

UNION BAY CREDIT UNION
FINANCIAL STATEMENTS
December 31, 2017

UNION BAY CREDIT UNION

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Year Ended December 31, 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

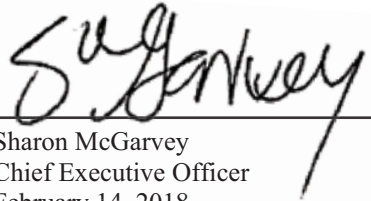
December 31, 2017

The financial statements of Union Bay Credit Union have been prepared by management who are responsible for their integrity, objectivity and reliability. They have been prepared in accordance with the requirements of the British Columbia Credit Union Incorporation Act and conform in all material respects with International Financial Reporting Standards. These statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and for safeguarding the assets of the organization. The procedures include establishment and communications of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained.

The financial statements are approved by the Board of Directors. The Audit Committee, comprised of three Directors of the Board, has reviewed the statements with management and the external auditors in detail.

Chan Nowosad Boates, Chartered Professional Accountants has been appointed by the Board of Directors, who represent the members at large, as independent external auditors to examine and report on the financial statements. They have had free and full access to the internal staff and other management staff and the Audit Committee of the Board. Their report appears herein.



Sharon McGarvey
Chief Executive Officer
February 14, 2018



INDEPENDENT AUDITORS' REPORT

To: The Members of the
Union Bay Credit Union

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 the Union Bay Credit Union as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chan Nowosad Boates Inc.

Chartered Professional Accountants
Courtenay, BC

February 14, 2018

UNION BAY CREDIT UNION

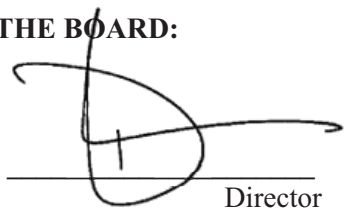
Statement of Financial Position

December 31, 2017

	2017	2016
	\$	\$
ASSETS		
Cash (Note 4)	1,114,879	4,745,330
Investments (Note 5)	16,619,525	11,715,045
Loans to Members (Note 6 and 7)	70,689,198	67,187,113
Income Taxes Recoverable	19,892	26,000
Other Assets (Note 8)	275,470	131,923
Property and Equipment (Note 9)	767,663	821,290
Intangible Assets (Note 10)	<u>840,424</u>	<u>941,488</u>
	<u>90,327,051</u>	<u>85,568,189</u>
LIABILITIES		
Members' Deposits (Note 11)	81,078,062	77,140,199
Accounts Payable (Note 12)	205,181	219,157
Deferred Income Tax Liability (Note 13)	47,034	13,526
Dividends Payable	53,389	42,072
Members' Shares (Note 14)	<u>4,277,236</u>	<u>3,672,289</u>
	85,660,902	81,087,243
MEMBERS' EQUITY		
Retained Earnings	<u>4,666,149</u>	<u>4,480,946</u>
	<u>90,327,051</u>	<u>85,568,189</u>

APPROVED ON BEHALF OF THE BOARD:


Director


Director

UNION BAY CREDIT UNION

Statement of Income and Comprehensive Income

Year Ended December 31, 2017

	2017	2016
	\$	\$
Financial Income		
Loan Interest	2,584,737	2,583,687
Investment	<u>260,077</u>	<u>217,722</u>
	<u>2,844,814</u>	<u>2,801,409</u>
Financial Expenses		
Interest on Deposits	756,021	872,342
Interest on Borrowed Funds	<u>6,321</u>	<u>356</u>
	<u>762,342</u>	<u>872,698</u>
Financial Margin - 73% (2016 - 68%)	2,082,472	1,928,711
Other Income (Note 15)	<u>328,199</u>	<u>304,493</u>
Earnings Before Operating Expenses	<u>2,410,671</u>	<u>2,233,204</u>
Operating Expenses		
Depreciation	152,693	196,972
Operating Expense (Note 16)	818,621	754,335
Wages and Benefits (Note 17)	<u>1,167,423</u>	<u>1,064,065</u>
	<u>2,138,737</u>	<u>2,015,372</u>
Net Earnings from Operations Before Distributions and Tax	271,934	217,832
Distributions to Members (Note 14)	<u>50,116</u>	<u>41,139</u>
Net Earnings from Operations Before Tax	221,818	176,693
Provision for Income Taxes (Note 13)	<u>36,615</u>	<u>-</u>
Net Income and Total Comprehensive Income	<u>185,203</u>	<u>176,693</u>

UNION BAY CREDIT UNION

Statement of Changes in Members' Equity

Year Ended December 31, 2017

	Retained Earnings
	<u>\$</u>
Balance at January 1, 2016	4,304,253
Net Income	<u>176,693</u>
Balance on December 31, 2016	<u>4,480,946</u>
Net Income	<u>185,203</u>
Balance on December 31, 2017	<u>4,666,149</u>

UNION BAY CREDIT UNION

Statement of Cash Flows

Year Ended December 31, 2017

	2017	2016
	\$	\$
Cash Flows From Operating Activities:		
Interest Received from Loans and Investments	2,844,814	2,801,409
Interest Paid on Deposits and Borrowed Funds	(762,342)	(872,698)
Increase in Members' Deposits and Shares	4,542,810	4,081,392
Loans to Members	(3,502,085)	(875,329)
Cash Paid to Suppliers and Employees	(1,707,130)	(1,550,749)
Dividends Paid to Members	(38,799)	(56,511)
Income Taxes (Recovered) Paid	<u>3,001</u>	<u>(21,368)</u>
	<u>1,380,269</u>	<u>3,506,146</u>
Cash Flows From Investing Activities:		
Purchase of Equipment and Software	(106,240)	(155,860)
Net Purchases of Investments	<u>(4,904,480)</u>	<u>(382,260)</u>
	<u>(5,010,720)</u>	<u>(538,120)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,630,451)	2,968,026
Cash and Cash Equivalents - Beginning of Year	<u>4,745,330</u>	<u>1,777,304</u>
Cash and Cash Equivalents - End of Year	<u>1,114,879</u>	<u>4,745,330</u>
Cash and Cash Equivalents are Represented by:		
Cash Resources	<u>1,114,879</u>	<u>4,745,330</u>

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

1. Governing Legislation and Operations:

The Union Bay Credit Union (the "Credit Union") was formed pursuant to the Credit Union Incorporation Act of British Columbia on April 21, 1944. The Credit Union is engaged in the loans and deposit taking industry, having three branch locations all in the vicinity of Union Bay, BC. The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. Its head office is located at 313 McLeod Road, Union Bay, BC.

These financial statements have been authorized for issue by the Board of Directors on February 14, 2018. The Board of Directors has the authority to amend the financial statements after issue.

2. Significant Accounting Policies:

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

These financial statements were prepared under the historical cost basis, except for available-for-sale financial assets and financial assets and financial liabilities accounted for at fair value through profit or loss, which are measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

a) Cash Resources

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

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

b) Investments

Central 1 deposits are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Equity instruments 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.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

2. Significant Accounting Policies (cont...):

c) Financial Instruments

(i) Categorization, Measurement and Recognition:

Management determines the categorization of its financial assets and liabilities at initial recognition. The Credit Union initially recognizes loans and receivables and deposits on the date that they originated. Any other financial assets are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union's financial assets may be categorized as one of the following: fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") and loans and receivables. Financial liabilities are categorized as either FVTPL or as other financial liabilities.

Financial assets and liabilities at FVTPL:

A financial asset or liability is required to be classified as FVTPL if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses on assets and liabilities classified as FVTPL are recorded in net earnings from operations. During the year ended December 31, 2017 and 2016, the Credit Union did not designate any financial assets at FVTPL upon initial recognition.

Loans to Members and Receivables:

All loans and receivables 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. At December 31, 2017 and 2016, the Credit Union's loans and receivables principally consist of loans and advances to members and other receivables.

Available-for-Sale:

Available-for-Sale ("AFS") assets are those non-derivative financial assets that are designated as AFS, are not classified or designated as FVTPL, or do not qualify as loans and receivables. AFS assets are recorded at fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired. Dividends on AFS equity instruments are recognized in the statement of income and comprehensive income when the Credit Union's right to receive payment is established. At December 31, 2017 and 2016, the Credit Union's AFS assets consist of equity investments.

Other Financial Liabilities:

Other financial liabilities are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method. At December 31, 2017 and 2016, other financial liabilities consist of accounts payable and accrued liabilities, borrowings, deposits and member shares.

(ii) Fair Value of Financial Instruments:

The best evidence of fair value at initial recognition are prices quoted in an active market. Fair values of financial instruments quoted in active markets are determined by reference to closing bid prices for financial assets and ask prices for financial liabilities at the reporting date. If there is no active market for a financial instrument, the Credit Union establishes fair value using an appropriate valuation technique. These techniques principally include the use of recent arm's length transactions for investments in unquoted securities and other valuation techniques commonly used by market participants.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

2. Significant Accounting Policies (cont...):

c) Financial Instruments (cont...)

(iii) Impairment of Financial Assets

The Credit Union assesses, at each statement of financial position date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets.

Financial Assets Classified as Loans and Receivables:

For the purposes of an individual evaluation of impairment, the amount of the impairment loss on a fixed rate financial instrument is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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. When a loan is uncollectible, it is written off after all necessary procedures have been completed and the amount of the loss is determined. 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 by adjusting the allowance account.

Assets Classified as Available-for-Sale:

At each statement of financial position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS equity security below its cost is considered objective evidence in determining whether the asset is impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in net earnings, is reclassified from members' equity and recognized in the statement of income and comprehensive income. Impairment losses recognized in the statement of income and comprehensive income on equity instruments are not reversed.

(iv) Derecognition of Financial Instruments

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

2. Significant Accounting Policies (cont...):

d) Property and Equipment

Property 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 net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Building Improvements	25 years
Computer Equipment	5 years
Computer Software	7 years
Office Equipment and Vehicle	10 years
Leasehold Improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. In the year of acquisition only one-half the normal rate is applied.

e) Intangible Assets

Intangible assets include banking software and a banking software user license which is not integral to the computer hardware owned by the Credit Union. Software and the related license is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software and the license are amortized on a straight-line basis over the estimated useful lives of 10 years.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. In the year of acquisition only one-half the normal rate is applied.

f) 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 items recognized directly in members' equity or 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 when the carrying amount of an asset or liability differs from its tax base. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

g) Interest Income and Expenses

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

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

2. Significant Accounting Policies (cont...):

g) Interest Income and Expenses (cont...)

When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expenses presented in the statement of income and comprehensive income include interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis.

h) Other Income

Other income is recognized when services are provided to the members.

i) Retirement Benefits

The Credit Union provides its management with a retirement allowance that is accounted for as a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, and is usually dependent on one or more factors, such as age, years of service and compensation. The liability to be recognized would be the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of any assets set aside for it. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds.

j) Defined Contribution Plan

For the defined contribution plan, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as a wages and benefits expense in the periods during which services are rendered by employees. The defined contributions are made to the employees' self-administered retirement savings plan with the Credit Union having no further involvement in the administration of the contributions.

k) Members' Shares

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

l) Distribution to Members

Patronage rebates and dividends are recorded as a distribution to members when declared in the statement of income and comprehensive income.

m) Standards, Amendments and Interpretations Not Yet Effective

At December 31, 2017, three standards and interpretations, and amendments thereto, had been issued by the IASB, that relate to the Credit Union and which were not effective for these financial statements. They are set out below:

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The standard is effective for annual periods beginning on or after January 1, 2018. The Credit Union has evaluated the impact of the new standard and does not anticipate it to have a material impact to amounts reported within the financial statements.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

2. Significant Accounting Policies (cont...):

m) Standards, Amendments and Interpretations Not Yet Effective (cont...)

IFRS 15 - Revenue from Contracts with Customers was introduced by the IASB to provide additional revenue recognition guidance beyond what is already provided by IAS 18. The core principle of IFRS 15 is to provide additional guidance on the recognition of revenue to reflect the transfer of promised goods or services to customers. The standard is effective for annual periods beginning on or after January 1, 2018. The Credit Union does not anticipate that the implementation of the standard will have a material impact on the financial statements.

IFRS 16 - Leases was introduced by the IASB in January 2016 to provide refined guidance over lease accounting and replace the current standard, IAS 17. The core principal of IFRS 16 is that all leases unless under \$5,000 in value or 1 year in length will now be considered finance leases and will be presented on the Statement of Financial Position as an asset with an offsetting liability. The standard is tentatively effective for annual periods beginning on or after January 1, 2019. The Credit Union is in the process of evaluating the impact of the new standard.

3. Critical Accounting Estimates and Assumptions:

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Member Loan Loss Provision

The Credit Union individually assesses its loans on an annual basis to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The related provision for impairment is charged to the statement of comprehensive income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in the provision.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately. The methods and assumptions applied and the valuation techniques used for financial instruments that are not quoted in an active market are disclosed in Note 19.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

3. Critical Accounting Estimates and Assumptions (cont...):

Retirement Benefit

The present value of the retirement benefit obligation depends on a number of factors that are determined by the Credit Union using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the retirement benefit obligation. The Credit Union does not use an actuary or actuarial method when assessing the benefit due to the limited size of employees to which it applies.

The assumptions used in determining the net cost (income) for the retirement benefit plans include the discount rate. The Credit Union determines the discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation.

4. Cash Resources:

The Credit Union's cash and current accounts are held with Central 1 Credit Union ("Central 1"). The average yield on the accounts during the year was 0.68% (2016 - 0.41%).

5. Investments:

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

Central 1 Deposits

	<u>2017</u>	<u>2016</u>
	\$	\$
Central 1 Investments	<u>16,281,609</u>	<u>11,370,681</u>

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

Equity Instruments

	<u>2017</u>	<u>2016</u>
	\$	\$
Central 1 Credit Union Shares	313,412	319,860
Credit Union Protection Plan Shares	24,446	24,446
Stabilization Central Credit Union Shares	<u>58</u>	<u>58</u>
	<u>337,916</u>	<u>344,364</u>

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 of Central 1.

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. The Credit Union does not intend 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.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

6. Loans to Members:

	2017				
	Principal Balance	Accrued Interest	Impaired Loans	Allowance for Impaired Loans	Net Loans
	\$	\$	\$	\$	\$
Residential Mortgages	60,135,639	92,249	73,900	45,000	60,182,888
Personal Loans	7,169,250	1,139	-	-	7,170,389
Commercial Loans	<u>3,329,441</u>	<u>6,480</u>	<u>-</u>	<u>-</u>	<u>3,335,921</u>
	<u>70,634,330</u>	<u>99,868</u>	<u>73,900</u>	<u>45,000</u>	<u>70,689,198</u>

	2016				
	Principal Balance	Accrued Interest	Impaired Loans	Allowance for Impaired Loans	Net Loans
	\$	\$	\$	\$	\$
Residential Mortgages	54,585,437	104,642	78,000	40,000	54,650,079
Personal Loans	8,025,477	1,853	-	-	8,027,330
Commercial Loans	<u>4,494,293</u>	<u>15,411</u>	<u>-</u>	<u>-</u>	<u>4,509,704</u>
	<u>67,105,207</u>	<u>121,906</u>	<u>78,000</u>	<u>40,000</u>	<u>67,187,113</u>

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and mature within seven years.

Variable rate loans are based on a Central 1 "prime rate" formula, ranging from prime minus 1.50% to prime plus 7%. The rate is determined by the type of security offered and the member's credit worthiness. The average BC Credit Unions prime rate as provided by Central 1 at December 31, 2017 was 3.2%. The Credit Union's prime rate at December 31, 2017 was 3.20%.

Interest rates offered on fixed rate loans being advanced at December 31, 2017 range from 2.89% to 9.75%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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.

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.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

6. Loans to Members (cont...):

Average Yields to Maturity

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

	Principal \$	2017 Yield	Principal \$	2016 Yield
Variable Rate	9,816,900	4.32%	12,830,207	4.13%
Fixed rate due less than one year	15,364,662	3.82%	19,231,510	3.87%
Fixed rate due between one and five years	<u>45,452,768</u>	<u>3.61%</u>	<u>35,043,490</u>	<u>3.69%</u>
	<u>70,634,330</u>	<u>3.76%</u>	<u>67,105,207</u>	<u>3.82%</u>

Credit Quality of Loans

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

	<u>2017</u> \$	<u>2016</u> \$
Unsecured loans	635,294	513,598
Loans otherwise secured	872,661	1,480,406
Loans secured by real estate	<u>69,126,376</u>	<u>65,111,203</u>
	70,634,331	67,105,207
Accrued interest	99,867	121,906
Allowance for impaired loans	<u>(45,000)</u>	<u>(40,000)</u>
	<u>70,689,198</u>	<u>67,187,113</u>

Fair Value

The fair value of member loans at December 31, 2017 was \$85,853,794 (December 31, 2016 - \$67,298,664). The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans are changed to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of Risk

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

Individual or related groups of members' loans which represent a concentration of credit risk due to being unsecured or secured by an amount less than the loans value are:

	<u>2017</u> \$	<u>2016</u> \$
Residential mortgages	640,524	1,921,928
Personal loans	602,609	481,953
Commercial loans	<u>32,684</u>	<u>31,645</u>
	<u>1,275,817</u>	<u>2,435,526</u>

Most members' loans are with members located on Vancouver Island.

UNION BAY CREDIT UNION

Notes to Financial Statements

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7. Allowance for Impaired Loans:

Movement in individual specific provision for impairment:

	2017			
	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
	\$	\$	\$	\$
Balance, beginning of year	-	40,000	-	40,000
Collection of accounts	-	-	-	-
Accounts written off	-	(18,402)	-	(18,402)
Provision for impaired loans	<u>23,402</u>	<u>-</u>	<u>-</u>	<u>23,402</u>
Balance, end of year	<u>23,402</u>	<u>21,598</u>	<u>-</u>	<u>45,000</u>
Gross principal balance of individually impaired loans	<u>73,900</u>	<u>-</u>	<u>-</u>	<u>73,900</u>

	2016			
	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
	\$	\$	\$	\$
Balance, beginning of year	-	44,483	-	44,483
Collection of accounts	-	(44,483)	-	(44,483)
Accounts written off	-	-	-	-
Provision for impaired loans	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Balance, end of year	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Gross principal balance of individually impaired loans	<u>78,000</u>	<u>-</u>	<u>-</u>	<u>78,000</u>

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

	December 31, 2017		December 31, 2016	
	Carrying Value	Specific Provision	Carrying Value	Specific Provision
	\$	\$	\$	\$
Period of delinquency				
Less than 30 days	681,857	-	355,755	-
30-90 days	-	-	80,771	-
Over 90 days	<u>53,093</u>	<u>-</u>	<u>559,863</u>	<u>-</u>
Total loans in arrears	734,950	-	996,389	-
Total loans not in arrears	69,854,381	45,000	66,068,818	40,000
Accrued interest	<u>99,867</u>	<u>-</u>	<u>121,906</u>	<u>-</u>
Total loans	<u>70,689,198</u>	<u>45,000</u>	<u>67,187,113</u>	<u>40,000</u>

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

8. Other Assets:

	<u>2017</u>	<u>2016</u>
	\$	\$
Accounts Receivable	112,800	9,128
Prepaid Expenses	33,977	33,501
Prepaid Broker Mortgage Fees	114,391	77,267
Prepaid Broker Deposit Fees	774	1,518
Dividend Receivable	<u>13,528</u>	<u>10,509</u>
	<u>275,470</u>	<u>131,923</u>

9. Property and Equipment:

	Land	Buildings	Computer Equipment	Computer Software	Office Equipment & Vehicle Improvements	Leasehold	Total
Cost							
Balance at January 1, 2016	158,908	869,664	245,694	149,682	516,800	240,975	2,181,723
Additions	-	-	1,948	-	16,789	3,238	21,975
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2016	<u>158,908</u>	<u>869,664</u>	<u>247,642</u>	<u>149,682</u>	<u>533,589</u>	<u>244,213</u>	<u>2,203,698</u>
Additions	-	-	5,658	-	19,724	-	25,382
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2017	<u>158,908</u>	<u>869,664</u>	<u>253,300</u>	<u>149,682</u>	<u>553,313</u>	<u>244,213</u>	<u>2,229,080</u>
Accumulated Depreciation							
Balance at January 1, 2016	-	385,976	184,527	133,959	434,632	148,783	1,287,877
Additions	-	21,498	30,038	2,000	21,373	19,622	94,531
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2016	<u>-</u>	<u>407,474</u>	<u>214,565</u>	<u>135,959</u>	<u>456,005</u>	<u>168,405</u>	<u>1,382,408</u>
Additions	-	21,740	17,157	3,366	20,080	16,666	79,009
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2017	<u>-</u>	<u>429,214</u>	<u>231,722</u>	<u>139,325</u>	<u>476,085</u>	<u>185,071</u>	<u>1,461,417</u>
Net Book Value							
December 31, 2016	<u>158,908</u>	<u>462,190</u>	<u>33,077</u>	<u>13,723</u>	<u>77,584</u>	<u>75,808</u>	<u>821,290</u>
December 31, 2017	<u>158,908</u>	<u>440,450</u>	<u>21,578</u>	<u>10,357</u>	<u>77,228</u>	<u>59,142</u>	<u>767,663</u>

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

10. Intangible Assets:

	December 31 2016	Additions	Disposals	December 31 2017
Integrated Online Banking System				
Cost	107,178	-	-	107,178
Accumulated Depreciation	<u>16,077</u>	<u>10,718</u>	<u>-</u>	<u>26,795</u>
	<u>91,101</u>	<u>(10,718)</u>	<u>-</u>	<u>80,383</u>
Banking Software				
Cost	984,677	80,858	215,214	850,322
Accumulated Depreciation	<u>134,290</u>	<u>91,706</u>	<u>32,282</u>	<u>193,714</u>
	<u>850,387</u>	<u>(10,848)</u>	<u>182,932</u>	<u>656,608</u>
Software License				
Cost	-	107,000	-	107,000
Accumulated Depreciation	<u>-</u>	<u>3,567</u>	<u>-</u>	<u>3,567</u>
	<u>-</u>	<u>110,567</u>	<u>-</u>	<u>103,433</u>
Intangible Assets - Net Book Value	<u>941,488</u>	<u>89,001</u>	<u>182,932</u>	<u>840,424</u>

11. Members' Deposits:

	<u>2017</u>	<u>2016</u>
	\$	\$
Demand	37,936,247	30,757,607
Term Deposits	28,853,555	32,101,796
Registered Savings Plans	6,653,530	7,276,539
Registered Retirement Income Funds	1,938,234	1,662,135
Tax Free Savings Accounts	5,423,767	5,020,447
Accrued Interest	<u>272,729</u>	<u>321,675</u>
	<u>81,078,062</u>	<u>77,140,199</u>

Terms and Conditions

Demand deposits are due on demand and bear interest at variable rates up to 1% at December 31, 2017. Interest is calculated monthly 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 on December 31, 2017 range from 0.15% to 1.85%.

The registered savings plans can be fixed or variable rate. The fixed rate plans have terms and rates similar to the term deposit accounts described above. Variable rate plans entered into at December 31, 2017 bear interest at rates up to 1.60%.

Registered retirement income funds (RRIF) 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.

Included in member deposits is an amount of \$175,010 (2016 - \$257,172) denominated in US dollars.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

11. Members' Deposits (cont...):

Fair Value

The fair value of members' deposits at December 31, 2017 was \$81,078,062 (2016 - \$77,041,799).

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

Average Yields to Maturity

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

	Principal \$	2017 Yield	Principal \$	2016 Yield
Variable Rate	45,259,811	0.32%	37,570,700	0.42%
Fixed rate due less than one year	20,266,095	1.36%	21,964,313	1.55%
Fixed rate due between one and five years	<u>15,552,156</u>	<u>1.77%</u>	<u>17,605,186</u>	<u>1.77%</u>
	<u>81,078,062</u>	<u>0.86%</u>	<u>77,140,199</u>	<u>1.05%</u>

Concentration of Risk

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

All members' deposits are with members located in and around Vancouver Island, British Columbia.

12. Accounts Payable:

	<u>2017</u> \$	<u>2016</u> \$
Trade accounts payable	179,808	190,301
Performance appraisals payable	23,600	14,378
RRSP and RRIF withholding tax payable	<u>1,773</u>	<u>14,478</u>
	<u>205,181</u>	<u>219,157</u>

13. Provision for Income Taxes:

	<u>2017</u> \$	<u>2016</u> \$
Current tax expense	3,108	-
Deferred tax expense	<u>33,507</u>	<u>-</u>
	<u>36,615</u>	<u>-</u>

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

13. Provision for Income Taxes (cont...):

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 40.12% (2016 - 40.5%) are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Net income before tax	<u>221,818</u>	<u>176,693</u>
Expected federal taxes based on statutory rate of 38%	84,291	67,143
Expected provincial taxes based on statutory rate of 2.12% (2016 - 2.5%)	4,703	4,417
Reduction due to small business deduction (17.5%; 2016 - 17.5%) and federal abatement (10%)	(38,818)	(47,707)
Other adjustments	<u>(13,561)</u>	<u>(23,853)</u>
Income tax expense	<u>36,615</u>	<u>-</u>

The deferred tax liability of \$47,034 (2016 - \$13,526) recognized on the statement of financial position is primarily due to the temporary difference between the tax and accounting treatment of property and equipment. Deferred taxes of the Credit Union that are expected to reverse in the future have been measured using a weighted average effective tax rate of 13% (2016 - 13%). The year over year variance with the reduction of the small business tax rate in 2017 is not considered to be material to the effective tax rate and its application to the deferred tax liability.

The full amount of the deferred tax liability is expected to be settled after more than 12 months.

14. Members' Shares:

	<u>2017</u>		<u>2016</u>	
	Equity	Liability	Equity	Liability
	\$	\$	\$	\$
Membership Shares	-	(344,619)	-	(356,474)
Non-Equity Shares	<u>-</u>	<u>(3,932,617)</u>	<u>-</u>	<u>(3,315,815)</u>
	<u>-</u>	<u>(4,277,236)</u>	<u>-</u>	<u>(3,672,289)</u>

Members' shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as 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.

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 CUDIC. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

14. Members' Shares (cont...):

Terms and Conditions (cont...)

Non-Equity Shares

Non-equity 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. They are redeemable subject to the Credit Union maintaining adequate regulatory capital (see Note 21). Where the Credit Union has met its regulatory capital requirements, the non-equity shares are deemed to be a compound instrument and are accounted for in accordance with IAS 32 - Financial Instrument Presentation and IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments.

<u>Distribution to Members</u>	<u>2017</u>		<u>2016</u>	
	Expense \$	Equity \$	Expense \$	Equity \$
Membership Shares (2.5%, 2016 - 2.5%)	10,890	-	8,770	-
Non-Equity Shares (1%, 2016 - 1%)	<u>39,226</u>	<u>-</u>	<u>32,369</u>	<u>-</u>
	<u>50,116</u>	<u>-</u>	<u>41,139</u>	<u>-</u>

15. Other Income:

	<u>2017</u>	<u>2016</u>
	\$	\$
Service Charges	174,282	179,061
Mortgage Penalties	53,725	26,715
NSF Fees	13,735	13,065
Miscellaneous	31,988	42,863
Realized Foreign Exchange Gains	32,693	17,898
Cumis Premiums Income	<u>21,776</u>	<u>23,453</u>
	<u>328,199</u>	<u>303,055</u>

16. Operating Expenses:

	<u>2017</u>	<u>2016</u>
	\$	\$
Advertising	49,487	48,904
Bad Debt	29,026	932
Computer Processing	106,541	102,968
Directors	17,639	27,430
Donations	15,878	12,411
Insurance	32,342	29,350
Janitor and Supplies	22,039	22,500
Licences and Dues	94,139	93,965
Office and Sundry	214,407	202,430
Professional and Consulting Fees	83,462	60,772
Property Taxes	24,681	23,084
Repairs and Maintenance	37,669	39,775
Rent	39,355	38,945
Telephone	14,124	14,379
Training	13,255	12,040
Travel	7,595	3,969
Utilities	<u>16,982</u>	<u>20,302</u>
	<u>818,621</u>	<u>754,156</u>

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

17. Wages and Benefits:

	<u>2017</u>	<u>2016</u>
	\$	\$
Salaries	952,306	869,618
Benefits	153,237	137,396
Staff RRSP Contributions	<u>61,880</u>	<u>57,051</u>
	<u>1,167,423</u>	<u>1,064,065</u>

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.

	<u>2017</u>	<u>2016</u>
	\$	\$
Compensation		
Salaries and other short-term benefits	<u>389,561</u>	<u>345,070</u>
Loans to key management personnel		
Aggregate value of loans advanced	1,455,315	1,427,581
Interest received on loans advanced	52,305	39,381
Total value of lines of credit advanced	50,763	276,300
Interest received on lines of credit advanced	1,626	4,979

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions, except for favourable interest rates, which apply to members for each class of loan. When an employee is no longer an employee of the Credit Union, the favourable interest rate will be cancelled and the rate is adjusted to the rate of interest in effect on the loan agreement.

Favourable interest rates for staff are as follows:

- Personal loans and lines of credit will be available at rates between the Central 1 prime rate less one-half percent and the Central 1 prime rate less one and one-half percent
- Personal loans for the purpose of computer purchase or upgrade will be available interest free, up to \$3,000 for a term not to exceed thirty months
- Residential mortgages will be available at the Credit Union's posted prime residential mortgage rate less one half percent of the Credit Union Central of BC Weekly Interest Rate Survey, excluding interest or virtual banks rates, whichever is less, for the term selected by the employee

	<u>2017</u>	<u>2016</u>
	\$	\$
Deposits from key management personnel		
Aggregate value of term and savings deposits and RRSPs	1,574,461	2,053,228
Total interest paid on term and saving deposits and RRSPs	32,231	30,175

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits are accepted on the same terms and conditions which apply to members for each type of deposit.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

18. Related Party Transactions (cont...):

Favourable interest rates for staff are as follows:

- Employees' RRSP term deposits or investments with the Credit Union will be given the best rate, as per the Credit Union Central of BC Weekly Interest Rate Survey, excluding interest or virtual banks rates, plus one quarter of one percent or the Credit Union's posted rate plus one quarter of one percent, whichever is greater.

19. Financial Instrument Classification and Fair Value:

The following table represents the carrying amount by classification:

	Available -for-Sale	Fair Value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
	\$	\$	\$	\$
December 31, 2017				
Cash Resources	-	-	1,114,879	-
Investments	337,916	-	16,281,609	-
Loans to Members	-	-	70,689,195	-
Members' Deposits	-	-	-	81,078,063
Members' Shares	-	-	-	4,277,236
Other Liabilities	-	-	-	258,570
	<u>337,916</u>	<u>-</u>	<u>88,085,683</u>	<u>85,613,869</u>
	Available -for-Sale	Fair Value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
	\$	\$	\$	\$
December 31, 2016				
Cash Resources	-	-	4,745,330	-
Investments	344,364	-	11,370,681	-
Loans to Members	-	-	67,187,113	-
Members' Deposits	-	-	-	77,140,199
Members' Shares	-	-	-	3,672,289
Other Liabilities	-	-	-	261,229
	<u>344,364</u>	<u>-</u>	<u>83,303,124</u>	<u>81,073,717</u>

Investments classified as available for sale represent shares held in Central 1 and CUPP Services Ltd.

UNION BAY CREDIT UNION

Notes to Financial Statements

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19. Financial Instrument Classification and Fair Value (cont...):

The following table provides an analysis of investments 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 or indirectly; 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.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
December 31, 2017				
Central 1 Credit Union - Class A	-	313,412	-	313,412
Other Equity Investments	-	-	24,504	24,504
	<u>-</u>	<u>313,412</u>	<u>24,504</u>	<u>337,916</u>
December 31, 2016				
Central 1 Credit Union - Class A	-	319,860	-	319,860
Other Equity Investments	-	-	24,504	24,504
	<u>-</u>	<u>319,860</u>	<u>24,504</u>	<u>344,364</u>

20. Risk Management:

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is defined as the risk of financial loss due to a borrower failing to meet its obligations in accordance with contractual terms and arises from direct lending, trading and investment activities. Granting loans to members is one of the Credit Union's primary sources of income, and the Credit Union grants credit after thorough consideration of a member's credit history, character, collateral, and capacity for debt. Members' financial situations are monitored through the life of the loan and all current receivables are expected to be collected. Debt that appears to be in arrears is impaired to the extent that a loss is expected.

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

20. Risk Management (cont...):

Credit Risk (cont...)

To manage credit risk, the Credit Union secures collateral against certain loans. In the event that a member is unwilling or unable to meet their obligations as a borrower, security is liquidated to repay the obligation to the Credit Union. Collateral is taken on each loan funded with regard to the owner's overall credit worthiness, including credit history, character, capacity for debt, and type of loan granted. Collateral is generally secured for each type of loan as follows:

Loan Type	Nature of collateral obtained
Mortgage Loans	Mortgage loans are secured by real property. The Credit Union members generally have at least a 20% equity interest in the property being mortgaged.
Term Loans and Lines of Credit	Term loans and lines of credit are generally secured by assets. Members generally have at least a 20% equity interest in these assets. Loans and lines of credit can also be unsecured. The risk of these unsecured term loans and lines of credit are reflected in the rate of the loan.

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

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

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

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

20. Risk Management (cont...):

Liquidity Risk

Liquidity risk is defined as the risk that the Credit Union will be unable to pay obligations when they fall due, become unable to repay depositors when funds are withdrawn, or become unable to meet commitments to lend money. The Credit Union manages liquidity risk by monitoring the maturity profiles of financial assets and liabilities and maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

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

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 Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 12% internally while the Financial Institutions Commission of BC (FICOM) requires a minimum of 8%. The liquidity ratio at December 31, 2017 was 20.2% (2016 - 19.8%).

As at December 31, 2017, the position of the Credit Union relative to the FICOM liquidity policy of 8% and the internal policy of 12% is as follows:

	Maximum Exposure FICOM \$	Maximum Exposure Internal Policy \$
Qualifying liquid assets on hand		
Cash	1,114,879	1,114,879
Liquidity Reserve Deposit	<u>16,619,525</u>	<u>16,619,525</u>
	17,734,404	17,734,404
Total Liquidity Requirement	<u>6,832,695</u>	<u>10,249,043</u>
Excess Liquidity Requirement	<u>10,901,709</u>	<u>7,485,361</u>

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures, and there is no need for such expenditures in the normal course of business.

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

Market Risk

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

UNION BAY CREDIT UNION

Notes to Financial Statements

December 31, 2017

20. Risk Management (cont...):

Interest Rate Risk

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

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

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 to their interest rate repricing dates by amount and by term, 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 FICOM in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FICOM as required by Credit Union regulations. For the year ended 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 interest rates, or due on demand, are classified as maturing within 3 months, regardless of maturity. Amounts that are not interest rate sensitive are grouped together regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing maturity dates of certain loans and deposits differ significantly from contractual dates.

	Within 3 Months	4 Months to 1 Year	1 Year to 5 Years	Non-Interest Rate Sensitive	Total
	\$	\$	\$	\$	\$
Assets	12,581,238	12,600,324	62,072,293	3,061,377	<u>90,315,232</u>
Liabilities and Equity	<u>(51,816,955)</u>	<u>(13,708,951)</u>	<u>(15,552,156)</u>	<u>(9,237,170)</u>	<u>(90,315,232)</u>
2017	<u>(39,235,717)</u>	<u>(1,108,627)</u>	<u>46,520,137</u>	<u>(6,175,793)</u>	
2016	<u>(27,463,723)</u>	<u>(9,573)</u>	<u>29,153,349</u>	<u>(1,680,053)</u>	

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 a decrease to net income of \$301,993, while a decrease in interest rates of 1% could result in an increase to net income of \$301,993.

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

Currency Risk

Currency risk is the uncertainty as a result of transactions conducted in different currencies. Management has assessed that the Credit Union is not significantly exposed to currency risk.

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

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Notes to Financial Statements

December 31, 2017

20. Risk Management (cont...):

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings. Management has assessed that the Credit Union is not significantly exposed to equity risk.

21. Capital Requirements:

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis.

Capital requirements are regulated by FICOM. A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained. The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union monitors the ratio for major movements in risk weighted asset levels. At December 31, 2017 the Credit Union has met its minimum regulatory requirements.

22. Commitments and Contractual Obligations:

Member Loans

The Credit Union had the following outstanding commitments not reflected in the statement of financial position at year end:

	<u>2017</u>	<u>2016</u>
	\$	\$
Letters of credit for members	82,500	96,000
Unadvanced loans and lines of credit	<u>8,765,646</u>	<u>9,283,487</u>
	<u>8,848,146</u>	<u>9,379,487</u>

Contractual Obligations

The Credit Union leases its Bowser branch premises for \$2,081 per month under a 5 year lease expiring in November 2019.

The Credit Union also leases its Hornby branch premises for \$1,000 per month. The lease is a 20 year lease expiring in October 2031. The lease allows for a change in the base rent amount every 5 years, with the next change on October 15, 2021.

23. Comparative Figures

Certain amounts presented in the prior year's financial statements have been reclassified to conform with the presentation in the current year.