copperfin
CREDIT UNION

Audit Committee Report and Financial Statement Year Ended December 31, 2017

Audit and Operational Risk Committee Report – 2017

The Audit & Operational Risk Committee of the Board of Directors fulfills the responsibilities of the Audit Committee as set out in the Credit Unions and Caisses Populaires Act (Ontario)(the "Act")and conducts its affairs in accordance with the requirements of Section 125 of the Act and Section 27(2) of Ontario Regulation 237/09. The committee which consists of five directors has a mandate to cover all of the duties, which are specified to be performed by Audit Committees in the Act and accompanying Regulations.

We would like to report that we have reviewed the audited financial statements for the year ending 2017 and confirm that they fairly represent Copperfin's position and comply with International Financial Reporting Standards. We have met with the external auditors both before and after the preparation of the statements to review the scope of the audit and any findings brought forth on the completion of the audit. We have received confirmation that there are no outstanding legal actions involving Copperfin from our lawyers.

It has been an extremely busy year for the Audit and Operational Risk Committee. The following activities were undertaken in 2017:

- Education and training on the roles and responsibilities of the Audit Committee and best practices as well as a self-evaluation on the performance of committee members and external Auditor
- Reviewed and made appropriate changes to policies and procedures to ensure internal controls were in place
- Updated and enriched the Enterprise Risk Management reporting and framework including a proactive approach to identifying potential upcoming risks affecting Copperfin in view of the continuously evolving environment in which we operate
- Reviewed all Audits by external stakeholders and approved Management's response to them for any identified areas of risk
- Performed an annual test of the Disaster Recovery Plan and updated the plan based on findings
- Oversite and review of the bi-annual examination and report completed by the Deposit Insurance Corporation of Ontario

During the year the Audit & Operational Risk Committee held 5 meetings, arranging the agenda to fulfill the annual mandate.

We report that all significant recommendations made by the Audit and Operational Risk Committee have been or are in the process of being implemented. In addition, there are no matters which the Audit Committee believes should be reported to the Members, nor are there any further matters that are required to be disclosed pursuant to the Act or the Regulations thereto.

The Audit Committee had the full co-operation of Copperfin's management team, BDO, and especially Bev Beach. We thank them all for their dedication to ensure Copperfin adequately monitors and protects the assets of our members. I also would like to take this opportunity to thank all the members of the committee who worked so diligently this past year to achieve so much.

J. McCutchon

Janet McCutchon
Chair, Audit and Operational Risk Committee

COPPERFIN CREDIT UNION LIMITED

Financial Statements

December 31, 2017

Copperfin Credit Union Limited

Financial Statements
December 31, 2017

Table of Contents

Tel: 807-468-5531
Fax: 807-468-9774
www.bdo.ca

BDO Canada LLP
301 First Avenue S, Suite 300
Kenora ON P9N 4E9 Canada

Independent Auditor's Report

To the Members of
Copperfin Credit Union Limited

We have audited the accompanying financial statements of Copperfin Credit Union Limited, which comprise the statement of financial position as at December 31, 2017 and the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year ended December 31, 2017 and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Copperfin Credit Union Limited as at December 31, 2017 and its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Kenora, Ontario

March 8, 2018

Copperfin Credit Union Limited
Statement of Financial Position
December 31, 2017

	2017	2016
Assets		
Cash (Note 7)	$ 7,324,774	$ 10,880,941
Liquidity deposits (Note 7)	27,719,514	27,425,164
Investments (Note 11)	2,482,357	3,181,299
Income taxes receivable	3,798	-
Other assets	469,062	512,003
Derivative financial instruments (Note 4, 9)	259,633	325,613
Member loans (Note 3)	354,874,818	315,862,032
Deferred income taxes asset (Note 15)	562,872	429,994
Property, plant and equipment (Note 17)	4,875,433	4,092,470
Intangible assets (Note 17)	62,677	82,777
	$398,634,938	$ 362,792,293
Liabilities		
Indebtedness to Central 1 (Note 7)	$ 7,501,659	$ -
Accounts payable and accrued liabilities	2,159,597	2,182,250
Income taxes payable	-	39,412
Members' deposits (Note 4)	329,988,203	316,505,054
Securitized mortgages under administration (Note 10)	26,891,186	14,260,043
Derivative financial instrument (Note 9)	469,149	325,613
Total Liabilities	367,009,794	333,312,372
Members' Equity		
Members' shares (Note 5)	4,843,708	5,100,958
Retained earnings	26,660,092	23,824,170
Accumulated other comprehensive income	121,344	554,793
Total Members' Equity	31,625,144	29,479,921
	$398,634,938	$ 362,792,293

Signed on behalf of the Board of Directors by:

Director

Director

The accompanying notes are an integral part of these financial statements

copperfin CREDIT UNION

Copperfin Credit Union Limited
Statement of Comprehensive Income
For the Year-Ended December 31, 2017

	2017	2016
Interest revenue		
Interest on member loans	**$13,878,468**	$ 13,014,249
Other interest revenue	**428,813**	509,198
Total Interest revenue	**14,307,281**	13,523,447
Interest and loan related expenses		
Interest on member deposits	**2,209,899**	2,365,529
Other interest expense	**435,926**	134,655
Impairment on member loans (Note 3)	**684,800**	331,956
Total interest and loan related expenses	**3,330,625**	2,832,140
Financial margin	**10,976,656**	10,691,307
Other income (Note 14)	**3,706,517**	3,117,481
	14,683,173	13,808,788
Non interest and operating expenses		
Deposit insurance	**211,881**	220,614
Depreciation and amortization	**503,571**	555,800
Director and committee expense	**118,513**	97,263
Distributions to members (Note 5)	**324,000**	404,015
Employee salaries and benefits	**6,042,624**	5,854,874
Other operating and administrative	**3,350,187**	3,156,723
Lease costs	**162,182**	106,088
Occupancy	**425,264**	445,486
Total non-interest expenses	**11,138,222**	10,840,863
Income before income taxes	**3,544,951**	2,967,925
Provision for income taxes (Note 15)		
Current income tax	**622,847**	626,645
Deferred income tax (recovery)	**(7,038)**	35,415
Net provision for income tax	**615,809**	662,060
Net Income for the year	**$ 2,929,142**	$ 2,305,865
Other comprehensive income (net of tax)		
Change in unrealized gains (losses) on available-for-sale investments	**(433,449)**	10,371
Total comprehensive income for the year	**$ 2,495,693**	$ 2,316,236

The accompanying notes form an integral part of these financial statements

Copperfin Credit Union Limited
Statement of Changes in Members' Equity
For the Year-Ended December 31, 2017

	Accumulated Other Comprehensive Income	Members' Shares	Retained Earnings	Total
Balance at January 1, 2016	$ 544,422	$ 5,413,658	$ 21,611,228	$ 27,569,308
Net income	-	-	2,305,865	2,305,865
Distributions to Members (Note 5)	-	-	(92,923)	(92,923)
Members' shares issued	-	35,450	-	35,450
Members' shares redeemed	-	(348,150)	-	(348,150)
Change in unrealized gains (losses) on available-for-sale investments	10,371	-	-	10,371
Balance on December 31, 2016	**$ 554,793**	**$ 5,100,958**	**$ 23,824,170**	**$ 29,479,921**
Net income	**-**	**-**	**2,929,142**	**2,929,142**
Distributions to Members (Note 5)	**-**	**-**	**(93,220)**	**(93,220)**
Members' shares issued	**-**	**35,300**	**-**	**35,300**
Members' shares redeemed	**-**	**(292,550)**	**-**	**(292,550)**
Change in unrealized gains (losses) on available-for-sale investments	**(433,449)**	**-**	**-**	**(433,449)**
Balance on December 31, 2017	**$ 121,344**	**$ 4,843,708**	**$ 26,660,092**	**$ 31,625,144**

The accompanying notes form an integral part of these financial statements

Copperfin Credit Union Limited
Statement of Cash Flows
For the Year-Ended December 31, 2017

	2017	2016
Operating Activities		
Net income for the year	**$ 2,929,142**	$ 2,305,865
Adjustments for:		
Interest revenue	**(14,307,281)**	(13,523,447)
Interest expense	**2,645,825**	2,500,184
Depreciation and amortization	**503,571**	555,800
Provision for income taxes	**615,809**	662,060
Provision for impairment on loans	**684,800**	331,956
Write-off of member loans (net)	**(532,437)**	(260,725)
Holding loss on derivative financial instruments	**-**	5,183
Realized loss from disposal of property, plant and equipment	**-**	21,479
Realized loss on disposal of investments	**6,681**	45,867
	(7,453,890)	(7,355,778)
Change in other assets	**42,941**	(163,751)
Change in other liabilities	**28,144**	348,142
Change in dividend and patronage return accrued	**(50,797)**	(50,086)
	20,288	134,305
Changes in member activities (net)		
Change in member loans	**(39,064,183)**	(24,543,430)
Change in member deposits	**13,565,293**	9,365,551
	(25,498,890)	(15,177,879)
Cash flows related to interest, dividends and income taxes		
Interest received on member loans	**13,777,501**	13,077,058
Interest received on investments	**453,424**	539,859
Dividends paid on investment shares	**(93,220)**	(92,923)
Interest paid on member deposits	**(2,726,310)**	(2,549,640)
Income taxes paid	**(666,057)**	(416,983)
	10,745,338	10,557,371
Total cash inflows (outflows) from operating activities	**$ (22,187,154)**	$ (11,841,981)

The accompanying notes form an integral part of these financial statements

	2017	2016
Investing Activities		
Return of capital on investments in CUCO Co-operative	**$ 60,775**	$ 97,538
Net proceeds from investments	**(55,953)**	1,501,257
Purchase of property, plant and equipment	**(1,266,434)**	(156,378)
Total cash inflows (outflows) from investing activities	**(1,261,612)**	1,442,417
Financing Activities		
Proceeds from borrowing	**7,500,000**	-
Proceeds of mortgage securitization	**14,376,391**	8,762,370
Payment of mortgage securitization liabilities	**(1,726,542)**	(576,289)
Net redemption of membership shares	**2,225**	(24,435)
Net redemption of patronage shares	**(88,243)**	(173,591)
Redemptions of investment shares	**(171,232)**	(114,675)
Total cash inflows (outflows) from financing activities	**19,892,599**	7,837,380
Net decrease in cash and cash equivalents	**(3,556,167)**	(2,562,184)
Cash and cash equivalents, beginning of year	**10,880,941**	13,443,125
Cash and cash equivalents, end of year (Note 7)	**$7,324,774**	$ 10,880,941

The accompanying notes form an integral part of these financial statement

1. CORPORATE INFORMATION

Reporting Entity

Copperfin Credit Union Limited ("the Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act, ("The Act") and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines, debit and credit cards and internet banking. The Credit Union head office is located at 346 Second Street South, Kenora, Ontario, Canada.

These financial statements have been authorized for issue by the Board of Directors on March 8, 2018.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

(b) Basis of Measurement

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

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

(c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- In determining whether an impairment loss should be recorded relating to member loans in the statement of comprehensive income (Note 3).
- The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 9 & 11).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. MEMBER LOANS

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

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

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

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

Terms and Conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 6%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2017 was 3.20%.

The interest rate offered on fixed rate loans being advanced at December 31, 2017 ranges from 2% to 21%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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

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

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

	2017	2016
Residential mortgages	**$ 215,234,404**	$ 188,173,380
Personal loans	**39,878,549**	38,407,620
Commercial loans	**100,617,496**	90,085,266
	355,730,449	316,666,266
Accrued interest receivable	**614,059**	513,093
Allowance for impaired loans	**(1,469,690)**	(1,317,327)
Net loans to members	**$ 354,874,818**	$ 315,862,032

3. MEMBER LOANS (CONTINUED)

Average Yields to Maturity

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

	Principal	2017 Yield	Principal	2016 Yield
Variable rate	**$ 138,341,573**	**5.65%**	$ 134,704,282	5.02%
Fixed rate due less than one year	**26,010,199**	**4.52%**	29,295,615	4.44%
Fixed rate due between one and five years	**191,378,677**	**3.41%**	152,666,369	3.61%
	$ 355,730,449	**4.37%**	$ 316,666,266	4.28%

Credit Risk Management

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

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

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

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

With respect to credit risk, the Board of Directors receives reports every two months summarizing new loans and delinquent loans. The Board of Directors also receives an analysis of the Credit Union’s overdraft utilization, bad debts and allowance for doubtful loans quarterly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is insignificant.

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

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

3. MEMBER LOANS (CONTINUED)

Allowance for Impaired Loans

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

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

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

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

Total allowance for impaired loan provision comprises:	**2017**	2016
Collective provision	**$ 633,700**	$ 612,900
Individual specific provision	**835,990**	704,427
Total provision	**$1,469,690**	$ 1,317,327

Gross principal balance of individually impaired loans in the individual specific provision:

	Residential Mortgage	**Personal**	**Commercial**	**Total**
2017	**$ 255,382**	**$ 337,080**	**$1,346,735**	**$1,939,197**
2016	$ 725,232	$ 535,070	$ 1,963,163	$ 3,223,465

Movement in individual specific provision and collective provision for impairment:

2017	**Residential Mortgage**	**Personal**	**Commercial**	**Total**
Balance at January 1, 2017	**$ 147,589**	**$ 496,308**	**$ 673,430**	**$1,317,327**
Recoveries of loans previously written off	**-**	**22,659**	**-**	**22,659**
Provision charged to net income	**70,824**	**339,220**	**274,756**	**684,800**
	218,413	**858,187**	**948,186**	**2,024,786**
Loans written off	**(125,813)**	**(366,997)**	**(62,286)**	**(555,096)**
Balance at December 31, 2017	**$ 92,600**	**$ 491,190**	**$ 885,900**	**$1,469,690**
Individual specific provision	**$ -**	**$ 330,590**	**$ 505,400**	**$ 835,990**

3. MEMBER LOANS (CONTINUED)

2016	Residential Mortgage	Personal	Commercial	Total
Balance at January 1, 2016	$ 132,002	$ 594,351	$ 519,743	$ 1,246,096
Recoveries of loans previously written off	-	29,303	-	29,303
Provision charged to net income	15,587	151,914	164,455	331,956
	147,589	775,568	684,198	1,607,355
Loans written off	-	(279,260)	(10,768)	(290,028)
Balance at December 31, 2016	$ 147,589	$ 496,308	$673,430	$1,317,327
Individual specific provision	$ 60,489	$ 329,908	$ 314,030	$ 704,427

Past due status of loans and associated individual impairment provisions:

	December 31, 2017		December 31, 2016	
	Carrying Value	**Individual Specific Provision**	Carrying Value	Individual Specific Provision
Period of delinquency				
Less than 30 days	**$ 16,449,993**	**$ 13,841**	$ 13,688,380	$ 39,875
30 to 90 days	**1,404,583**	**53,594**	1,204,683	78,169
Over 90 days	**1,216,779**	**660,577**	2,032,655	472,999
Total loans in arrears	**19,071,355**	**728,012**	16,925,718	591,043
Total loans not in arrears	**336,659,094**	**107,978**	299,740,548	113,384
Total loans	**$ 355,730,449**	**$ 835,990**	$ 316,666,266	$ 704,427

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

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

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

3. MEMBER LOANS (CONTINUED)

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

2017	**Residential Mortgages**	**Personal**	**Commercial**	**Total**
1 to 29 days	**$ 10,928,585**	**$ 2,243,877**	**$ 3,277,530**	**$ 16,449,992**
30 to 90 days	**798,945**	**212,023**	**393,615**	**1,404,583**
Over 90 days	**-**	**-**	**-**	**-**
Balance at December 31, 2017	**$ 11,727,530**	**$ 2,455,900**	**$ 3,671,145**	**$ 17,854,575**
Collective impairment provision	**$ 92,600**	**$ 160,600**	**$ 380,500**	**$ 633,700**

2016	Residential Mortgages	Personal	Commercial	Total
1 to 29 days	$ 9,231,913	$ 1,970,559	$ 2,427,154	$ 13,629,626
30 to 90 days	832,530	177,609	16,180	1,026,319
Over 90 days	-	-	-	-
Balance at December 31, 2016	$ 10,064,443	$ 2,148,168	$ 2,443,334	$ 14,655,945
Collective impairment provision	$ 87,100	$ 166,400	$ 359,400	$ 612,900

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2017	2016
Unsecured loans	**$ 59,933,352**	$ 59,490,833
Loans secured by cash, member deposits and property	**236,702,037**	202,807,010
Loans guaranteed by government	**-**	8,215
Residential mortgages insured by government	**59,095,060**	54,360,208
	$ 355,730,449	$ 316,666,266

Fair Value

The fair value of member loans at December 31, 2017 was $353,605,473 (2016 - $316,564,465). The estimated fair value of variable loans is assumed to be equal to book value as the interest rates are re-priced to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

For fixed rate loans, the weighted average market interest rate used in estimating fair value was 4.00% (2016 – 3.73%) and the weighted average term to maturity was 2.71 years (2016 – 2.57 years).

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity dates. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

3. MEMBER LOANS (CONTINUED)

	2017	2016
Fair value:		
Residential mortgages	**$ 214,370,241**	$ 189,223,348
Personal loans	**39,641,476**	38,106,386
Commercial loans	**99,593,756**	89,234,731
	$353,605,473	$ 316,564,465

4. MEMBERS' DEPOSITS

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Member deposits are broken down as follows:

	2017	2016
Chequing	**$102,949,228**	$ 94,392,817
Demand	**103,706,769**	97,195,872
Term	**48,385,718**	52,337,824
Registered savings plans	**35,965,664**	36,351,471
Registered retirement income funds	**14,175,315**	14,055,684
Tax free savings account	**24,080,739**	21,364,472
	329,263,433	315,698,140
Accrued interest payable	**724,770**	806,914
	$329,988,203	$ 316,505,054

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.2% at December 31, 2017 (2016 – 0.85%).

Demand deposits are due on demand and bear interest at a variable rate up to 0.70% at December 31, 2017 (2016 – 0.70%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued at December 31, 2017 range from 0.15% to 2.25% (2016 – 0.15% to 1.45%).

Included in terms, are index linked term deposits that are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in member deposits and have a fair value of $259,633 (2016 - $ 325,613). The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product. See Note 9.

4. MEMBERS' DEPOSITS (CONTINUED)

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 0.70% at December 31, 2017 (2016 – 0.70%).

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

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing and savings deposits is an amount of $4,612,780 denominated in US dollars (2016 - $4,463,383).

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	Principal	2017 Yield	Principal	2016 Yield
Variable rate	**$ 234,247,396**	**0.31%**	$ 217,531,855	0.14%
Fixed rate due less than one year	**47,327,934**	**1.44%**	62,126,096	1.50%
Fixed rate due between one and five years	**47,688,103**	**1.81%**	36,040,189	1.85%
	$ 329,263,433	**0.69%**	$ 315,698,140	0.61%

Concentration of Risk

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

No individual or related groups of member deposits exceed 5% of member deposits and capital as at December 31, 2017 and December 31, 2016.

The majority of member deposits are with members located in and around Kenora, Thunder Bay and surrounding areas.

Fair Value

The fair value of member deposits at December 31, 2017 was $329,951,492 (December 31, 2016 - $316,385,239).

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

For fixed rate deposits, the weighted average market interest rate used in estimating fair value was 1.62% (2016 – 1.37%) and the weighted average term to maturity was 1.23 years (2016 – 1.1 years).

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity dates. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

4. MEMBERS' DEPOSITS (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

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

Provisions of the Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquid assets to deposits and borrowings ratio of 8% (10% prior to November 2017).

The Credit Union manages liquidity risk by:

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

In order to monitor the Credit Union's liquidity framework, the Board of Directors receives liquidity reports every two months that outline its liquidity key performance indicators compared to regulatory standards. The Credit Union was in compliance with the liquidity requirements at year-end.

As at December 31, 2017, the position of the Credit Union is as follows:

	Maximum exposure
Qualifying liquid assets on hand	
Cash	$ 7,324,774
Liquidity reserve deposit	23,758,015
Discount deposits and term deposits	3,750,000
	34,832,789
Total liquidity requirement	31,890,795
Excess liquidity requirement	$ 2,941,994

The Credit Union expects to incur capital expenditures of approximately $2,293,000 in 2018. The maturities of liabilities are shown in Note 8.

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

5. MEMBERS' SHARES

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

			2017	2016
	Authorized	**Issued**	**Equity**	Equity
Membership shares	**Unlimited**	**19,161**	**$ 479,035**	$ 476,810
Patronage shares	**Unlimited**	**1,662,631**	**1,662,631**	1,750,874
Investment shares	**Unlimited**	**2,702,042**	**2,702,042**	2,873,274
			$ 4,843,708	$ 5,100,958

Terms and Conditions

Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $25 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 6), as is the payment of any dividends on these shares.

Patronage Shares

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 6), as is the payment of any distributions on these shares. As the redemption of the patronage shares is at the sole and absolute discretion of the Credit Union, the shares are classified as equity.

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

Investment Shares

Investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash or additional shares. They are redeemable subject to the Credit Union maintaining adequate regulatory capital (see Note 6). As the redemption of the investment shares is at the sole and absolute discretion of the Credit Union, the shares are classified as equity.

Distributions to Members:

	2017		2016	
	Net Income	**Equity**	Net Income	Equity
Patronage distributions	**$ 324,000**	**$ -**	$ 404,015	$ -
Dividends on investment shares	**-**	**93,220**	-	92,923
	$ 324,000	**$ 93,220**	$ 404,015	$ 92,923

6. CAPITAL MANAGEMENT

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Credit Unions and Caisses Populaires Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Regulatory capital shall not be less than 4% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' capital as shown on the statement of financial position shall not be less than 6.5% of the book value of all assets.

The Credit Union considers its capital to include shares (member shares, patronage shares, investment shares), and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2017 was $220,173,075 (2016 - $198,574,310).

As at December 31, 2017, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 8.09% (2016 – 8.30%) and a risk weighted asset ratio of 14.65% (2016 – 15.15%).

Regulatory capital consists of the following:

	2017	2016
Tier I capital		
Membership shares	**$ 479,035**	$ 476,810
Other member shares – non-redeemable portion	**3,928,206**	4,161,733
Retained earnings	**26,660,092**	23,824,170
Collective loan provision	**633,700**	612,900
	31,701,033	29,075,613
Tier II		
Redeemable portion of other member shares	**436,467**	462,415
Accumulated other comprehensive income	**121,344**	554,793
	557,811	1,017,208
Total regulatory capital	**$ 32,258,844**	$ 30,092,821

7. CASH AND CASH EQUIVALENTS, CENTRAL 1 DEPOSITS AND INDEBTEDNESS TO CENTRAL 1

Cash and Cash Equivalents

Cash and cash equivalents consist of treasury and tellers cash on hand and cash held on deposit with Central 1. The average yield on the cash accounts at December 31, 2017 is 1.11% (2016 – 0.90%).

Central 1 Deposits

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

The Credit Union must maintain liquidity reserves with Central 1 at 6% of total assets at December 31 of each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity deposits have various maturities up to five years. They bear interest at rates ranging between 0.55% and 2.32%. The carrying amounts approximate fair value due to having similar characteristics as cash and equivalents.

	2017	2016
Liquidity reserve deposit	**$ 23,758,015**	$ 21,491,886
Discount deposits – Canadian	**2,900,000**	4,501,145
Discount deposits – US	**850,000**	1,200,219
	27,508,015	27,193,250
Accrued interest	**211,499**	231,914
Total Central 1 deposits	**$ 27,719,514**	$ 27,425,164

Indebtedness to Central 1

At December 31, 2017, indebtedness to Central 1 was $7,501,659 in the form of demand loans bearing interest at 1.755% with a maturity date of January 4, 2018.

8. FINANCIAL MARGIN AND INTEREST

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Insurance Corporation of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of Ontario as required by Credit Union regulations. For the year ended December 31, 2017, the Credit Union was in compliance with this policy.

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

Maturity dates	Assets	Yield (%)	Liabilities/ Members' Equity	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 – 3 months	$ 149,828,214	5.53%	$ 253,435,645	0.40%	$ (103,607,431)
4 – 12 months	26,537,213	3.40%	28,211,031	1.41%	(1,673,818)
1 - 2 years	39,697,200	3.41%	34,883,136	1.84%	4,814,064
2 - 5 years	170,104,239	3.21%	39,270,680	1.76%	130,833,559
Interest sensitive	386,166,866		355,800,492		30,366,374
Non-interest sensitive	12,468,072		42,834,446		(30,366,374)
Total	$ 398,634,938		$398,634,938		$ -

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $893,000 while a decrease in interest rates of 0.25% could result in a decrease to net income of $189,000.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union utilizes derivative financial instruments to mitigate the risk on certain instruments.

Index Linked Deposits

As described in Note 4, the Credit Union issues index linked deposits to its members, which contain embedded derivatives. The Credit Union has entered in hedge agreements with Central 1, where the Credit Union pays a fixed rate of interest for the term of each index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2017, the Credit Union had entered into such contracts on index linked term deposits for a total of $3,005,072. The agreements are secured by a general security agreement covering all assets of the Credit Union.

Interest Rate Swaps

The Credit Union uses interest rate swap derivatives as a hedge to manage exposure to interest rate risks. At December 31, 2017 the Credit Union had entered into Interest Rate Swap contracts for a total of $30,000,000 of notional principal whereby it has agreed to pay at variable interest rates based on 3 month CDOR rates, and receive at fixed interest rates. The swap contracts have rates ranging from 1.325% to 2.01% and will mature from January 15, 2019 to January 15, 2023.

Foreign Exchange Swaps

The Credit Union uses foreign exchange derivatives as a hedge to manage currency risk. At December 31, 2017, this consists of a US dollar swap transaction with a notional value of $1,300,000 US which is a simultaneous sell/buy and buy/sell of US dollars at an agreed exchange rate maturing in November 2018. Board policy governs the amount and term of these instruments.

Fair Value of Derivatives

Derivatives that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

All derivative valuations are Level 2 valuations.

The investment in CUCO Co-operative Association was transferred from Level 2 to Level 1 during the year as the assets of the co-op are comprised substantially of cash at year-end. There were no transfers between any levels in 2016.

10. SECURITIZED MORTGAGES UNDER ADMINISTRATION

Securitized loans and mortgages under administration are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

During the year, the Credit Union securitized additional residential mortgages of $14,376,391 (2016 - $8,726,370). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit fee for its servicing responsibilities.

Transferred financial assets that are recognized in their entirety
The table below sets out the carrying amounts and fair values related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the Statement of Financial Position.

	2017	2016
Carrying amount of asset:		
Carrying amount of associated liabilities	**$ (26,465,713)**	$ (14,268,174)
Current principal and interest payable	**(577,643)**	(58,438)
CMHC UPP float	**152,170**	66,569
	(26,891,186)	(14,260,043)
Loans to members	**26,508,011**	14,285,771
Other securitization assets	**140,437**	150,347
Net position	**$ (242,738)**	$ 176,075

11. INVESTMENTS

Investments 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 net income.

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

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

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 as detailed below.

	2017	2016
Central 1 Credit Union – Class A	**$ 1,325,549**	$ 1,348,227
Central 1 Credit Union – Class E	**1,126,000**	1,182,200
CUCO Co-operative Association	**20,876**	640,940
Other investments	**9,932**	9,932
Total investments	**$ 2,482,357**	$ 3,181,299

11. INVESTMENTS (CONTINUED)

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

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

Class E Central 1 shares are issued with a par value however are redeemable at $100 per share at the option of Central 1. There is no separately quoted market value for these shares 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. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

In August 2011, Credit Union Central of Ontario (CUCO) discontinued as a regulated financial institution and continued as a cooperative known as CUCO Cooperative (CUCO Co-op). On August 31, 2011, CUCO Co-op purchased the investment portfolio of long term notes from ABCP LP in exchange for Class B investment shares which were distributed to the ABCP LP unit holder. At December 31, 2016, the Credit Union held 430,689,112 Class B investments shares with a fair value of $640,940. A distribution of $522,260 was received from CUCO in February 2017. On the direction of CUCO approximately 12% of this distribution has been treated as a return of capital, with the balance being treated as a Class B dividend. At December 31, 2017 the assets of the Co-op were comprised mainly of cash and the fair value of Copperfin's investment was $20,876. The Co-op is expected to be wound up in 2018.

Other investments consist of equity interests in Canadian private companies. As they do not have a quoted value and their fair value cannot be determined reliably, they are measured at cost.

Fair Value of Investments

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value. A description of the levels in the fair value hierarchy are included in Note 9.

December 31, 2017	Level 1	Level 2	Level 3	Total
Central 1 Credit Union – Class A	**$ -**	**$ 1,325,549**	**$ -**	**$ 1,325,549**
Central 1 Credit Union – Class E	**-**	**-**	**1,126,000**	**1,126,000**
CUCO Co-Operative Association	**20,876**	**-**	**-**	**20,876**
Other Investments	**-**	**-**	**9,932**	**9,932**
Total investments	**$ 20,876**	**$ 1,325,549**	**$1,135,932**	**$ 2,482,357**

December 31, 2016	Level 1	Level 2	Level 3	Total
Central 1 Credit Union – Class A	$ -	$ 1,348,227	$ -	$1,348,227
Central 1 Credit Union – Class E	-	-	1,182,200	1,182,200
CUCO Co-Operative Association	-	640,940	-	640,940
Other Investments	-	-	9,932	9,932
Total investments	$ -	$ 1,989,167	$1,192,132	$3,181,299

12. FOREIGN EXCHANGE RISK

The Credit Union's foreign exchange risk is related to United States dollar deposits. The Credit Union's exposure to changes in currency exchange rates is controlled by limiting the unhedged foreign currency exposure to 5.0% of the liquidity portfolio in accordance with its liquidity policy, and to 0.15% of total assets in accordance with its structural risk policy. Foreign currency holdings are continually monitored and are adjusted when offside of either the liquidity or structural risk policies. See Note 9 regarding foreign exchange swaps at December 31, 2017.

For the year-ended December 31, 2017, the Credit Union's exposure to foreign exchange risk is within policy.

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

13. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling $17,100,000. Of this, $500,000 is held as security for derivative products. Of the line of credit, $100,000 is denominated in U.S. dollars. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Member Loans

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

Unadvanced loans	$ 3,618,400
Unused lines of credit	$ 52,754,528
Letters of credit	$ 441,195

Central 1 Capital Calls

Regulatory requirements require Central 1 to maintain adequate capital. From time to time, Central 1 may call on the Credit Union for capital calls and/or share rebalancing, based on certain regulatory formulae. In 2017, the Credit Union was subject to net share rebalancing of $22,678 (2016 - $145,195).

Contractual Obligations

The Credit Union leases land and buildings in Thunder Bay at 71 Algoma St (annual rent of $34,300 plus HST, expiring in 2018), 1184 Roland St (annual rent of $32,400 plus HST, expiring in 2021), and 955 Alloy Drive (annual rent of $68,340 plus HST, expiring in 2022).

The Credit Union has an agreement with CDSL Canada Limited which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. The agreement expires December 31, 2020. Annual operating fees are determined each year based on a prescribed formula and are expected to approximate $700,000.

14. OTHER INCOME

	2017	2016
Dividend income	**$ 608,472**	$ 49,559
Commissions and fees	**2,717,981**	2,782,448
Realized losses on disposal of investments	**(6,681)**	(45,867)
Foreign exchange revenue	**335,621**	315,423
Realized loss from disposal of property, plant and equipment	**-**	(21,479)
Rental income	**46,147**	45,979
Miscellaneous	**4,977**	(8,582)
	$ 3,706,517	$ 3,117,481

15. INCOME TAXES

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

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

	2017	2016
Current tax expense		
Based on current year taxable income	**$ 622,847**	$ 626,645
Deferred tax expense		
Origination and reversal of temporary differences	**(7,038)**	35,415
Total income tax expense	**$ 615,809**	$ 662,060

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

	2017	2016
Deferred tax		
Change in unrealized gain on available-for-sale investments	**$ (125,840)**	$ 3,739

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2016 – 26.5%) are as follows:

	2017	2016
Net income for the year	**$ 3,544,951**	$ 2,967,925
Expected taxes based on the statutory rate of 26.5%	**939,412**	786,500
Reduction due to preferred rate for Credit Unions	**(171,948)**	(111,461)
Other non-deductible portion of expenses	**10,341**	14,154
Change in tax rates	**(64,905)**	-
Other	**(97,091)**	(27,133)
Total income tax expense	**$ 615,809**	$ 662,060

15. INCOME TAXES (CONTINUED)

The components of deferred tax assets and liabilities are as follows:

	2017	2016
Deferred tax assets		
Property, plant and equipment	**$ 328,701**	$ 355,024
Allowance for impaired loans	**161,392**	181,086
Mark to market investments	**23,994**	-
Other	**48,785**	82,129
	$ 562,872	$ 618,239
Deferred tax liabilities		
Mark to market investments	**$ -**	$ 119,953
Fair value adjustments on amalgamation	**-**	68,292
	$ -	$ 188,245
Net deferred income tax asset	**$ 562,872**	$ 429,994

16. PENSION PLAN

The Credit Union makes contributions to Canadian Credit Union Employees Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan. Funds are held in trust by CUMIS Life Insurance Company. The plan is accounted for as a defined contribution plan.

The amount contributed to the plan for 2017 was $239,777 (2016 - $219,153). The contributions were made for current service and these have been recognized in net income.

17. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

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, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings and building improvements	5-40 years
Computer hardware	3-5 years
Furniture and fixtures	3-10 years
Leasehold improvements	Lease term
Vehicles	5 years

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

Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment. Software is amortized on a straight-line basis over its estimated useful life of between 3 and 5 years.

17. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS (CONTINUED)

Property, plant and equipment

	Useful Life	2017 Cost	2017 Accumulated Depreciation	2017 Net Book Value
Land	N/A	**$ 555,044**	**$ -**	**$ 555,044**
Buildings and building improvements	5-40 years	**8,862,787**	**5,115,791**	**3,746,996**
Computer hardware	3 and 5 years	**564,860**	**450,884**	**113,976**
Furniture and fixtures	3-10 years	**2,019,697**	**1,573,214**	**446,483**
Vehicles	5 years	**15,821**	**2,887**	**12,934**
		$ 12,018,209	**$ 7,142,776**	**$ 4,875,433**

	Useful Life	2016 Cost	2016 Accumulated Depreciation	2016 Net Book Value
Land	N/A	$ 555,044	$ -	$ 555,044
Buildings and building improvements	5-40 years	8,014,780	4,762,732	3,252,048
Computer hardware	3 and 5 years	486,049	406,337	79,712
Furniture and fixtures	3-10 years	1,703,082	1,497,416	205,666
Vehicles	5 years	33,475	33,475	-
		$ 10,792,430	$ 6,699,960	$ 4,092,470

Intangible assets

	Useful Life	2017 Cost	2017 Accumulated Depreciation	2017 Net Book Value
Computer software	3-5 years	**$ 313,329**	**$ 250,652**	**$ 62,677**

	Useful Life	2016 Cost	2016 Accumulated Depreciation	2016 Net Book Value
Computer software	3-5 years	$ 306,149	$ 223,372	$ 82,777

18. RELATED PARTY TRANSACTIONS

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

	2017	2016
Compensation		
Salaries and other short-term employee benefits	**$ 1,123,804**	$ 1,052,324
Total pension and other post-employment benefits	**62,782**	64,025
	$ 1,186,586	$ 1,116,349
Loans to key management personnel		
Aggregate value of loans advanced	**$ 2,478,076**	$ 1,890,982
Interest received on loans advanced	**88,998**	44,244
Aggregate value of unadvanced loans	**537,098**	637,055
Total value of lines of credit advanced	**1,024,935**	1,099,912
Interest received on lines of credit advanced	**13,469**	4,764
Unused value of lines of credit	**671,717**	264,043
Letters of credit	**-**	-
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$1,327,866**	$ 993,404
Total interest paid on term and saving deposits	**11,163**	9,566

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions which apply to Members for each class of loan. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members, except for a preferred interest rate of 2% below the posted rate, subject to a floor rate of 2%, for a maximum of one mortgage.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members, except for a 0.50% bonus on posted term deposit rates.

Restricted parties include all directors, officers, members of committees, as well as their businesses, spouses and immediate dependent family members. Loans to these restricted parties are advanced under the same terms and conditions as loans to other members except that preferred rates may apply. At December 31, 2017 there was $4,935,521 (2016 $4,167,528) in loans outstanding to restricted parties with $1,366,360 (2016 - $1,009,018) advanced in the current year. None of the loans to restricted parties were impaired as at December 31, 2017.

Included in compensation above are payments of $47,050 (2016 - $49,250) for director remuneration.

Disclosures required by Ontario Regulation 237/09 paragraph 28(1) of the Credit Unions and Caisses Populaires Act 1994

Included in compensation above is salary of $186,226 (2016 - $181,490), taxable benefits of $4,142 (2016 - $3,792) and pension contributions of $12,983 (2016 - $12,651) paid to Dennis Alvestad, Chief Executive Officer of the Credit Union.

19. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Credit Union.

Information on new standards, amendments and interpretations that are expected to be relevant to the Credit Union's financial statements is provided below. Certain other new standards, amendments and interpretations have been issued but are not expected to have a material impact on the Credit Union's financial statements.

IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Credit Union is in the process of evaluating the impact of the new standard and at this time has not yet concluded on the impact the standard will have on its financial position.

IFRS 16 Leases supersedes IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than those subject to the two exceptions listed below, will be recorded in the statement of financial position with a "right of use" asset and a corresponding lease liability. This will impact the timing and classification of related expenses, as lease cost will now be reflected in the depreciation of the right of use assets and interest on the lease liability. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. The Credit Union's current lease commitments are detailed in Note 13 of the financial statements. The quantitative impact of these changes is currently being assessed.