options purchased by the Credit Union, for a premium, provide the right but not the obligation, to buy or sell to the writer of the option, an underlying stock index. These options contracts are transacted on an over-the-counter basis. The two parties exchange cash flows on a specified notional amount for a predetermined period based on the increase or decrease in an underlying stock market index versus a fixed interest rate. Notional amounts are not exchanged. Derivative assets in 2015 - $0.

9. MEMBERS' LOANS

	2016	2015
Residential Mortgages	**$ 131,193,399**	$ 120,456,691
Commercial Mortgages and Loans	**75,169,679**	75,576,638
Commercial Revolving Credits	**3,542,886**	3,559,009
Personal Loans	**20,710,797**	19,225,656
Personal Revolving Credits	**25,688,046**	28,877,846
Accrued Interest Receivable	**1,673,321**	1,511,542
Subtotal	**257,978,128**	249,207,382
Deduct: Allowance for Impaired Loans	**(1,634,262)**	(1,302,574)
	$ 256,343,866	$ 247,904,808

Terms and conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 7%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2016 was 3% (2015 - 3%).

The interest rate offered on fixed rate loans being advanced at December 31, 2016 ranges from 2.79% to 12.00%. The rate offered to a member 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 blended payments of principal and interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by promissory notes and personal property or investments, and others are secured by promissory notes only.

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

Average yields to maturity

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

	2016	2015
Variable rate	**3.02**	3.65
Fixed rate due less than one year	**4.35**	4.65
Fixed rate due between one and five years	**3.78**	4.01

Credit quality of loans

It is not practical to value all collateral as at the year end date due to the variety of assets and conditions.

Fair value

The fair value of member loans at December 31, 2016 was $254,522,000 (December 31, 2015 - $247,956,000).

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9. MEMBERS' LOANS *(continued)*

The estimated fair value of the variable rate loans is assumed to be equal to the book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

All member loans are with members located in and around Cranbrook, British Columbia.

10. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision is comprised of a collective provision at December 31, 2016 of $10,189 (2015 - $24,844) and an individual specific provision at December 31, 2016 of $1,624,073 (2015 - $1,277,730).

Movement in individual specific provision and collective provision for impairment:

	2016	2015
Balance at January 1	**$ 1,302,574**	$ 799,255
Provision (reduction) charged to net income	**396,706**	626,609
	1,699,280	1,425,864
Loans written off and revaluation of Property Held for Resale	**(65,018)**	(123,290)
Balance at December 31	**$ 1,634,262**	$ 1,302,574
Gross principal balance of individual impaired loans	**$ 4,092,805**	$ 4,363,248

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding at December 31, 2016.

	2016	2015
Period of delinquency		
30 to 90 days	**$ 547,116**	$ 1,716,230
Over 90 days	**4,706,263**	5,089,628
Total loans in arrears	**5,253,379**	6,805,858
Total loans not in arrears	**251,090,487**	241,098,950
Total loans	**$ 256,343,866**	$ 247,904,808

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10. ALLOWANCE FOR IMPAIRED LOANS *(continued)*

Key assumptions in determining the allowance for impaired loans collective provision

The Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

11. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2016 Net book value**	2015 Net book value
Land	$ 1,258,918	$ -	**$ 1,258,918**	$ 1,258,918
Buildings	5,507,495	1,884,370	**3,623,125**	3,754,868
Motor Vehicles	70,022	48,996	**21,026**	30,839
Furniture and Equipment	3,851,956	3,401,099	**450,857**	542,923
Leasehold Improvements	133,208	123,750	**9,458**	6,684
Parking Lot	77,318	27,823	**49,495**	51,461
	$ 10,898,917	$ 5,486,038	**$ 5,412,879**	$ 5,645,693

As a result of appraisals prepared by Rocky Mountain Appraisal on January 19, 20 and 25, 2010 the carrying value of the lands owned by the Credit Union was increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 16. The Credit Union owns three parcels of land located in Cranbrook and Fernie BC, with a combined historical cost of $363,376. The fair value of these lands, as determined from the appraisal prepared by Rocky Mountain Appraisal is $845,000. No impairment in the fair value has accrued in 2016.

12. INTANGIBLE ASSETS

	2016	2015
Computer Software		
Costs	**$ 1,252,361**	$ 1,118,858
Accumulated amortization	**(1,075,908)**	(974,754)
	$ 176,453	$ 144,104

13. OTHER ASSETS

	2016	2015
Prepaid expenses and accounts receivable	**$ 762,857**	$ 627,475
Due from related parties	**37,119**	38,350
	$ 799,976	$ 665,825

14. MEMBERS' DEPOSITS

	2016	2015
Demand Deposits	**$ 138,714,428**	$ 121,205,946
Term Deposits	**89,851,109**	72,831,470
Registered Savings Plans	**26,349,709**	26,693,071
Registered Retirement Income Funds	**12,795,892**	12,200,561
Registered Education Savings Plans	**1,592,884**	1,524,709
Tax Free Savings Accounts	**24,504,201**	20,560,889
Accrued Interest Payable	**1,482,133**	1,173,302
	$ 295,290,356	$ 256,189,948

Terms and conditions

Demand deposits are due on demand and bear interest at 0% to 0.90% at December 31, 2016. The interest rates on Member Advantage accounts range from 0.05% to 0.80%. Interest is paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits issued on December 31, 2016 range from 0% to 1.45%.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above and may also pay interest semi-annually. The variable rate RRSPs bear interest at rates up to 0.45% at December 31, 2016.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amount vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the term deposits described above. The interest rates on tax-free savings accounts issued on December 31, 2016 range from 0% to 1.45%.

Included in deposits is an amount of $1,074,290 denominated in US dollars (December 31, 2015 - $938,085).

Fair value

The fair value of members deposits and shares at December 31, 2016 was $293,608,000 (December 31, 2015 - $257,587,000)

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

Average yield to maturity

Members' deposits bear interest at both variable and fixed rates with an average yield of 1.01% at December 31, 2016.

Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

All member deposits are with members located in and around the East Kootenay region of British Columbia.

15. MEMBERS' SHARES

At the Annual General Meeting held on April 13, 1991 the membership of the East Kootenay Community Credit Union authorized the establishment of four classes of shares:

"A" Equity Membership

"B" Non-Voting Equity Shares

"C" Voluntary Equity Shares

"D" Non Equity Shares

Rights and privileges attached to the various classes are set out in Credit Union Rules 2.1 to 2.16.

As at December 31, the three classes of shares consisted of the following issued and fully paid shares:

	2016	2015
"A" Equity Membership Shares	**$ 1,320,201**	$ 1,306,059
"C" Voluntary Equity Shares	**1,174,335**	1,196,183
	$ 2,494,536	$ 2,502,242
"D" Non Equity Shares	**$ 1,249,131**	$ 1,165,561

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

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15. MEMBERS' SHARES *(continued)*

Membership 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. 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 "A", "B" and "C" shares are not insured by Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital *(See Note 23)*, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as equity.

Distributions to members

	2016	2015
Patronage Refunds	**$ 60,877**	$ 142,715
Rewards to Members	**78,767**	78,749
Subtotal	**139,644**	221,464
Dividends on Non Equity Shares (Included in Finance Expense)	**5,264**	5,153
	$ 144,908	$ 226,617

16. INCOME TAXES

Current Tax

Current income taxes are calculated based on the Income Tax Act as it applies to corporations and specifically credit unions. The current income tax rate on the first $500,000 of active income for British Columbia corporations is 13.0%. The $500,000 must be shared by the Credit Union and its subsidiaries. Amounts in excess of $500,000 in taxable income are taxed at the general corporate tax rate of 26.0%; however, credit unions are also subject subject to a special credit union deduction, the effect of which is to maintain the 13.0% rate of income tax until the Credit Union achieves a calculated amount of capital. Commencing in 2013 the special credit union deduction was to be phased out on a proportionate basis over a period of five years. As a result of the transitional elimination of the special credit union deduction, the effect on the 2016 taxes is that 80% of the taxable income above $500,000 will be eligible for the special credit union deduction.

Deferred Tax

Deferred income taxes are calculated on timing differences between amounts claimed as expenses or revenues on the financial statements and the corporation income tax return. Such differences may include claims for amortization of property, plant and equipment being different from rates of capital cost allowance allowed under the Income Tax Act and amounts that have been amortized over an expected useful life that are allowable for full write off in the year of acquisition under the Income Tax Act.

The adoption of IFRS allowed the Credit Union to increase the carrying value of its land and investment in East Kootenay Community Financial Services Ltd. to fair value. Those increases also gave rise to deferred income tax that was calculated on the income that would otherwise be taxable if those assets were sold at the fair value.

The deferred income taxes reflected on the Statement of Financial Position include both of the above components as follows:

	2016	2015
Arising from timing differences, accounted for in operations	**$ 191,607**	$ 198,453
Arising from fair values, accounted for in retained earnings and other comprehensive income	**403,928**	437,527
	$ 595,535	$ 635,980

17. LOANS PAYABLE

	2016	2015
National Housing Act mortgage-backed securities *(Note 19)*	**$ 7,613,618**	$ 8,289,117
Salmon Arm Savings and Credit Union guarantee for securitized residential mortgages *(Note 19)*	**5,957,436**	6,312,217
	$ 13,571,054	$ 14,601,334

18. DEFERRED INCOME

Deferred income consists of unearned premiums on securitized mortgages that arose as a result of differences between the fair value and book value of the mortgages at the time of securitization. The premiums on the securitized mortgages are recognized in revenue over the remaining period to maturity of the individual mortgages in the securitized mortgage packages.

As at December 31, deferred income consisted of:

	2016	2015
Unearned premiums on securitized mortgages *(Note 19)*	**$ 41,206**	$ 65,239

19. SECURITIZATIONS

The Credit Union periodically enters into agreements with third parties for securitization of residential mortgages. The Credit Union determines whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its Statement of Financial Position in accordance with IAS 39. Requirements for derecognition include an assessment of whether the Credit Union's rights to contractual cash flows have expired or transferred, or whether an obligation exists to pay the cash flows collected on the underlying asset. The derecognition standards also include an assessment of whether substantially all of the risks and rewards of ownership have transferred.

In September 2014, the Credit Union became an approved issuer of mortgage-backed securities as defined under the National Housing Act ("NHA"), whereby the Credit Union sells mortgages through the NHA mortgage-backed security program ("NHA MBS program"). The Credit Union has determined that transfers of mortgages through the NHA MBS program do not meet the derecognition requirements outlined under IAS 39 and therefore the mortgages are retained on the Statement of Financial Position and a corresponding liability is also reported on the Statement of Financial Position. The Credit Union accounts for the mortgages securitized through the NHA MBS program as "available for sale" financial assets and thus they are adjusted to fair market value. The unrealized profit (loss) on the mortgage pools in the program are recognized in other comprehensive income. The balance outstanding of mortgages transferred through the NHA MBS program as at December 31, 2016 was $7,817,387 (fair market value), with a corresponding liability $7,613,618 on December 31, 2016 as identified in *Note 17*.

In November 2013, the Credit Union entered into a transfer arrangement with Salmon Arm Savings Credit Union ("SASCU") that also did not meet the derecognition requirements of IAS 39. The Credit Union accounts for mortgages transferred to SASCU as "available for sale" financial assets and thus they are adjusted to fair market value. As the provisions of the transfer arrangement provide that under certain circumstances the Credit Union will be required to repurchase the mortgages utilizing the same pricing model under the original transfer agreement, the corresponding liability is also adjusted to fair market value. As at December 31, 2016 the balance of mortgages transferred to SASCU totaled $5,957,436 (fair market value) with a corresponding liability of $5,957,436 (fair market value).

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19. SECURITIZATIONS *(continued)*

The fair value of securitized residential mortgages was determined using the present value of future cash flows, including the present value of the balloon payment at term maturity. The securitized mortgage pools were revalued at December 31, 2016 using the Bloomberg Bank of Canada bond curve for the point in time closest to the weighted average maturity of the mortgages, as obtained from Central 1 Credit Union.

	2016	2015
Residential mortgages transferred but not derecognized		
Carrying value of securitized residential mortgages	**$ 13,399,030**	$ 14,728,188
Unamortized discount on transfer of securitized mortgages	**45,884**	58,689
Increase to reflect fair value of securitized residential mortgages	**374,120**	662,253
	13,819,034	15,449,130
Liability for guarantee on securitized residential mortgages		
Liability for guarantee on securitized residential mortgages *(Note 17)*	**13,571,054**	14,601,334
Unamortized premium on fair value change of securitized mortgages *(Note 18)*	**41,206**	65,239
	13,612,260	14,666,573
Net asset (liability) of securitized residential mortgages	**$ 206,774**	$ 782,557

The mortgages transferred through the NHA MBS program mature between August 2020 and November 2020. The securitized residential mortgages that form part of the transfer arrangement with SASCU mature between June 2018 and November 2020.

The Credit Union also enters into agreements to sell mortgage pools. Unlike the the mortgage securitizations, the Credit Union does not retain any financial interest in these sold mortgages and substantially all of the risks and rewards are transferred. As part of the agreements, the Credit Union continues to act as administrative agent on these mortgages.

During the year the Credit Union sold $20,127,207 (2015 - $32,670,890), against which a gain of $362,847 was recorded.

20. RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and any entities controlled or jointly controlled by directors and management.

	2016	2015
Compensation		
Salaries and other short-term benefits	**$ 881,502**	$ 913,294
Total pension and other post-employment benefits	**147,541**	145,092
	$ 1,029,043	$ 1,058,386
Loans to key management personnel		
Aggregate value of loans advanced	**$ 3,776,470**	$ 3,719,631
Total value of lines of credit advanced	**218,591**	206,557
Unused value of lines of credit	**480,209**	497,243
	$ 4,475,270	$ 4,423,431
Interest received on loans advanced	**$ 138,290**	$ 117,160
Deposits from key management personnel	**$ 1,176,475**	$ 1,360,150

Loans to key management personnel

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit; however, as part of its remuneration and benefit package the Credit Union offers all staff members a reduction from current interest rates subject to specific maximum amounts as approved by the Board of Directors.

Deposits from key management personnel

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.

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

December 31, 2016	Fair value through Profit or Loss	Available-for-sale	Held to Maturity	Loans and Receivables	Other Financial Liabilities
Cash	$ 17,698,278	$ -	$ -	$ -	$ -
Treasury deposits	-	-	24,507,000	-	-
Bid deposits	-	-	22,500,000	-	-
Derivative financial instruments	107,453	-	-	-	-
Investments	-	-	5,513,510	-	-
Loans to members	-	13,773,150	-	242,616,858	-
Members' deposits	(1,103,589)	-	-	-	(294,186,767)
Members' shares	-	-	-	-	(1,249,131)
Other Liabilities	-	-	-	-	(13,571,054)
	$ 16,702,142	$ 13,773,150	$ 52,520,510	$ 242,616,858	$ (309,006,952)

December 31, 2015	Fair value through Profit or Loss	Available-for-sale	Held to Maturity	Loans and Receivables	Other Financial Liabilities
Cash	$ 13,142,849	$ -	$ -	$ -	$ -
Treasury deposits	-	-	21,232,000	-	-
Bid deposits	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Investments	-	-	5,416,152	-	-
Loans to members	-	14,976,441	-	232,928,367	-
Members' deposits	-	-	-	-	(256,189,948)
Members' shares	-	-	-	-	(1,165,561)
Other Liabilities	-	-	-	-	(14,601,334)
	$ 13,142,849	$ 14,976,441	$ 26,648,152	$ 232,928,367	$ (271,956,843)

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21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE *(continued)*

An analysis of instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

All of the investments are classified under level 2. See *Note 7* for investments.

There were no transfers between level 1 and level 2 for the years ended December 31, 2016 and 2015.

22. FINANCIAL INSTRUMENT RISK MANAGEMENT

General objectives, policies and processes

The Board of Directors has overall responsibility for determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing the operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Financial Officer 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 financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor or credit obligations.

Risk measurement

Credit risk rating systems are designed to asses and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

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

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property in and around Cranbrook, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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

Objectives, policies and procedures

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

Provisions of the Credit Union Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

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

The Credit Union is required to measure its capital adequacy based on the Financial Institutions Commission of British Columbia ("FICOM") regulations. Based on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weighting factor. The regulatory ratio is computed and must meet a minimum capital to risk-weighted ratio of 8%. The Credit Union manages its capital based on the statutory requirements applied to its assets on a monthly basis and reported to the Board. There have been no significant changes from the previous year in the exposure to risk, or policies, procedures and the methods used to measure the risk and/or capital adequacy.

As at the year end date, the position of the Credit Union is as follows:

	2016	2015
• Risk weighted assets	$140,236,564	$136,781,756
• Capital adequacy ratio	15.13%	15.11%
• Risk weighted asset ratio	42.09	46.43

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.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest rate risk

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

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

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer price rates.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset / liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the regulatory bodies in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of British Columbia as required by Credit Union regulations. For the year-ended 2016, the Credit Union was in compliance with this policy.

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

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	$ 92,269,378	3.00	$ 162,944,222	0.62	$ (70,674,844)
4 - 12 months	44,258,017	3.39	74,649,343	1.63	$ (30,391,326)
1 - 2 years	45,877,207	3.70	23,432,489	1.96	$ 22,444,718
2 - 5 years	136,750,087	3.47	31,084,732	2.36	$ 105,665,355
	$ 319,154,689		$ 292,110,786		$ 27,043,903

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 the Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rate of 1% could result in a increase to net income of $21,000 (2015 - $43,000) while a decrease in interest rates of 1% could result in a decrease to net income of $92,000 (2015 - increase of $55,000).

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

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. Foreign currency changes are monitored by the Credit Union for effectiveness of its foreign exchange mitigation activities and holdings are adjusted from time to time.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs. 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.

23. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling $7,000,000 (2015 - $7,000,000). These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Member loans

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

	2016	2015
Consumer		
Unadvanced loans	**$ 4,544,303**	$ 5,847,292
Unused lines of credit	**22,239,264**	22,030,671
	$ 26,783,567	$ 27,877,963
Commercial		
Unadvanced loans	**$ 1,492,636**	$ 2,549,164
Unused lines of credit	**6,531,570**	6,310,075
Letters of credit	**3,147,563**	1,706,972
	$ 11,171,769	$ 10,566,211

Contractual obligations

The Credit Union has an agreement with Fiserv Canada which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. The agreement expires December 31, 2017.

Capital expenditures

The Credit Union has no material commitments for capital expenditures.

24. PENSION PLAN

The credit union and its employees contribute to the BC Credit Union Employees' Pension Plan (the Plan); a multi-employer plan consisting of various participating employers within the credit union system in British Columbia. The credit union participates under the defined benefit division of the Plan, which provides benefits equal to 1.75% of service based on final average earnings. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets, the administration of the benefits, and establishing the contribution rates required to fund the benefits as recommended by the actuary.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the Plan's funding. The most recent valuation as at December 31, 2015 indicated an unfunded liability of $25,078,000 and an unfunded solvency liability of $123,032,000, which represents a 4% funding deficit and an 18% solvency deficit. The actuary does not attribute portions of the unfunded liability to individual employers. East Kootenay Community Credit Union paid $429,253 for employer contributions to the plan in fiscal 2016.

The next actuarial valuation is scheduled for December 31, 2018 with results available in mid-2019.