

**REVELSTOKE CREDIT UNION**  
**Consolidated Financial Statements**  
**Year Ended December 31, 2016**

**REVELSTOKE CREDIT UNION**  
**Index to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

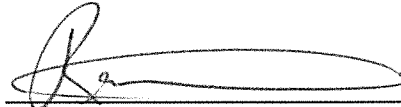
The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board meets periodically with management and the members' auditors to review significant accounting,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

The consolidated financial statements have been audited on behalf of the members by Adams Wooley, Chartered Professional Accountants, in accordance with Canadian auditing standards.



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Mr. Alan Chell, Chairman



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Mrs. Roberta Bobicki, CEO

Revelstoke, BC  
February 22, 2017

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## INDEPENDENT AUDITOR'S REPORT

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To the Members of Revelstoke Credit Union

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

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

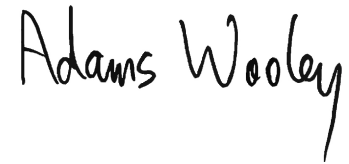
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*(continues)*

Independent Auditor's Report to the Members of Revelstoke Credit Union *(continued)*

Opinion

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

A handwritten signature in black ink that reads "Adams Wooley". The signature is written in a cursive, slightly slanted style.


Cranbrook, BC  
February 22, 2017

Adams Wooley  
Chartered Professional Accountants

**REVELSTOKE CREDIT UNION**  
**Consolidated Statement of Financial Position**  
**December 31, 2016**

	2016	2015
<b>ASSETS</b>		
CASH AND TERM DEPOSITS (Note 5)	\$ 37,249,580	\$ 25,790,416
INVESTMENTS (Note 6)	717,067	676,461
MEMBERS' LOANS (Notes 7 and 8)	133,272,965	129,509,158
PROPERTY, PLANT AND EQUIPMENT (Note 10)	3,702,420	3,850,533
OTHER (Note 11)	703,787	1,102,882
INTANGIBLE ASSETS (Note 12)	1,475,000	1,200,000
	<u>\$ 177,120,819</u>	<u>\$ 162,129,450</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 617,713	\$ 546,461
MEMBERS' DEPOSITS (Note 13)	162,076,849	147,484,037
MEMBERS' SHARES (Note 15)	-	2,480
DEFERRED INCOME TAXES (Note 16)	328,363	350,230
	<u>163,022,925</u>	<u>148,383,208</u>
<b>MEMBERS' EQUITY</b>		
Share capital (Note 15)	564,181	606,110
Accumulated other comprehensive income (Note 17)	539,293	678,945
Retained earnings	12,994,420	12,461,187
	<u>14,097,894</u>	<u>13,746,242</u>
	<u>\$ 177,120,819</u>	<u>\$ 162,129,450</u>

**ON BEHALF OF THE BOARD**

 \_\_\_\_\_ Director  
 \_\_\_\_\_ Director

See notes to consolidated financial statements

**REVELSTOKE CREDIT UNION**  
**Consolidated Statement of Income**  
**Year Ended December 31, 2016**

	2016	2015
<b>INTEREST INCOME</b>		
Interest from Loans	\$ 4,640,729	\$ 4,726,279
Interest from Investments	539,755	595,536
	<u>5,180,484</u>	5,321,815
INTEREST AND LOAN RELATED EXPENSES	<u>1,673,537</u>	1,803,255
FINANCIAL MARGIN	<u>3,506,947</u>	3,518,560
<b>OPERATING EXPENSES</b> <i>(Schedule 1)</i>	<u>4,693,919</u>	4,582,836
<b>LOSS FROM OPERATIONS</b>	<u>(1,186,972)</u>	(1,064,276)
OTHER INCOME (EXPENSES)		
Service Fees and Commissions	2,271,193	2,168,302
Losses on Loans Expense <i>(Note 9)</i>	(32,896)	22,608
Processing and Handling Fees	(185,497)	(172,335)
	<u>2,052,800</u>	2,018,575
INCOME BEFORE INCOME TAXES AND REWARDS TO MEMBERS	<u>865,828</u>	954,299
INCOME TAXES		
Current	98,964	164,533
Deferred	25,462	69,601
	<u>124,426</u>	234,134
INCOME BEFORE REWARDS TO MEMBERS	<u>741,402</u>	720,165
REWARDS TO MEMBERS <i>(Note 15)</i>	<u>208,169</u>	205,599
<b>NET INCOME</b>	<u>\$ 533,233</u>	\$ 514,566

See notes to consolidated financial statements

**REVELSTOKE CREDIT UNION**  
**Consolidated Operating Expenses**  
**Year Ended December 31, 2016**

*(Schedule 1)*

	2016	2015
<b>Administrative</b>		
Staff Salaries	\$ 2,445,333	\$ 2,391,857
Staff Benefits	496,789	469,189
Data Processing and Accounting	182,782	179,870
Stationery and Supplies	56,852	53,434
Director and Committee Costs	56,123	58,562
Staff Travel and Training	41,805	43,638
Postage	36,557	39,524
Telephone	35,080	40,891
Insurance - Bonding	31,239	30,091
	<u>3,382,560</u>	<u>3,307,056</u>
<b>Building and Occupancy</b>		
Amortization	93,748	93,750
Property taxes	69,635	70,755
Janitor	60,910	58,413
Utilities	43,838	47,197
Repairs and Maintenance	31,009	24,398
Insurance	17,756	20,546
	<u>316,896</u>	<u>315,059</u>
<b>Other</b>		
Promotion, Advertising and Donations	365,164	235,007
Computer Software, License, Subscription	146,916	258,930
Stabilization and Inspection Assessments	146,062	131,050
Audit	81,669	65,355
Amortization	74,625	70,135
Consulting	52,847	53,279
Dues	52,315	56,992
Miscellaneous	28,512	34,438
Legal and Collection	20,944	31,175
Repair and Maintenance	21,036	20,702
Annual Meeting	4,373	3,658
	<u>994,463</u>	<u>960,721</u>
	<u>\$ 4,693,919</u>	<u>\$ 4,582,836</u>

See notes to consolidated financial statements



**REVELSTOKE CREDIT UNION**  
**Consolidated Statement of Comprehensive Income**  
**Year Ended December 31, 2016**

	2016	2015
<b>NET INCOME</b>	<b>\$ 533,233</b>	<b>\$ 514,566</b>
<b>CHANGES IN COMPREHENSIVE INCOME</b>		
Unrealized gain (loss) on interest rate swaps (net of deferred income tax) <i>(Note 17)</i>	<b>(139,652)</b>	95,582
Revaluation of RCUI (net of deferred income tax) <i>(Note 17)</i>	<u>-</u>	<u>348,000</u>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>\$ 393,581</u></b>	<b><u>\$ 958,148</u></b>

See notes to consolidated financial statements

**REVELSTOKE CREDIT UNION**  
**Consolidated Statement of Retained Earnings**  
**Year Ended December 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>RETAINED EARNINGS - BEGINNING OF YEAR</b>	<b>\$ 12,461,187</b>	<b>\$ 11,946,621</b>
NET INCOME FOR THE YEAR	<u>533,233</u>	<u>514,566</u>
<b>RETAINED EARNINGS - END OF YEAR</b>	<b><u>\$ 12,994,420</u></b>	<b><u>\$ 12,461,187</u></b>

See notes to consolidated financial statements

**REVELSTOKE CREDIT UNION**  
**Consolidated Statement of Cash Flow**  
**Year Ended December 31, 2016**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 533,233	\$ 514,566
Items not affecting cash:		
Amortization of building and parking lot	93,748	93,750
Amortization of furniture and equipment	74,625	70,135
Deferred income taxes - net of prior period adjustment	25,462	69,601
Adjustment to accumulated other comprehensive income <i>(Note 17)</i>	<u>(186,981)</u>	139,596
	<u>540,087</u>	887,648
Changes in non-cash working capital:		
Other	399,095	(16,908)
Accounts payable and accrued liabilities	<u>71,254</u>	35,842
	<u>470,349</u>	18,934
Cash flow from operating activities	<u>1,010,436</u>	906,582
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(20,261)	(180,263)
Investments	(40,606)	(12,560)
Members' loans	(3,763,807)	(3,525,396)
Purchase book of business and goodwill	<u>(275,000)</u>	-
Cash flow used by investing activities	<u>(4,099,674)</u>	(3,718,219)
<b>FINANCING ACTIVITIES</b>		
Members' deposits	14,592,812	5,314,127
Members's shares	(2,480)	(18,119)
Share capital	<u>(41,929)</u>	(97,975)
Cash flow from financing activities	<u>14,548,403</u>	5,198,033
<b>INCREASE IN CASH FLOW</b>	<b>11,459,165</b>	2,386,396
Cash - beginning of year	<u>25,790,416</u>	23,404,020
<b>CASH - END OF YEAR</b>	<b>\$ 37,249,581</b>	\$ 25,790,416
<b>CASH CONSISTS OF:</b>		
Cash	\$ 12,939,045	\$ 8,366,360
Deposits - Special and Term	24,176,000	17,329,850
Accrued Interest	<u>134,536</u>	94,206
	<u>\$ 37,249,581</u>	\$ 25,790,416

See notes to consolidated financial statements

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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1. NATURE OF OPERATIONS

Revelstoke Credit Union (the "Credit Union") is incorporated under the Credit Union Act (the "Act") of British Columbia and is a member of Central 1 Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and Internet banking. The Credit Union head office is located at 110 2nd Street W, Revelstoke, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on February 22, 2017.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

Cash and cash equivalents

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

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

Investments - Central 1 deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

Equity instruments

These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair market value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

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

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

Hedges

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps totaling nil (2015 - \$20,000,000). These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

If a hedge relationship fails an effectiveness test, hedge accounting ceases from the last date on which the hedge was demonstrated to be effective, which will usually be the beginning of the period in which the hedge fails the effectiveness test. If the hedged item is an available-for-sale asset, future changes in fair value, other than impairment and currency differences on monetary items, are recognized in equity. If the hedged item is a loan or receivable, future changes in fair value, other than impairment, are not recognized unless the item is sold.

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

Members loans

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

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

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

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

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

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

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

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

Bad debt written off

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

Loan securitization

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

No securitization transactions have been initiated after the date of transition to IFRS; however, if they are initiated in the future, loans will be derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist, or substantially all the risk and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization will be reflected as a financing transaction and the related liability initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized and was written up as provided in *Note 10*. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	40 years
Parking Lot	20 years
Furniture and Equipment	1 to 10 years

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

Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life, but no more than 5 years.

Intangible assets in the insurance subsidiary include an indefinite life AutoPlan license, which enables the insurance subsidiary to sell ICBC insurance products, a purchased mutual fund book of business amortized on a straight-line basis over 3 years and goodwill associated with the purchase of the book of business with an indefinite life, as described in *Note 12*.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

Impairment of non-financial assets

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

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

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

Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

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

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Member deposits

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

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

Pension plan

The Credit Union participates in a defined contribution pension plan administered by Credential Asset Management. The Credit Union accounts for the plan by recognizing contributions as an expense in the year to which they relate.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

Accounts payable and other payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' shares

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

Patronage distributions

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

Revenue recognition

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "financial lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

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

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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3. IFRSs ISSUED BUT NOT YET EFFECTIVE

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

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

The amendments provide guidance on the accounting for:

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

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

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

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

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

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

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

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

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

*(continues)*

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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

- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly, and provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

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

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

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

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

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in *Note 6*.

*(continues)*

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

Member loan loss provision

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

In determining a collective loan loss provision, management used estimates based on the understanding of possible risks in the economy and objective evidence of impairment. The Credit Union has employed a collective loan loss provision in 2016 of \$158,007 (2015 - \$151,275).

Income taxes

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

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1. The average yield in the accounts at December 31, 2016 is 0.90% (2015 - 0.90%).

	2016	2015
Liquidity reserve deposit	\$ 12,676,000	\$ 11,329,850
Term deposit	11,500,000	6,000,000
Discount deposits - Canadian	9,572,145	4,813,883
Discount deposits - US	3,319,591	3,316,691
Accrued interest	134,536	94,206
 Total Central 1 deposits	 37,202,272	 25,554,630
Other cash and deposit accounts	47,308	235,786
	\$ 37,249,580	\$ 25,790,416

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 8% of total assets at December 31, each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves mature over periods of up to 5 years. At maturity, these deposits are reinvested at market rates for various terms.

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

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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6. 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.

	2016	2015
<b>Equity instruments</b>		
Central 1 Credit Union - Class A Shares	\$ 635,647	\$ 592,653
CUPP Services Ltd. Shares	59,577	59,577
Accr. Dividends - Central 1 Shares	21,612	24,000
Stabilization Central Shares	161	161
Central 1 Credit Union - Class E Shares	70	70
	\$ 717,067	\$ 676,461

The Credit Union is a member of a national financial services entity named Central 1.

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

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

Class E Central 1 shares are issued with a par value of \$0.01, however, are redeemable at \$100.00 at the option of Central 1. There is no separately quoted market value for these shares and the fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The 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.

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

7. MEMBERS' LOANS

	2016	2015
Residential Mortgages	\$ 86,227,376	\$ 81,795,976
Commercial Mortgages and Loans	31,601,477	31,744,918
Personal Loans	12,832,322	12,874,074
Commercial Revolving Credits	2,558,092	3,009,394
Accrued Interest	226,705	251,632
Subtotal	133,445,972	129,675,994
Deduct: Allowance for Impaired Loans <i>(Note 8)</i>	(173,007)	(166,836)
	<b>\$ 133,272,965</b>	<b>\$ 129,509,158</b>

**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 8%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2016 was 2.7% (2015 - 2.7%).

The interest rate offered on fixed rate loans being advanced at December 31, 2016 ranges from 2.23% to 6.17%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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

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

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

**Average yields to maturity**

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

	2016	2015
Variable rate	4.25	4.18
Fixed rate due less than one year	3.56	3.68
Fixed rate due between one and five years	3.23	3.40

**Credit quality of loans**

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

*(continues)*



**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

7. MEMBERS' LOANS *(continued)*

**Fair value**

The fair value of member loans at December 31, 2016 was \$134,696,000 (December 31, 2015 - \$130,889,000).

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

**Concentration of risk**

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

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

8. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision at December 31, 2016 is comprised of both a specific provision of \$15,000 (2015 - \$15,561) and a collective provision of \$158,007 (2015 - \$151,275).

Movement in individual specific provision and collective provision for impairment:

	2016	2015
Balance at January 1	\$ 166,836	\$ 218,542
Provision charged to net income	34,413	9,774
	201,249	228,316
Loans (recovered) and Revaluation of Property Held for Resale	(28,242)	(61,480)
Balance at December 31 <i>(Note 7)</i>	\$ 173,007	\$ 166,836

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

	2016	2015
Period of delinquency		
30 to 90 days	\$ 620,393	\$ 392,659
Over 90 days	10,961	-
Total loans in arrears	631,354	392,659
Total loans not in arrears	132,587,913	129,031,703
Total loans (excluding accrued interest)	\$ 133,219,267	\$ 129,424,362

*(continues)*

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

8. ALLOWANCE FOR IMPAIRED LOANS *(continued)*

**Key assumptions in determining the allowance for impaired loans collective provision**

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

The Credit Union determined that a collective (non-specific) impaired loan provision should be applied to 2016 in the amount of \$158,007 (2015 - \$151,275).

9. COLLECTIONS ACTION

During 2014 the Credit Union was granted the appointment of a receiver-manager over a commercial property located in Revelstoke. The receiver-manager was then granted conduct of sale and an offer was received and ultimately approved by the Court. The sale produced sufficient proceeds to satisfy the full principal balance of the loan; however a portion of the accrued interest and costs was not recovered. The amount considered unrecoverable was expensed in 2014. As funds recovered in 2015 were greater than the allowance the excess was recorded as income in 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 570,136	\$ -	\$ 570,136	\$ 570,136
Building	4,189,545	1,296,811	2,892,734	2,985,004
Furniture and Equipment	1,456,027	1,344,099	111,928	128,519
Computer software	28,432	28,329	103	1,351
Furniture and fixtures	108,336	61,622	46,714	57,726
Parking Lot	38,457	23,679	14,778	16,256
Computer equipment	364,589	298,562	66,027	91,541
	<u>\$ 6,755,522</u>	<u>\$ 3,053,102</u>	<u>\$ 3,702,420</u>	<u>\$ 3,850,533</u>

As a result of an appraisal prepared by Corrie Appraisals Ltd. on January 29, 2010 the carrying value of the land owned by the credit union was increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 16. The credit union owns the land on which the building and parking lot are located in Revelstoke, B.C., with an historical cost of \$52,241. The fair value of the land, as determined from the appraisal prepared by Corrie Appraisals Ltd. on January 21, 2010 is \$317,923. No impairment in the fair value has accrued in 2016.

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

11. OTHER

	2016	2015
Prepaid Expenses and Accounts Receivable	\$ 703,787	\$ 557,912
Accrued Interest on Swaps	-	544,970
	<b>\$ 703,787</b>	<b>\$ 1,102,882</b>

12. INTANGIBLE ASSETS

	2016	2015
Insurance Corporation of British Columbia Autoplan license	\$ 1,200,000	\$ 1,200,000
Book of business	210,000	-
Goodwill	65,000	-
	<b>1,475,000</b>	1,200,000
Accumulated amortization	-	-
	<b>\$ 1,475,000</b>	<b>\$ 1,200,000</b>

RCU Insurance Services Ltd. purchased an existing Autoplan Agency License on September 23, 2005, that allows it to sell products of the Insurance Corporation of British Columbia. In addition, on December 1, 2016 it purchased a Book of Business and Goodwill that is expected to increase the income earned from providing investment services.

As a result of a valuation prepared by Robert O'Connor & Company Inc. on June 11, 2010 the carrying value of the license was increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 27, with the resulting increase recognised in retained earnings. The valuation prepared by Robert O'Connor & Company Inc. determined that the ICBC licence had a fair market value of \$800,000. In 2015 it was determined that the fair value of the ICBC licence had increased to \$1,200,000 and the Board determined that the financial statements reflect that increased value.

The Book of Business is considered a finite-life intangible asset and will be amortized over 3 years at the rate of \$70,000 per year.

The fair value of the ICBC licence and the Goodwill are both considered indefinite-life intangible assets and as such are tested for impairment annually.

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

13. MEMBERS' DEPOSITS

	2016	2015
Chequing	\$ 48,677,338	\$ 45,889,082
Plan 24	23,096,152	17,702,718
Term Deposits	53,945,880	48,305,799
Registered Savings Plans	12,448,290	13,856,159
Registered retirement income funds	4,988,869	4,852,690
Registered education savings plans	1,769,322	1,928,553
Tax free savings account	16,234,404	14,120,928
Registered disability savings plans	145,555	69,510
BC TESG savings plans	110,535	44,402
	161,416,345	146,769,841
Accrued Interest Payable	660,504	714,196
	\$ 162,076,849	\$ 147,484,037

**Terms and conditions**

Chequing deposits are due on demand. A portion of the accounts pay interest at a negotiated rate.

Demand deposits are due on demand and bear interest at a variable rate up to 0.25% at December 31, 2016. Interest is paid on the accounts monthly.

Plan 24 deposits bear interest at 0.25%. Interest is calculated daily and paid monthly.

Special savings (Headstart) deposits bear interest at 0.25%. Interest is calculated daily and paid monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits issued on December 31, 2016 range from 1.10% to 1.80%.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above and may also pay interest semi-annually. The variable rate RRSPs bear interest at rates up to 1.80% at December 31, 2016.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amount vary according to individual needs and statutory requirements. The variable rate RRIFs bear interest at rates up to 1.80% at December 31, 2016.

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

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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13. MEMBERS' DEPOSITS *(continued)*

Included in chequing deposits is an amount of \$3,252,954 denominated in US dollars (December 31, 2015 - \$2,342,154).

**Fair value**

The fair value of members deposits and shares at December 31, 2016 was \$162,197,000 (December 31, 2015 - \$147,686,000)

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

**Average yield to maturity**

Members' deposits bear interest at both variable and fixed rates with an average yield of 1.5% at December 31, 2016 (2015 - 1.2%).

**Concentration of risk**

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

All member deposits are with members located in and around Revelstoke, British Columbia.

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14. PENSION PLAN

The Credit Union makes contributions to a defined contribution Pension Plan, on behalf of members of its staff and its wholly owned subsidiary RCU Insurance Services Ltd. The plan is a money purchase plan administered by Credential Asset Management.

The amount contributed to the plan for 2016 was \$171,616 (2015 - \$162,260). The contributions were made for current service and these have been recognized in net income.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

15. MEMBERS' SHARES

Revelstoke Credit Union has established three classes of shares:

"A" Equity Membership

"B" Non-Voting Equity Shares

"D" Non Equity Shares

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

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

	<u>2016</u>	<u>2015</u>
"A" Equity Membership	\$ 128,189	\$ 134,350
"B" Non-Voting Equity Shares	<u>435,992</u>	<u>471,760</u>
	<u>\$ 564,181</u>	<u>\$ 606,110</u>
"D" Non Equity Shares	<u>\$ -</u>	<u>\$ 2,480</u>

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

**Membership shares**

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold \$5 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in "A" and "B" shares are not insured by Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (*Note 21*), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as equity.

**Distributions to members**

	<u>2016</u>	<u>2015</u>
Patronage distributions	\$ 202,568	\$ 193,175
Dividends on members shares	<u>5,601</u>	<u>12,424</u>
	<u>\$ 208,169</u>	<u>\$ 205,599</u>

**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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16. INCOME TAXES

**Current Tax**

Current income taxes are calculated based on the Income Tax Act as it applies to corporations and specifically credit unions. The current income tax rate on the first \$500,000 of active income for British Columbia corporations is 13%; taxable income in excess of the \$500,000 is taxed at 26%. The \$500,000 must be shared by the Credit Union and its subsidiary; however, credit unions are also subject to a special credit union deduction the effect of which is to maintain the 13% rate of income tax until the Credit Union achieves a calculated amount of capital. In 2016 the credit union's net taxable income exceeded the special credit union deduction limit resulting in an average rate of income tax at 15.05% (2015 - 21.98%).

In 2005 all British Columbia credit unions received a series of dividends from Stabilization Central. The receipt of these monies was treated as a non-taxable dividend in that year. During 2009 Canada Revenue Agency challenged this income tax treatment and raised an assessment against the credit union in the amount of \$23,664, plus interest. The credit union filed a Notice of Objection with CRA, which was resolved in favour of the Credit Union. The amount assessed has been paid to CRA and was reflected in income tax expense in 2009. The tax and interest was repaid to the credit union on January 27, 2015 when it was recorded.

**Deferred Tax**

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

During 2011 the Credit Union converted its banking system and decided to expense the cost over the expected life of the conversion licence; however, a significant portion of the cost was deductible in 2011 for income tax purposes. The resulting tax deferral was concluded in 2016.

The adoption of IFRS allowed the Credit Union to increase the carrying value of its land and investment in RCU Insurance Services Ltd. to fair value. As described in *Note 6*, the investment was increased by an additional \$400,000 in 2015. Those increases also gave rise to deferred income tax that was calculated on the income that would otherwise be taxable if those assets were sold at the fair value. In addition, the change in fair value of interest rate swaps reflected in the Statement of Other Comprehensive Income are shown net of deferred income taxes, with an offset to deferred income tax liability or asset.

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

	<b>2016</b>	<b>2015</b>
Arising from timing differences, accounted for in operations	\$ 226,612	\$ 118,251
Arising from fair values, accounted for in retained earnings and accumulated other comprehensive income	101,751	231,979
	<b>\$ 328,363</b>	<b>\$ 350,230</b>

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

As described in *Note 2* the Credit Union invests in both Equity Instruments and Hedges, (in the form of Interest Rate Swaps). IFRS requires the values of these investments to be reported at Fair Value, less the applicable amount of income tax that would be payable if the Fair Value was realized, which is recorded as Deferred Income Taxes. By their nature, the Fair Value of these investments fluctuates with market conditions. In addition, the method of reporting the Fair Value of the Hedges depends on whether the Hedge is considered to be effective, or ineffective.

In 2013 the Hedges were declared to be ineffective and accordingly only the income and expense related to those Hedges was recorded in the financial statements for the years 2014 and 2015. In 2016 the Hedges were sold at Fair Market Value, which raised the question as to whether they had been accounted for correctly in the intervening years. Upon further consideration it was determined that the Hedges should not have been considered ineffective in 2013, which would have resulted in the Fair Value treatment referred to above.

Adjustments to Comprehensive Income and Deferred Income Taxes arising from the treatment of both Equity Instruments and Hedges are set out below:

	2016	2015
Opening balance, as previously presented	\$ 678,945	\$ 62,313
Adjustment for fair value of interest rate swaps (net of deferred tax)	-	173,049
Opening balance, as restated	678,945	235,362
Changes in other comprehensive income		
Amortization of swaps sold prior to maturity	(10,291)	(61,747)
RCUI revaluation	-	400,000
Revaluation of swaps to fair value	(176,690)	201,342
	(186,981)	539,595
Deferred tax (recovered)	47,329	(96,012)
Change in other comprehensive income	(139,652)	443,583
Ending balance, accumulated other comprehensive income	\$ 539,293	\$ 678,945

These changes are recorded in the Statement of Comprehensive Income and in the Deferred Income Tax account as at December 31, 2016 and the comparative figures for 2015.

18. PRIOR PERIOD ADJUSTMENT

During 2016 an adjustment to accumulated other comprehensive income was done to correct an error in the calculation of fair value on interest rate swaps, as described in *Note 17*. Adjustments affected the following:

Other assets	\$ 463,699
Accounts payable and accrued liabilities	(28,506)
Deferred income taxes	(113,151)
Accumulated other comprehensive income	(322,042)
	\$ -
Change in other comprehensive income	\$ (148,993)



**REVELSTOKE CREDIT UNION**  
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19. RELATED PARTY TRANSACTIONS

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

	2016	2015
<b>Compensation</b>		
Salaries and other short-term benefits	\$ 497,717	\$ 486,531
Total pension and other post-employment benefits	42,746	41,808
Other long term benefits	4,187	7,156
	<b>\$ 544,650</b>	<b>\$ 535,495</b>
 <b>Loans to key management personnel and directors</b>		
Aggregate value of loans advanced	\$ 1,551,265	\$ 1,745,881
Interest received on loans advanced	45,831	42,052
Total value of lines of credit advanced	43,993	50,481
Unused value of lines of credit	171,506	97,019
	<b>\$ 1,812,595</b>	<b>\$ 1,935,433</b>
 <b>Deposits from key management personnel and directors</b>	 <b>\$ 627,566</b>	 <b>\$ 816,657</b>

**Loans to key management personnel and directors**

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

**Deposits from key management personnel and directors**

The Credit Union's policy for receiving deposits from key management personnel and directors is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit; however, as part of its remuneration and benefit package, the Credit Union offers all staff members a 1% bonus above certain current interest rates to a maximum of \$200,000, as approved by the Board of Directors.

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**REVELSTOKE CREDIT UNION**  
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20. FINANCIAL INSTRUMENT CLASSIFICATION

The following table represents the carrying amount by classification.

	<b>2016</b>	2015
Cash and term deposits	<b>\$ 37,249,580</b>	\$ 25,790,416
Investments	<b>717,067</b>	676,461
Members' loans	<b>133,272,965</b>	129,509,158
Other	<b>703,787</b>	1,102,882
	<b>171,943,399</b>	157,078,917
Members' deposits	<b>(162,076,849)</b>	(147,484,037)
Members' shares	<b>-</b>	(2,480)
	<b>\$ 9,866,550</b>	\$ 9,251,239

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

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

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

All of the investments are classified under level 2. See *Note 6* for investments.

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

**REVELSTOKE CREDIT UNION**  
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21. FINANCIAL INSTRUMENT RISK MANAGEMENT

**General objectives, policies and processes**

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

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**REVELSTOKE CREDIT UNION**  
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**Year Ended December 31, 2016**

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21. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

**Credit risk**

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor or credit obligations.

Risk measurement

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

Objectives, policies and procedures

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

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

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is NIL (2015 - NIL).

A sizeable portfolio of the loan book is secured by residential property in Revelstoke, 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.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
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21. FINANCIAL INSTRUMENT RISK MANAGEMENT *(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. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Credit 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 8%.

The Credit Union manages liquidity risk by:

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

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

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

	<u>2016</u>	<u>2015</u>
• Risk weighted assets	\$61,653,588	\$59,474,604
• Capital adequacy ratio	20.27%	22.99%
• Risk weighted asset ratio	34.77	36.84

**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.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

21. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

**Interest rate risk**

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

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

Risk measurement

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

Objectives, policies and procedures

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

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

The following schedule shows the Credit Union's sensitivity to interest changes. 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 not been included in this chart.

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	\$ 5,065,972	3.19	\$ 13,468,525	1.44	\$ (8,402,553)
4 - 12 months	30,297,438	2.71	35,046,592	1.48	(4,749,154)
1 - 2 years	24,578,681	2.97	26,611,333	1.50	(2,032,652)
2 - 5 years	66,640,265	2.97	13,019,277	1.86	53,620,988
	<u>\$ 126,582,356</u>		<u>\$ 88,145,727</u>		<u>\$ 38,436,629</u>

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rate of 1% could result in an increase to financial margin of \$108,244 (2015 - \$90,234) while a decrease in interest rates of 1% could result in a decrease to financial margin of \$30,865 (2015 - \$6,856).

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.

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**REVELSTOKE CREDIT UNION**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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21. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

**Currency risk**

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

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

**Risk measurement**

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

22. COMMITMENTS

**Credit Facilities**

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

**Member loans**

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

	2016	2015
<b>Consumer</b>		
Unadvanced loans	\$ 1,703,950	\$ 312,025
Unused lines of credit	9,755,094	8,138,821
<b>Commercial</b>		
Unadvanced loans	\$ 497,200	\$ 43,684
Unused lines of credit	8,300,750	7,846,432
Letters of credit	2,145,983	1,391,882

**Contractual obligations**

The Credit Union has an agreement with Open Solutions Canada Inc. 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 expired May 9, 2016 and is being renegotiated at the present time.

**Capital**

The Credit Union has no material commitments for capital expenditures.