Interior Savings

Annual Report 2016

Local Money for Local Good.

Local Money for Local Good.

Local money for local good... it's present in everything we do. It means improving our communities with local investments, loans, knowledge and Member Rewards. It's about understanding local needs because we live, work and play here too. It's about global access to accounts with all the online services our members may need and a team of experts ready to help with knowledge and support right here at home. Best of all, local money means investing in our members. Money may make the world go round but local money makes our communities buzz!

Mission

We are a member-owned credit union dedicated to understanding and meeting the financial and related needs of our members with quality products and services.

We have excellent employees who are committed to developing enduring, mutually beneficial relationships with our members and our communities.

We share the success of our credit union with our members and our communities.

Vision

To be the best in the communities we serve.

Values

Integrity
Being fair, honest, and trustworthy.

Responsibility
Being accountable to members, employees, colleagues, and our communities; making good business decisions; and conducting operations in a fiscally responsible manner.

Respect
Encouraging openness, mutual respect, and individual development.

Excellence
Striving for excellence in innovative work practices, products, and relationships.

Workplace
Creating a workplace environment that is diverse, stimulating, and rewarding while recognizing and celebrating individual, work group, and organizational success.

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Corporate Overview

We're a financial institution offering a wide range of services. From day-to-day banking and lending to Wealth Management and Insurance Services, we have it all. With total assets of $2.4 billion, Interior Savings continues to be the largest credit union located in the Interior of British Columbia. Our members have access to a network of 21 branches and 16 insurance offices, two specialized Commercial Services Centres in Kamloops and Kelowna, and a Member Service Centre providing expanded service to members throughout our region. But that's only part of the picture.

We're proudly a cooperative where our customers are our members, our members are our owners, and our success begins and ends with them. Our job is to be there with the right financial supports so our members can succeed – in whatever way they may define success for themselves and their families.

It's also our job to be a community champion and give back to help our communities thrive. When community is at the heart of everything that you do, day-to-day business becomes so much more: an account with us supports a neighbour's mortgage, a loan to a business down the street, insurance for a nearby family's future, bursaries for children at the local school, a sponsorship, a community centre, and many more local causes, events and programs.

Our success is our members' success and we owe it all to them!

A Transformative Year

A message from Board Chair Elmer Epp and CEO Kathy Conway

2016 was an exciting year for our credit union. We refreshed our brand and introduced some new programs to help us really deliver on that which truly differentiates us: the fact that we're local and committed to building strong members and strong communities. With interest rates holding steady at record lows, it was also a challenging year but, thanks to the patronage and support of our more than 70,000 members, we met our earnings target and were able to maintain our investment in our employees, our members and our communities.

In 2016, we grew our asset base to $2.4 billion with earnings from operations of $12.2 million. We returned 22% of our 2016 earnings, nearly $2.5 million, to members through our Member Rewards, awarded $453,000 in bursaries through our Million Dollar Bursary program, and invested another half a million in support of local community programs.

Following are a few highlights from the year.

LOCAL MONEY FOR LOCAL GOOD

In 2016, we refreshed our brand to align with our values, our strategic direction, and our focus on the communities we serve. Our refreshed brand captures the importance of being here, giving back here and supporting those who live, work and play here. It differentiates us from our competitors with a connection to local money for local good and making a positive difference in people's lives. We believe that doing business with us will be attractive to those who want to see their community thrive and prosper.

NEW BRANCH DESIGN CONTINUES TO BUILD

We celebrated the grand re-opening of our newly renovated Mission and Orchard Centre Branches in Kelowna. With a warm, open design, easy access to convenience and technologies, and a one-stop service approach, we're continuing to create a more streamlined experience for you, our members, while taking into account your changing needs, now and into the future.

SETTING THE BAR FOR AGE-FRIENDLY BUSINESS

In 2016 Interior Savings became the first financial institution in British Columbia to become a Certified Age-Friendly Business. To receive this certification, our employees completed training to better understand and serve a maturing population with skill, respect and compassion. We also partnered with UBCO this year to support a research study based on the film "Age of Love" with a goal to help change the negative stigma our society places on aging. Between our community outreach, our partnership with UBCO and our staff training, we're working to be a leader in our communities for addressing the unique needs of older adults while also working to bridge the divide between generations.

EMBRACING A LEAN CULTURE

There's no doubt that the financial services sector is experiencing many changes and at a speed unlike anything we've seen before. Being agile and ready to pivot is part of the equation that will help us to meet our members' changing needs. With that in mind, 2016 saw the continuation of our commitment to LEAN: a globally renowned program that fosters an atmosphere of ongoing improvement and learning. Our employees are embracing and applying new tools and knowledge to provide greater value to our members.

ENHANCING THE ONLINE EXPERIENCE

Members do more online than ever before, and this movement is not expected to slow down or lose momentum. In 2016 we prepared to launch a major enhancement to online banking. The new features, introduced in early 2017, provide members a better overall financial picture along with the option to set budgets and track their spending and saving against those goals. Innovation and technology will continue to play a key role in everything we do and we remain committed to providing our members with the most up to date features and functionality to make banking easy and enjoyable.

STRONG, VIBRANT COMMUNITIES

October 20, 2016, marked the third annual Interior Savings' Day of Difference: A day where all 500+ employees went out into our communities to make a positive difference in people's lives and assist organizations who are helping build strong, vibrant communities. In addition, we rolled out a unique twist to encourage others to get involved in helping us create a wave of local good. We called it the $10,000 Local Give and were blown away by the community's response and subsequent actions of local good.

We didn't stop there though. In support of our commitment to community, we introduced an Employee Volunteer program. The program gives our employees an allotment of time during business hours in which they can volunteer. By doing so, we are supporting our employees in making a difference with whatever cause or organization is near to their heart.

Another way we are making a positive difference in our communities is with Each One Teach One: a Canadian credit union program intended to make financial literacy accessible to everyone and help people feel more confident about their finances and their future. A number of our employees are now trained to deliver the program out in our communities and have embraced the opportunity to help individuals become more financially savvy.

HELPING OUR YOUTH REACH THEIR POTENTIAL

Originally approved for a three year period (2014, 2015, 2016), we chose to extend the Million Dollar Bursary program for an additional year into 2017. The success of our Million Dollar Bursary Program far exceeded our expectations. In fact, this year we surpassed $1 million in awards since launching the program. We believe this program has the potential to make a real difference in educating and empowering our next generation of leaders and community builders.

LOOKING FORWARD

We love to make a positive difference in people's lives. We will continue to place people before profit. We believe that by doing so, we will strengthen relationships, build loyalty and earn your trust. We are honoured to be your financial partner and look forward to serving you long into the future.

Board and Management Report

Board of Directors

In the 2016 election, the Central/North Okanagan Region saw the election of Caroline Grover and re-election of Don Grant, each for three-year terms. The Thompson/South Okanagan Region saw the election of Ken Christian and Daphane Nelson, each for three-year terms. A special resolution to amend the credit union rules was also approved. Information on the Rules of the Credit Union can be found on our website, www.interiorsavings.com under About Us/The News Room/Corporate Reports. Following the election, Mr. Elmer Epp of Kamloops was re-elected as Chair of the Board of Directors.

The Board of Directors is responsible for overseeing the strategic direction of the Credit Union. In practice, the Board of Directors delegates responsibility for the management of the Credit Union to the President and Chief Executive Officer while retaining oversight responsibility.

The Board of Directors is expected to act in a manner that protects and enhances the value of the Credit Union in the interest of all members. While adhering to the Credit Union's policies and procedures, and to statutory and regulatory requirements, the Board of Directors is required to exercise independent judgement with utmost honesty and integrity. The Board of Directors take these responsibilities seriously and stand proudly behind the Credit Union and each and every one of its employees.

For information on Board responsibilities and activities, please refer to the 2016 Interior Savings Corporate Governance Report which can be found on our website, www.interiorsavings.com under About Us/The News Room/Corporate Reports.

Senior Management

Our senior management team works with the Board of Directors to position the Credit Union's strategic direction and develop the annual strategic plan. They monitor every aspect of the plan to ensure progress is being maintained and the organization is on track. They are responsible for a team of managers, and are committed to ongoing personal and professional development, and involvement in their communities.

Kathy Conway, President and Chief Executive Officer
Ted Schisler, Senior Vice President and Chief Operating Officer
Trevor Tremblay, Senior Vice President and Chief Financial Officer
Gene Creelman, Senior Vice President, Member and Community Engagement
Dave Cronquist, Senior Vice President, Strategy and Organizational Efficiency
Karen Hawes, Senior Vice President, Culture and Technology

Elmer Epp
Chair
Kamloops

Rick Weger
Vice-Chair
Kelowna

Ken Christian
Kamloops

Rolli Cacchioni
Kelowna

Jeff Holm
Kamloops

Stacey Fenwick
Kelowna

Don Grant
Peachland

Liza Curran
Ashcroft

Caroline Grover
Kelowna

Daphane Nelson
Kamloops

Pat Ryan
Kelowna

Shelly Sanders
Merritt

2016 Management Discussion and Analysis

This MD&A section is presented to provide an overview of the credit union's financial and operating performance. It is prepared in conjunction with the audited consolidated financial statements.

2016 Financial Performance

Summary

This past year, financial institutions in Canada and more specifically those in British Columbia experienced significant growth as housing markets continued to be active. In some instances, growth was constrained as many home buyers were negatively impacted by both the national mortgage rule changes introduced by the Canada Mortgage and Housing Corporation and the provincial foreign-buyer tax. Despite the cooling effect these changes had on housing sales, the continued low interest rate environment and steady housing market in Canada resulted in our moderate loan growth in 2016.

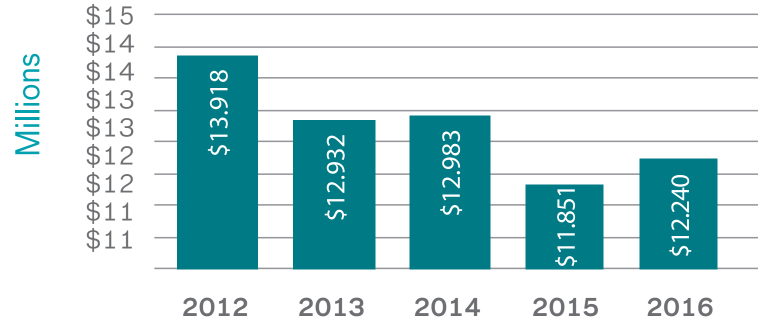
Consolidated total assets of Interior Savings reached $2.4 billion at December 31, 2016. Asset growth was $241.6 million or 11.1% with the significant areas of growth being loans and investments.

Loans accounted for 80.6% of total assets. Loan balances include both loan interest receivable and the allowance for impaired loans, the latter of which reduces the overall loan portfolio. Impaired loan totals and write-offs decreased during 2016.

Member deposit balances increased in 2016, up $76.1 million to $2.0 billion. Consolidated retained earnings strengthened further in 2016 to reach $184.8 million. Retained earnings represents the strongest source of regulatory capital.

Consolidated operating income in 2016 totalled $12.2 million compared to $11.9 million in 2015. Lower impairment losses and higher other income more than offset the lower financial margin and increased operating costs in 2016. Consolidated net income of $7.2 million was lower than the $8.6 million in 2015, due in large part to the prior year's lower income taxes.

OPERATING INCOME



More detail on the various financial item changes follows.

Financial Margin

Financial margin is the difference between interest and investment income earned on assets and interest expensed on deposits and other liabilities, including borrowings. In 2016, our financial margin was $50.4 million compared to $51.4 million in 2015. The positive impact of loan growth on interest revenue was overshadowed by the reduced average interest rate on the loan portfolio as new and renewing mortgages in 2016 were at historically low interest rates. The lower market rates, combined with a shift in the mix of retail and commercial loans, caused interest revenue on loans to reduce by $1.9 million. Other interest revenue was also negatively affected by lower investment and related interest rates, resulting in a reduction of $1.2 million from 2015. While interest revenue declined in 2016, this was partially offset by a $2.0 million reduction in net interest expense. The most significant cause of this reduction was the shift in member deposit preferences to lower rate deposit products during the year.

The interest rate environment in Canada is not expected to experience significant change in 2017 which will result in the financial margin continuing to experience downward pressure. Growth in loans and deposits is expected, however, this growth will attract lower yields for the foreseeable future.

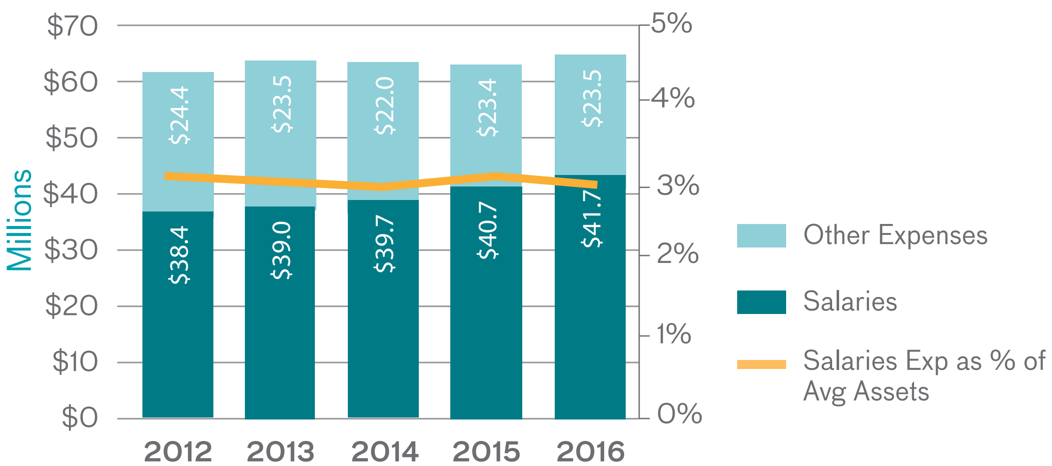
Other Income

Other income is comprised of loan fees, service charges, commissions related to insurance and mutual funds sales, foreign exchange and other miscellaneous revenues that are not interest related. In aggregate, other income increased by $2.1 million year over year. Areas of increased income included loan fee revenues generated from increased volumes of mortgage prepayments and commercial loan application fees, and increased revenues from creditor insurance commissions and commissions earned from mutual fund sales. These increases were partially offset by reduced income earned from foreign exchange transactions and member account service charges, the latter of which was the direct result of a reduction and elimination of specific member account service fees.

Operating Expenses

The rate of inflation in Canada for 2016 was reported to be 1.5% and comparably, our total operating expenses increased 1.7% or $1.1 million to $65.2 million. Employee salaries and benefits expense increased $0.9 million or 2.3% due mainly to salary increases for all staff.

SALARIES AND OTHER EXPENSES



In 2016, we continued with phasing in changes to a new branch staffing model to improve member experience. These improvements are helping to manage costs by balancing resources and expertise to the activities members need most. While the remaining major expense categories experienced some minor increases and decreases across a variety of areas, the net increase in non-salary costs was contained to $0.2 million. Additional detail on general operating and administrative expenses can be found in note 17 of the consolidated financial statements. Within that note, you will find moderate increases across several areas including deposit insurance premiums and advertising. In 2016, the base assessment rate for deposit insurance premiums was increased for all BC credit unions, thereby increasing deposit insurance expense. The increased advertising spend includes development costs for a new brand advertising campaign that highlights our local money for local good message.

We are also proud of our cost savings efforts that are inherent in the reduced expenses of stationery and supplies, professional fees, and courier and postage. The increase in total operating expenses coupled with the decline in total revenues caused the operating efficiency ratio to deteriorate slightly to 82.5% from 82.2% in the previous year, and is favourable when measured against comparable credit unions. The efficiency ratio is a measure of expenses incurred to generate one dollar in revenue. With this ratio, a lower number is better.

Distributions to Members

We have had a long-standing tradition of sharing our profits with our members. For 2016, we are sharing $2.5 million an amount which includes $1.8 million in patronage distributions, based on usage of services, $0.2 million in dividends on equity shares and $0.5 million for the current year's commitment for the bursary program. All distributions are approved annually by the Board of Directors. To line up with our fiscal year-end, payments to members are made in March every year, after the completion of the annual audit.

Comprehensive Income

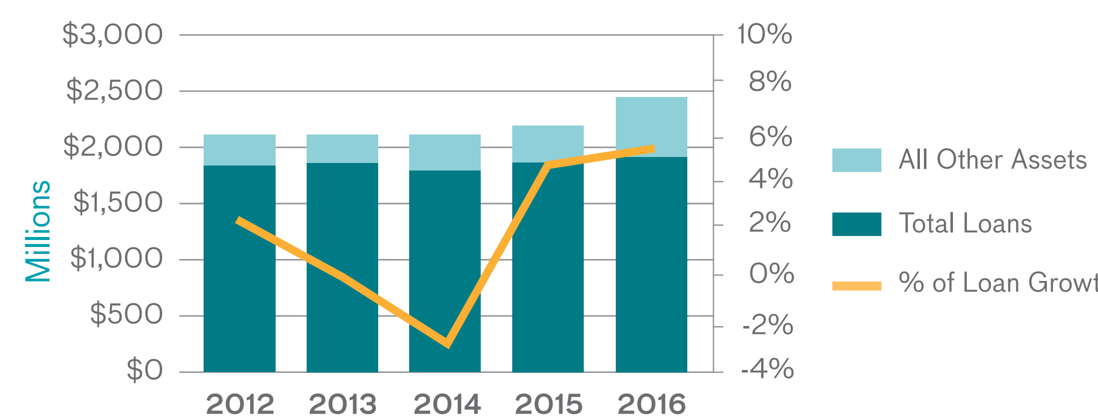
Comprehensive income is comprised of net income and other comprehensive income (OCI). Elements of net income have been described above. Interior's OCI includes 1) unrealized gains and losses on available for sale investments and 2) changes in cash flow hedges including the unrealized gains from fair valuation changes and the flow of those gains to net income when realized.

In 2016, we crystallized $6.0 million of gains on cash flow hedges. This resulted in a move out of comprehensive income and into deferred revenues that will then be amortized and recognized in operating income through to 2019. This activity, coupled with unrealized gains and losses on the remaining cash flow hedges, account for the change in comprehensive income from 2015.

Loans

Loan growth was a key focus in 2016. This year, member and other loans, net of accrued interest, increased by $101.3 million in 2016. The commercial lending category declined by 6.3%, which amounted to $23.1 million, as short-term commercial project financing fluctuated throughout the year. Increased business development efforts in 2016 resulted in a significant increase in new commercial and small business loan authorizations, reinforcing our commitment to supporting local economic development. As a proportion of loans at year-end, commercial lending represented 17.7% of the loan portfolio. Residential mortgages increased $133.8 million while personal loans and lines of credit decreased by $9.4 million.

ASSET AND LOAN GROWTH



Allowance for Impaired Loans

The allowance for impaired loans decreased to $4.4 million from $5.2 million in 2015. Loans written off, net of recoveries, increased to $2.4 million in 2016 from $1.3 million in 2015. Overall, the resulting charge to earnings for impaired loans decreased by $0.5 million to $1.6 million in 2016.

Deposits

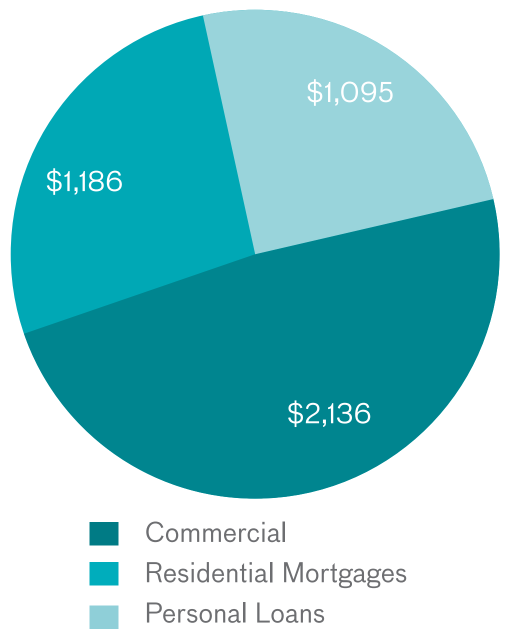
Total member deposits at the end of 2016 were $76.1 million higher than in 2015. The total growth and shifting member deposit product preferences resulted in $70 million growth in non-registered chequing and savings account balances, $20.5 million growth in registered plan deposits and reductions in non-registered term deposits and other balances of $14.4 million. The result was member deposits in non-registered chequing & savings represented just over 49% of total deposits.

In addition to our deposit products, we offer our members investment products from third-party suppliers, such as mutual funds, for which we receive a commission. In 2016, these funds under administration totalled $517.2 million, an increase of $56.2 million or 12.2% from the prior year. This increase was a combination of net sales growth and asset value appreciation of the overall funds under administration.

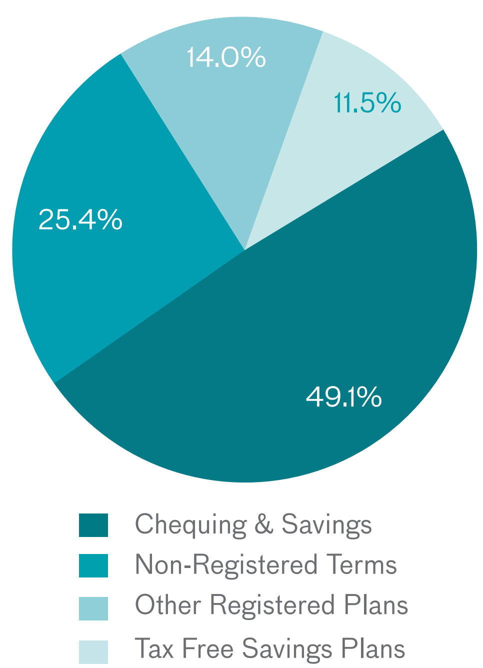
Borrowings

Borrowings at year end represent amounts due under the Canada Mortgage Bond program and are secured by member and other loans. In 2016, we participated in four new bond issues all of which mature throughout the year 2021 that raised over $170 million in additional liquidity that is available to fund future member loan growth and investment initiatives.

ALLOWANCE FOR IMPAIRED LOANS



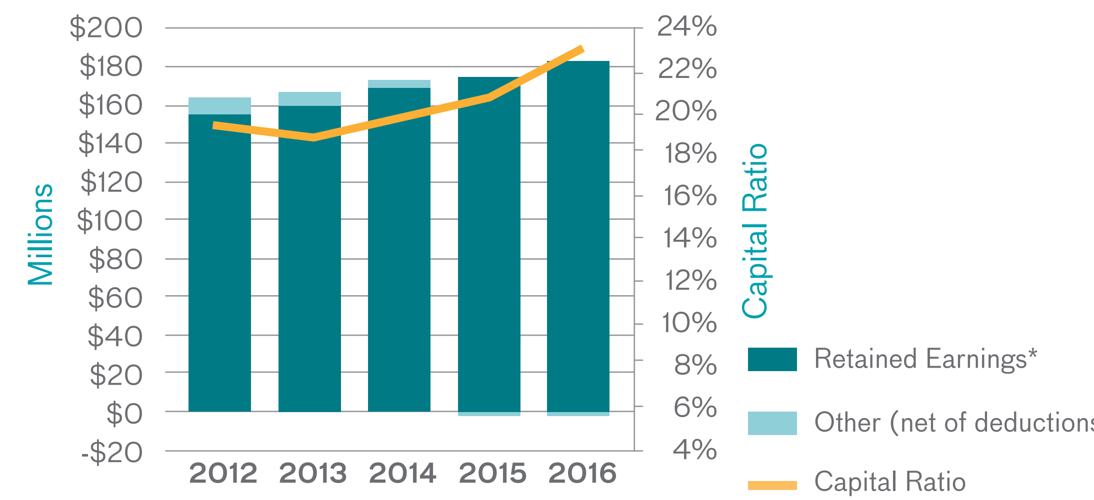
DEPOSIT MIX



Members' Equity and Capital

Total members' equity declined slightly to $186.6 million at the end of 2016. Retained earnings grew by $7.2 million which was offset by an $8.5 million reduction in accumulated other comprehensive income. Interior Savings continues to have one of strongest capital positions, relative to other BC credit unions of similar size, which builds long-term membership value and enables us to invest for future growth. At year end, our regulatory capital position increased to 22.8%. Our regulators, the Financial Institutions Commission of BC (FICOM), monitor our capital, which under current requirements for regulatory capital and supervisory capital must be maintained at a minimum of 8% and 10%, respectively, of risk-weighted assets. Management regularly monitors the overall capital position. More information on capital management can be found in note 21 of the financial statements.

CAPITAL



*Non-Consolidated Retained Earnings

Risk Management

As a financial institution, we are inherently exposed to a variety of risks. Our risk governance framework starts with the Board of Directors and its Committees which provide overall strategic direction, oversight of risk management and approved risk policies, and set risk tolerance levels for key areas of potential risk. Our executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor and mitigate risks. In addition to risks identified in note 20 to the financial statements, the credit union is also exposed to strategic, operational and regulatory risks, for which planning, policies and procedures, controls and monitoring are in place. To support our risk management, we have internal and external audit functions, which are independent of management and report to the Audit Committee. In addition, the Board of Directors has established a Risk Appetite framework and management has implemented an Enterprise Risk Management system to effectively monitor and manage emerging risks.

Consolidated Financial Statements

Consolidated Financial Statements

Independent Auditors' Report

To the Members of Interior Savings Credit Union:

We have audited the accompanying consolidated financial statements of Interior Savings Credit Union, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of income, comprehensive income (loss), 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 in our audit 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 Interior Savings Credit Union as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants

Kelowna, British Columbia
March 4, 2017

Consolidated Statement of Financial Position

As at December 31, 2016 ($ in thousands)	2016	2015
Assets		
Cash	**26,470**	12,247
Investments (Note 5)	**381,393**	246,224
Derivative financial instruments (Note 6)	**6,314**	17,262
Member and other loans (Note 7)	**1,955,819**	1,854,689
Property, plant and equipment (Note 8)	**17,312**	17,288
Intangible assets (Note 9)	**22,842**	22,850
Other assets (Note 10)	**11,968**	10,676
Deferred income tax asset (Note 11)	**3,385**	2,698
	2,425,503	2,183,934
Liabilities		
Member deposits (Note 12)	**2,034,716**	1,958,599
Payables and other liabilities	**25,849**	20,565
Derivative financial instruments (Note 6)	**2,619**	1,600
Borrowings (Note 13)	**170,458**	9,557
Member shares (Note 14)	**5,266**	5,757
	2,238,908	1,996,078
Members' equity		
Member shares (Note 14)	**279**	266
Retained earnings	**184,812**	177,591
Accumulated other comprehensive income	**1,504**	9,999
	186,595	187,856
	2,425,503	2,183,934

Approved on behalf of the Board

Elmer Epp Chair	Pat Ryan Director

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

Consolidated Statement of Income

For the year ended December 31, 2016 ($ in thousands)	2016	2015
Interest revenue		
Interest on member and other loans	**59,511**	61,463
Other interest revenue	**9,886**	11,064
	69,397	72,527
Interest expense		
Interest on member deposits	**17,360**	20,668
Other interest expense	**1,671**	419
	19,031	21,087
Financial margin	**50,366**	51,440
Impairment losses on member and other loans (Note 7)	**1,626**	2,076
	48,740	49,364
Other income (Note 16)	**28,700**	26,595
	77,440	75,959
Operating expenses		
Employee salaries and benefits	**41,676**	40,724
General operating and administrative (Note 17)	**12,281**	12,221
Occupancy and equipment	**5,049**	5,112
Depreciation and amortization	**2,785**	2,752
Data processing	**3,409**	3,299
	65,200	64,108
Operating income	**12,240**	11,851
Distribution to members (Note 14)	**2,490**	2,754
Income before income taxes	**9,750**	9,097
Provision for (recovery of) income taxes (Note 11)		
Current	**3,216**	840
Deferred	**(687)**	(326)
	2,529	514
Net income	**7,221**	8,583

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

Consolidated Statement of Comprehensive Income (Loss)

For the year ended December 31, 2016 ($ in thousands)	2016	2015
Net income	**7,221**	8,583
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss		
Actuarial loss on defined benefit plan	**(19)**	(145)
Items that will be reclassified subsequently to profit or loss		
Change in unrealized gains/losses on cash flow hedges	**(3,778)**	9,196
Realized gains on cash flow hedges included in net income	**(4,635)**	(4,602)
Change in unrealized gains/losses on available-for-sale investments	**(63)**	(66)
	(8,476)	4,528
Other comprehensive income (loss), net of income tax	**(8,495)**	4,383
Total comprehensive income (loss)	**(1,274)**	12,966

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

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2016 ($ in thousands)

	Member shares	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, December 31, 2014	**382**	**169,008**	**5,616**	**175,006**
Net income	-	**8,583**	-	**8,583**
Redemption of member shares	**(116)**	-	-	**(116)**
Actuarial loss on defined benefit plan	-	-	**(145)**	**(145)**
Change in unrealized gains/losses on cash flow hedges	-	-	**9,196**	**9,196**
Change in unrealized gains/losses on available-for-sale investments	-	-	**(66)**	**(66)**
Realized gains on cash flow hedges included in net income	-	-	**(4,602)**	**(4,602)**
Balance December 31, 2015	**266**	**177,591**	**9,999**	**187,856**
Net income	-	**7,221**	-	**7,221**
Issuance of member shares	**13**	-	-	**13**
Actuarial loss on defined benefit plan	-	-	**(19)**	**(19)**
Change in unrealized gains/losses on cash flow hedges	-	-	**(3,778)**	**(3,778)**
Change in unrealized gains/losses on available-for-sale investments	-	-	**(63)**	**(63)**
Realized gains on cash flow hedges included in net income	-	-	**(4,635)**	**(4,635)**
Balance, December 31, 2016	**279**	**184,812**	**1,504**	**186,595**

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2016 ($ in thousands)	2016	2015
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member and other loans	**60,451**	60,957
Other income received	**27,592**	25,318
Interest received on investments and derivatives	**12,387**	11,768
Interest paid on member deposits	**(18,735)**	(22,144)
Interest paid on borrowings	**(1,670)**	(419)
Cash paid to suppliers and employees	**(55,159)**	(62,958)
Patronage distributions paid to members	**(2,225)**	(3,109)
Income taxes (paid) recovered	**(3,555)**	522
	19,086	9,935
Financing activities		
Increase in member deposits	**77,683**	77,918
Proceeds from borrowings	**160,901**	-
Issuance (reduction) of equity shares	**13**	(116)
Dividends on equity and non-equity shares	**(157)**	(164)
	238,440	77,638
Investing activities		
Increase in member and other loans	**(105,828)**	(85,796)
Purchases of plant, equipment and intangibles	**(2,498)**	(3,877)
Purchase of investments	**(134,977)**	(10,648)
	(243,303)	(100,321)
Increase (decrease) in cash resources	**14,223**	(12,748)
Cash resources, beginning of year	**12,247**	24,995
Cash resources, end of year	**26,470**	12,247

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

Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS

REPORTING ENTITY

Interior Savings Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. The Credit Union is approved to operate throughout the Province of British Columbia and primarily serves members in the Thompson Okanagan region of the province. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment. The Credit Union's head office is located at 678 Bernard Avenue, Kelowna, BC.

BASIS OF PRESENTATION

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

The consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiaries, Interior Savings Estate Planning Inc., Interior Savings Investment Management Inc., and Interior Savings Insurance Services Inc. All intercompany balances and transactions have been eliminated.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all IFRSs issued by the IASB, and in effect, as at December 31, 2016.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 4, 2017.

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

BASIS OF MEASUREMENT

These consolidated financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

FUNCTIONAL AND PRESENTATION CURRENCY

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

2. CHANGE IN ACCOUNTING POLICIES

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The Credit Union adopted amendments to the following standards, effective January 1, 2016. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 3 Business combinations
- IFRS 10 Consolidated financial statements
- IFRS 13 Fair value measurement
- IAS 16 Property, plant and equipment
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IAS 40 Investment property

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH

Cash includes cash on hand, operating deposits with financial institutions, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

INVESTMENTS

Central 1 liquidity deposit instruments are classified as held-to-maturity 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.

Other deposit instruments and portfolio investments held with Central 1, other financial institutions, and investment management firms are classified as available-for-sale and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value with unrealized gains and losses recorded in other comprehensive income.

EQUITY INSTRUMENTS

These instruments are classified as available-for-sale 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.

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 earnings.

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 earnings.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management. Derivatives are reported on the consolidated statement of financial position at their fair value.

Hedges

The Credit Union, in accordance with its risk management strategies, manages interest rate risk through interest rate swaps.

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 tests the effectiveness of its hedges on an annual 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 include hedges of floating rate loans, embedded derivatives, other derivatives related to index-linked deposits and certain foreign exchange positions.

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 interest revenue/expense.

If the Credit Union closes out its hedge position early, the cumulative gains and 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 and losses on derivatives used to manage cash flow interest rate risk are recognized in earnings within interest expense or interest revenue.

Non-qualifying derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting, or are not designated under IAS 39 as hedges, are carried at fair value. Changes in fair value are reported in current period earnings.

MEMBER AND OTHER LOANS

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

Loans to members and other loans 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 and other loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short term balances are not discounted.

MEMBER AND OTHER LOAN LOSSES

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 for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in earnings.

IMPAIRMENT OF FINANCIAL ASSETS

For financial assets carried at amortized cost, 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, it includes the financial asset in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. 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 such reversal of an impairment loss is recognized in earnings.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in earnings and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Rate
Buildings	20 or 40 years
Computer equipment	3 years
Leasehold improvements	Lease term to a maximum of 10 years
Furniture, fixtures and other	5 or 10 years

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

INTANGIBLE ASSETS

Intangible assets consist of Insurance Corporation of British Columbia ("ICBC") licenses which are determined to have an indefinite useful life and are not being amortized. Any impairment in the value of the intangible asset is written off against earnings.

The customer lists determined to have a definite useful life are amortized based on the estimated useful life of 10 years, straight-line basis. Any impairment in the value of the intangible asset is written off against earnings.

Goodwill, being the excess of cost over assigned values of net assets acquired, is stated at cost less any write-down for impairment in value. The fair value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings in the year in which impairment is determined.

Other intangible assets consist of computer software that 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 an estimated useful life of 3 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 cost to sell, the asset is written down accordingly.

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

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

MEMBER DEPOSITS

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

PAYABLES AND OTHER LIABILITIES

Payables and other liabilities 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.

PENSION PLAN

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the contributions are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services.

In the defined benefit plan, a liability is recognized as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for any actuarial gains or losses and past service costs. Actuarial gains and losses have been recognized in other comprehensive income in the period in which they occur. Past-service costs are recognized immediately in profit or loss. Contributions are recognized as employee benefit expense when they are due. Excess/shortfall of contribution payments over the contribution due for service, is recorded as an asset/liability.

The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

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.

SECURITIZATION

For securitization transactions, 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 have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

MEMBER SHARES

Member 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. Shares that contain redemption features are accounted for using the partial treatment requirements of *IFRIC 2 Member Shares in Co-operative Entities and Similar Instruments.*

DISTRIBUTIONS TO MEMBERS

Patronage distributions, dividends to members and other distributions approved by the Board are recognized in earnings in the year that they are declared.

REVENUE RECOGNITION

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

Interest income on loans is recorded on an accrual basis using the effective interest rate method.

Loan negotiation fees are recognized using the effective interest rate method.

Income recorded on prepayment or renegotiation of fixed term loans is recognized when received.

Investment income for other than available-for-sale investments quoted in an active market is recorded on an accrual basis using the effective interest rate method.

Commissions and service charges are recognized as income when the related service is provided or entitlement to receive income has occurred.

Autoplan commission revenue is recognized from the date that policies are sold.

LEASED ASSETS

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total amounts payable under the lease are charged to earnings 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.

INCOME TAXES

Income tax expense is comprised of current and deferred taxes which are recognized in earnings except to the extent that they relate 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 to 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).

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 earnings. 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.

FINANCIAL INSTRUMENTS

All financial instruments are initially recognized on the consolidated statement of financial position at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, derivative assets and derivative liabilities.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union's financial instruments classified as available-for-sale include other deposits held with Central 1 and other financial institutions and equity investments.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union's financial instruments classified as held-to-maturity include Central 1 - liquidity deposits.

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member and other loans receivable, accrued interest and other receivables.

Financial instruments classified as other financial liabilities include member deposits, borrowings, member shares - liability and other liabilities. Other financial liabilities are subsequently carried at amortized cost.

DERECOGNITION OF FINANCIAL ASSETS

Derecognition of a financial asset occurs when:

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

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

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

The Credit Union designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments in this category are the embedded derivatives and derivatives related to index-linked term deposits and interest rate swaps not designated as hedging instruments. The Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. These instruments 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 recorded in other comprehensive income.

FAIR VALUE MEASUREMENTS

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

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

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2016 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 FINANCIAL INSTRUMENTS

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of the standard on its consolidated financial statements.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue – barter transactions involving advertising services. The standard provides a single, principles based five step model to be applied to all contracts with customers with certain exceptions. The five steps are:

1. Identify the contract(s) with customers.
2. Identify the performance obligation(s) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

JUDGEMENTS

Impaired member and other loan provision

In determining whether an impairment loss should be recorded in earnings, the Credit Union makes 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 and other 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 historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 7.

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.

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, are disclosed in Note 19.

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.

5. INVESTMENTS

The following table provides information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value in Note 19.

	2016	2015
Central 1 deposits		
Liquidity deposits - Canadian	**186,365**	147,801
Liquidity deposits - US	**2,717**	2,798
Other deposits - Canadian	**80,000**	32,500
Other deposits - US	**15,994**	15,655
Accrued interest receivable	**1,097**	1,253
Other financial institution deposits	**50,753**	30,426
Portfolio investments	**24,501**	-
	361,427	230,433
Equity instruments		
Central 1 shares	**8,586**	7,979
Other investments	**11,380**	7,812
	19,966	15,791
Total	**381,393**	246,224

The Credit Union must maintain liquidity deposits with Central 1 as required by governing legislation. 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. At maturity, these deposits are reinvested at market rates for various terms.

Other financial institution deposits represent interest bearing deposit notes held at other financial institutions. Portfolio investments include multi-strategy investment funds consisting of both equity and fixed income instruments. These deposits and investments are recorded at fair value.

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and is a condition of membership in Central 1. These shares are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. 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.

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 of 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.

Included in Central 1 shares are Class E shares which are recorded at cost as fair value cannot be measured reliably. The amount is nominal at year end.

Other investments are recorded at cost. There is no separately quoted market value for these investments and the fair value could not be measured reliably. 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.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union enters into derivative financial instruments for risk management purposes. Derivative financial instruments used by the Credit Union include:

- Interest rate swaps, which are used to hedge the Credit Union's exposure to interest rate risk.
- Foreign exchange forward contracts, which are used to hedge the Credit Union's exposure to foreign exchange risk.
- Index-linked call options, which are used to directly hedge member index-linked deposits.

The notional amounts of these derivative financial instruments are not recorded in the financial statements. Derivatives are recorded at fair value on the statement of financial position. The fair value of the derivative financial instrument assets and liabilities at December 31, 2016 were $6,314 and $2,619, respectively (2015 - $17,262 and $1,600).

Derivative financial information:

	Notional amounts				Fair values	
	Within 1 year	**1-5 years**	**2016**	2015	**2016**	2015
Interest rate swaps	-	**177,500**	**177,500**	512,500	**3,382**	15,247
Forward start interest rate swaps	-	**75,000**	**75,000**	75,000	**313**	415
Index-linked call options	**2,068**	**32,369**	**34,437**	27,807	**2,619**	1,600
Embedded derivatives in index-linked deposits	-	-	-	-	**(2,619)**	(1,600)
	2,068	**284,869**	**286,937**	615,307	**3,695**	15,662

7. MEMBER AND OTHER LOANS

Principal and allowance by loan type:

2016	**Principal performing**	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Residential mortgages	**1,551,142**	**121**	**64**	**1,122**	**1,550,077**
Personal loans	**59,735**	**46**	**46**	**1,049**	**58,686**
Commercial loans and mortgages	**340,111**	**6,270**	**1,270**	**866**	**344,245**
	1,950,988	**6,437**	**1,380**	**3,037**	**1,953,008**
Accrued interest receivable	**2,811**	**-**	**-**	**-**	**2,811**
	1,953,799	**6,437**	**1,380**	**3,037**	**1,955,819**

2015	**Principal performing**	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Residential mortgages	1,416,806	622	404	695	1,416,329
Personal loans	69,088	109	56	669	68,472
Commercial loans and mortgages	350,034	19,495	3,050	342	366,137
	1,835,928	20,226	3,510	1,706	1,850,938
Accrued interest receivable	3,751	-	-	-	3,751
	1,839,679	20,226	3,510	1,706	1,854,689

Included in the above are loans to non-members of $292,683 (2015 - $171,033).

The allowance for loan impairment changed as follows:

	2016	2015
Balance, beginning of year	**5,216**	4,457
Provision for loan impairment	**1,626**	2,076
	6,842	6,533
Less: accounts written off, net of recoveries	**2,425**	1,317
Balance, end of year	**4,417**	5,216

ALLOWANCE FOR IMPAIRED LOANS COLLECTIVE PROVISION

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. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, location, type of loan security, changes in underlying economic conditions, 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.

An estimate of the collective provision is based on the period of repayments that are past due and the existence of events identified above. For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the loan and security type.

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

	1-29 days	30-89 days	2016	2015
Residential mortgages	10,197	1,776	11,973	12,823
Personal loans	624	245	869	1,871
Commercial loans and mortgages	-	19	19	1,392
	10,821	2,040	12,861	16,086

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer equipment	Leasehold improvements	Furniture and fixtures	Total
Cost						
Balance at December 31, 2014	2,124	14,550	6,632	8,564	18,824	50,694
Additions	-	23	603	2,149	923	3,698
Balance at December 31, 2015	2,124	14,573	7,235	10,713	19,747	54,392
Additions	-	-	467	1,502	660	2,629
Balance at December 31, 2016	2,124	14,573	7,702	12,215	20,407	57,021
Depreciation						
Balance at December 31, 2014	-	7,824	6,048	6,819	13,878	34,569
Depreciation expense	-	471	432	632	1,000	2,535
Balance at December 31, 2015	-	8,295	6,480	7,451	14,878	37,104
Depreciation expense	-	472	454	691	988	2,605
Balance at December 31, 2016	-	8,767	6,934	8,142	15,866	39,709
Net book value						
At December 31, 2015	2,124	6,278	755	3,262	4,869	17,288
At December 31, 2016	2,124	5,806	768	4,073	4,541	17,312

9. INTANGIBLE ASSETS

	Computer software	Customer list	Licences	Goodwill	Total
Cost					
Balance at December 31, 2014	1,951	167	12,750	9,871	24,739
Additions	176	-	-	-	176
Balance at December 31, 2015	2,127	167	12,750	9,871	24,915
Additions	171	-	-	-	171
Balance at December 31, 2016	2,298	167	12,750	9,871	25,086
Amortization					
Balance at December 31, 2014	1,681	167	-	-	1,848
Amortization expense	217	-	-	-	217
Balance at December 31, 2015	1,898	167	-	-	2,065
Amortization expense	179	–	-	-	179
Balance at December 31, 2016	2,077	167	-	-	2,244
Carrying amounts					
At December 31, 2015	229	-	12,750	9,871	22,850
At December 31, 2016	221	-	12,750	9,871	22,842

10. OTHER ASSETS

	2016	2015
Accounts receivable	6,139	5,764
Loan origination/loan acquisition fees	4,133	3,623
Prepaid expenses and deposits	1,696	1,289
	11,968	10,676

11. INCOME TAXES

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

	2016	2015
Current tax expense (recovery) based on:		
Change in unrealized gain on cash flow hedges	**(915)**	3,127
Realized gains on cash flow hedges included in earnings	**(1,105)**	(1,617)
Actuarial gain (loss) on supplemental retireme nt plan	**(4)**	30
	(2,024)	1,540

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2015 - 26.0%) are as follows:

	2016	2015
Current income tax expense		
Comprehensive income for the year	**(1,274)**	12,966
Income tax expense (recovery) on the statutory rate	**(331)**	3,371
Preferred rate deduction for credit unions	-	(256)
Items not deductible for tax purposes	**858**	449
Other	**797**	(279)
Loss carryback	**(132)**	-
Recovery on reassessed returns	-	(905)
Tax effect of amounts recorded in other comprehensive income (as shown above)	**2,024**	(1,540)
	3,216	840
Origination and reversal of temporary difference	**(687)**	(326)
	2,529	514

The movement in 2016 deferred income tax assets are:

	Jan 1, 2016	Recognized in net income	Dec 31, 2016
Deferred income tax assets:			
Property, plant and equipment	**633**	**8**	**641**
Allowance for impaired loans	**534**	**292**	**826**
Other liabilities	**1,457**	**366**	**1,823**
Other	**74**	**21**	**95**
	2,698	**687**	**3,385**

The movement in 2015 deferred income tax assets and liabilities are:

	Jan 1, 2015	Recognized in net income	Dec 31, 2015
Deferred income tax assets:			
Property, plant and equipment	615	18	633
Allowance for impaired loans	212	322	534
Other liabilities	1,466	(9)	1,457
Other	79	(5)	74
	2,372	326	2,698

	2016	2015
Deferred income tax assets		
Deferred income tax assets to be settled within 12 months	**2,649**	1,991
Deferred income tax assets to be settled after more than 12 months	**736**	707
	3,385	2,698

12. MEMBER DEPOSITS

	2016	2015
Demand deposits	**996,213**	926,110
Term deposits	**515,000**	528,048
Registered plans	**516,602**	496,144
Non-equity shares	**184**	204
Accrued interest payable	**6,717**	8,093
	2,034,716	1,958,599

Included in registered plans are retirement savings plans, retirement income funds, registered disability savings plans, and tax free savings accounts.

13. BORROWINGS

The Credit Union maintains operating lines of credit and short term borrowing facilities with Central 1 and other major financial institutions which are secured by general security agreements and a demand debenture creating floating charges over the assets of the Credit Union. The approved facilities total $151,137 (2015 - $151,118) and any undrawn amount may be subject to standby fees.

The Credit Union is an approved issuer of mortgage backed securities for inclusion in the Canada Mortgage Bond ("CMB") program administered by the Canada Housing Trust. The CMB represents the full repayment amount of 5-year bonds maturing from 2017 to 2021 and are secured by specific pools of member and other loans. In order to ensure sufficient assets are available to meet its repayment obligations, the Credit Union maintains reinvestment accounts as required under the terms of the CMB program.

A summary of borrowings is as follows:

	2016	2015
Central 1	-	-
Other financial institutions	-	-
CMB	**170,458**	9,557
	170,458	9,557

14. MEMBER SHARES

		2016		2015	
	Authorized	**Equity**	**Liability**	Equity	Liability
Investment equity shares	**Unlimited**	**279**	**4,151**	266	4,607
Membership equity shares	**Unlimited**	**-**	**1,115**	-	1,150
		279	**5,266**	266	5,757

Member shares are recognized as a liability or equity 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 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.

Both classes of shares have a par value and redemption value of one dollar per share. Monies invested in membership equity and investment equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

Investment equity shares

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity 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.

Membership equity shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to own at least $5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

Distributions to members

	2016	2015
Patronage distributions	**1,834**	1,991
Dividends on members' shares	**156**	163
Bursary program	**500**	600
	2,490	2,754

Patronage distributions are calculated based on the level of business a member conducts with the Credit Union. Dividends and other approved distributions may be paid at the discretion of the Board of Directors in the form of cash or additional shares.

15. PENSION PLAN

The Credit Union provides four types of retirement plan options for its employees. These include participation in a multi-employer defined benefit pension plan (the "Plan"), administered by Central 1; participation in a defined benefit Supplemental Employee Retirement Plan (the "SERP"), administered by the Credit Union; participation in a group registered retirement savings plan, administered by the Credit Union; and participation in a money purchase plan offered and administered by Central 1. The annual cost of the pension benefits for the Plan and the SERP have been determined by an independent actuary based on the accrued benefit actuarial cost method.

The Plan is governed by a 12 member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Plan, as at December 31, 2016, has about 3,200 active employees, approximately 760 retired plan members, and total plan assets of $559,400. Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability of $25,100 and a solvency deficiency of $123,000. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. The pension expense for the year ended December 31, 2016 amounted to $3,395 (2015 - $3,303) which has been recorded as an expense in earnings.

The SERP is a non-registered, unfunded defined benefit plan covering certain employees of the Credit Union. Every year, an actuarial valuation is performed to determine the accrued benefit obligation and the annual pension cost. The most recent actuarial valuations were as of December 31, 2016 for the SERP.

The Credit Union also provides additional pension benefits to certain eligible employees who are members of the registered retirement savings plan. Under this plan, the Credit Union contributes to an employee's registered plan an amount based on a percentage of the employee's earnings, and expenses the contributions to the plan in the year in which payments are made. Additionally, the employee can contribute to this plan. The Credit Union contributed $63 during the year (2015 - $72).

The money purchase plan is also a multi-employer pension plan with several active contributors from various Credit Unions. The Credit Union contributes to an employee's pension plan account an amount based on a percentage of the employee's earnings and expenses the contributions to the plan in the year in which payments are made. The Credit Union contributed $40 during the year (2015 - $46).

Funding of the Plan complies with applicable regulations that require actuarial valuations of the pension funds at least once every three years in Canada, depending on the funding status.

16. OTHER INCOME

	2016	2015
Commissions	**17,790**	16,501
Member account service fees	**6,034**	6,373
Member and other loan fees	**2,688**	1,517
Credit card commissions	**900**	885
Foreign exchange	**674**	813
Other accounts	**508**	462
Gain on disposal of equipment	**-**	44
Writedown of investment	**106**	-
	28,700	26,595

17. GENERAL OPERATING AND ADMINISTRATIVE

	2016	2015
Stationery and supplies	**1,439**	1,589
Advertising	**1,809**	1,640
Deposit insurance	**1,729**	1,518
Other	**1,552**	1,535
Bank charges and interest	**1,464**	1,515
Professional fees	**1,245**	1,335
Training, meetings and travel	**766**	721
Member services and lending	**645**	614
Courier and postage	**561**	670
Sponsorship and donations	**441**	458
Telephone	**327**	325
Central 1 dues	**303**	301
	12,281	12,221

18. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL ("KMP")

The Credit Union entered into the following transactions with key management personnel and directors, which are defined by *IAS 24, Related Party Disclosures*, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel, along with their close family members.

Compensation for related parties

	2016	2015
Salaries, and other short-term employee benefits	**1,931**	1,968
Total pension and other post-employment benefits	**413**	336
Total remuneration	**2,344**	2,304

Included in the above is Board of Directors' remuneration of $220 (2015 - $226).

Loans to related parties

The Credit Union's policy for lending to directors and KMP is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. KMP may receive concessional rates of interest on their loans and facilities. There are no additional benefits or concessional terms and conditions applicable to related parties. There are no loans that are impaired in relation to loan balances with directors, KMP, and their close family members.

	2016	2015
Balance of loans and lines of credits outstanding at year end	**2,655**	2,362
Unused lines of credit outstanding at year end	**585**	283
	3,240	2,645

Loans and lines of credit advanced during the year, excluding repayments amount to $731 (2015 - $1,326).

Interest income and expense

	2016	2015
Interest collected on loans and revolving credit facilities	**49**	53
Interest paid on deposits	**31**	55

Deposits

	2016	2015
Balance of term and savings deposits outstanding at year end	**3,233**	4,469

The Credit Union's policy for receiving deposits from directors and KMP 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 related parties.

19. FAIR VALUE MEASUREMENTS

RECURRING FAIR VALUE MEASUREMENTS

The Credit Union's assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

	2016 Fair Value	Level 1	Level 2
Assets			
Financial assets at fair value through profit or loss			
Cash	**26,470**	**26,470**	**-**
Derivative financial instruments	**6,314**	**-**	**6,314**
Available-for-sale financial assets			
Investments - other non-liquidity deposits	**172,345**	**-**	**172,345**
	205,129	**26,470**	**178,659**
Liabilities			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	**2,619**	**-**	**2,619**
Net recurring fair value measurements	**202,510**	**26,470**	**176,040**

	2015 Fair Value	Level 1	Level 2
Assets			
Financial assets at fair value through profit or loss			
Cash	12,247	12,247	-
Derivative financial instruments	17,262	-	17,262
Available-for-sale financial assets			
Investments - other non-liquidity deposits	79,601	-	79,601
	109,110	12,247	96,863
Liabilities			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	1,600	-	1,600
Net recurring fair value measurements	107,510	12,247	95,263

There were no assets or liabilities categorized into level 3 of the fair value hierarchy.

Valuation techniques and inputs for recurring and non-recurring level 2 fair value measurements is as follows:

Fair value measurement	Fair Value	Valuation techniques	2016 Inputs
Derivative financial assets	6,314	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset.	Discount rates based on CDOR and swap rates.
Investments - non-liquidity deposits	172,345	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on CDOR and swap rates.
Derivative financial liabilities	2,619	Fair value is determined using the net present value of cash flows attributable to the derivative financial liability.	Discount rates based on CDOR and swap rates.

Fair value measurement	Fair Value	Valuation techniques	2015 Inputs
Derivative financial assets	17,262	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset	Discount rates based on CDOR and swap rates.
Investments - non-liquidity deposits	79,601	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on CDOR and swap rates.
Derivative financial liabilities	1,600	Fair value is determined using the net present value of cash flows attributable to the derivative financial liability.	Discount rates based on CDOR and swap rates.

Transfers between levels of the fair value hierarchy

The Credit Union's policy for when transfers between the levels of the fair value hierarchy are deemed to have occurred, is at the date of the event or change in circumstances that caused the transfer. No such transfers occurred during the year.

Assets and liabilities for which fair value is only disclosed

The following table analyses within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value at December 31, 2016 but for which fair value is disclosed:

	2016 Fair Value	Level 2	Level 3
Assets			
Investments - liquidity deposits	**190,138**	**190,138**	-
Equity investments	**19,966**	-	**19,966**
Member and other loans	**1,961,782**	**1,961,782**	-
Other assets	**6,139**	**6,139**	-
	2,178,025	**2,158,059**	**19,966**
Liabilities			
Member deposits	**2,034,137**	**2,034,137**	-
Borrowings	**171,779**	**171,779**	-
Payables and other liabilities	**25,849**	**25,849**	-
Member shares - liability	**5,266**	-	**5,266**
	2,237,031	**2,231,765**	**5,266**

	2015 Fair Value	Level 2	Level 3
Assets			
Investments - liquidity deposits	152,673	152,673	-
Equity investments	15,791	-	15,791
Member and other loans	1,867,582	1,867,582	-
Other assets	5,764	5,764	-
	2,041,810	2,026,019	15,791
Liabilities			
Member deposits	1,960,768	1,960,768	-
Borrowings	9,699	9,699	-
Payables and other liabilities	20,565	20,565	-
Member shares - liability	5,757	-	5,757
	1,996,789	1,991,032	5,757

20. FINANCIAL INSTRUMENTS

The Credit Union is exposed to various types of risks as a result of the nature of its business activities. This note describes the Credit Union's objectives, policies and processes for managing the risk arising from financial instruments and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

CREDIT RISK

Credit risk is the risk that a financial loss will be incurred if a counterparty fails to meet its contractual obligations to the Credit Union. This risk can relate to balance sheet assets such as loans, as well as off balance sheet assets such as commitments and letters of credit.

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 value of collateral available to secure the loan.

Objectives, Policies and Processes

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Investment and Lending Committee ("ILC") comprised of members of the Board and senior management, approves and regularly reviews lending policies, establishes lending limits for the Credit Union, delegates lending limits and reviews quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements. The Audit Committee reviews the adequacy of the allowance for impaired loans.

Credit risk policies and principles used to manage credit risk exposure include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- 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.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.
- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities.

Maximum Exposure to Credit Risk

The Credit Union's maximum exposure to credit risk without taking into account any collateral or other credit enhancements is as follows:

	2016 Carrying value	2016 Maximum exposure	2015 Carrying value	2015 Maximum exposure
Investments	**381,393**	**381,393**	246,224	246,224
Derivative financial instruments	**6,314**	**6,314**	17,262	17,262
Member and other loans	**1,955,380**	**1,955,380**	1,854,689	1,854,689
Unadvanced loans	**-**	**47,532**	-	39,308
Unused lines of credit	**-**	**290,157**	-	290,593
Letters of credit	**-**	**4,622**	-	4,112
	2,343,087	**2,685,398**	2,118,175	2,452,188

The principal collateral and other credit enhancement held as security for loans include i) insurance, mortgages over residential lots and properties, ii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iii) recourse to the commercial real estate properties being financed, and iv) recourse to liquid assets, guarantees and securities. Credit risk objectives, policies and processes have not changed significantly from 2013. At year end, the total unsecured loans were $44,971 (2015 - $45,717).

Concentration of Risk

All member and other loans and member deposits are with individuals located primarily in the Thompson Okanagan region of British Columbia. Management believes that the Credit Union's loans and deposits are not exposed to significant concentration of credit risk.

MARKET RISK

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below.

INTEREST RATE RISK

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as, loan prepayment and deposit redemption, which also impact interest rate risk.

Risk Measurement

The Credit Union measures its interest rate risk on a monthly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, Policies and Processes

The Asset Liability Committee ("ALCO"), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and decide future strategy. These policies and guidelines define the standards and limits within which the risks to net interest income and the value of equity are contained. An asset/liability risk report is prepared monthly for ALCO and reviewed on a quarterly basis by the ILC. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to changes in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	2016	2015
1% increase in interest rates		
Impact on financial margin (for the next 12 months)	**(1,336)**	(2,754)
Impact on market value of members' equity	**11,491**	5,098
1% decrease in interest rates		
Impact on financial margin (for the next 12 months)	**233**	1,558
Impact on market value of members' equity	**(20,179)**	(14,431)

INTEREST RATE SENSITIVITY

The main source of income for the Credit Union is its financial margin. Financial margin is the difference between interest received on assets and interest paid on liabilities. Management of financial margin is performed by the ALCO. The ALCO uses extensive cash flow analysis to monitor the Credit Union's position and to ensure risk is kept within the limits prescribed by the Board approved Investment and Lending Policy.

The following table show the terms to maturity of the interest sensitive financial instruments as shown on the statement of financial position.

	Under 1 Year	Avg. rate	1-5 Years	Avg. rate	Over 5 Years	Avg. rate	Non-interest sensitive	2016 Total	2015 Total
Assets									
Cash	18,234	0.61 %	-	-	-	-	8,236	26,470	12,247
Investments	146,298	1.41 %	197,567	1.41 %	24,501	1.54 %	13,027	381,393	246,224
Derivative financial instruments	-	-	-	-	-	-	6,314	6,314	17,262
Member loans	753,119	3.37 %	1,157,369	2.96 %	42,078	3.94 %	3,253	1,955,819	1,854,689
Other assets	-	-	-	-	-	-	6,139	6,139	5,764
	917,651		1,354,936		66,579		36,969	2,376,135	2,136,186
Liabilities									
Member deposits	714,263	0.96 %	499,870	1.51 %	-	-	820,583	2,034,716	1,958,599
Payables and other liabilities	-	-	-	-	-	-	25,849	25,849	20,565
Derivative financial instruments	-	-	-	-	-	-	2,619	2,619	1,600
Borrowings	18,407	2.44 %	152,051	2.54 %	-	-	-	170,458	9,557
Member shares	-	-	-	-	-	-	5,266	5,266	5,757
	732,670		651,921		-		854,317	2,238,908	1,996,078
Mismatch	184,981		703,015		66,579		(817,348)	137,227	140,108
Net derivative contracts	(177,500)		189,500		(12,000)		-	-	-
Net mismatch	7,481		892,515		54,579		(817,348)	137,227	140,108

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in U.S. dollars.

Risk Measurement

The Credit Union's foreign exchange positions are measured and monitored regularly.

Objectives, Policies and Processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between U.S. dollar assets and liabilities. Foreign exchange forward contracts may be used to hedge the Credit Union's exposure to foreign exchange risk. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2016, the Credit Union's exposure to foreign exchange risk was not significant.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due.

Risk measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgements pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

Objectives, Policies and Processes

The Credit Union's liquidity management framework is monitored by ALCO and policies are approved by the ILC and Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources. Central 1 commits to providing the Credit Union with a basic credit facility up to 5% of assets with an optional custom credit facility for needs in excess of this limit. Additional funding is available from alternate providers. As at December 31, 2016, the Credit Union had available funding sources totaling $151,137 (2015-$151,118).

Legislation requires that the Credit Union maintain liquid assets with Central 1 of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly and the ILC receives regular reporting of available cash resources and utilization rates. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2016, the Credit Union's total liquidity ratio was 18.88% (2015 - 12.38%).

The following table shows the principal obligations related to financial liabilities significant in the management of liquidity risk as at December 31, 2016:

	Demand & Notice	Under 1 year	1 to 5 years	Over 5 years	2016	2015
Deposits	**1,532,062**	**178,550**	**324,104**	-	**2,034,716**	1,958,599
Borrowings	-	**9,557**	**160,901**	-	**170,458**	9,557
	1,532,062	**188,107**	**485,005**	-	**2,205,174**	1,968,156

21. CAPITAL MANAGEMENT

As a provincially chartered Credit Union, the Credit Union is required to measure its capital adequacy based on regulations monitored by FICOM. Regulatory capital must have the following fundamental characteristics: i) permanency; ii) be free of fixed charges against earnings; and iii) be subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may be deducted from capital to arrive at the total capital base.

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0% to 150%. The regulatory ratio is then computed by dividing the total capital base by the Credit Union's risk weighted assets, including off-balance sheet commitments. Regulation currently requires that each Credit Union must maintain a minimum capital to risk-weighted assets ratio of 8%. FICOM's supervisory target capital ratio is established above the regulatory minimum at 10%.

The Credit Union's capital adequacy ratio as of December 31, 2016 was 22.8% (2015 - 20.9%).

Capital of the Credit Union is comprised of:

	2016	2015
Primary capital		
Retained earnings - non-consolidated	**182,446**	175,530
Membership equity shares	**1,115**	1,150
Deferred income tax	**67**	424
	183,628	177,104
Secondary capital		
Share of system retained earnings	**17,152**	15,314
Other equity shares	**4,430**	4,873
	21,582	20,187
Deductions from Capital	**(24,110)**	(23,728)
Capital base	**181,100**	173,563

The Credit Union manages capital and its composition based on statutory requirements. The ratio is reviewed monthly and is addressed in annual and three year planning cycles to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the ILC.

22. COMMITMENTS

MEMBER AND OTHER LOANS

The Credit Union's commitments to provide credit to its members are disclosed in the credit risk section of Note 20.

CONTRACTUAL OBLIGATIONS

The Credit Union is committed to payments for data processing services and system improvements of $1,320 per annum until December 31, 2017.

The Credit Union is committed to lease payments for premises of approximately $2,063 (2015 - $1,875) per annum with varying terms, the last term ending in 2025. Expiring leases are expected to be renewed with similar terms.

Notes

Interior Savings