WESTMINSTER SAVINGS

Management Discussion and Analysis

2017

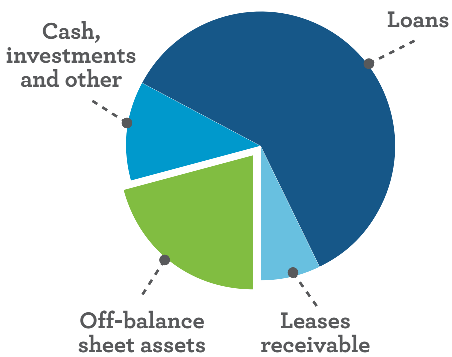
Westminster Savings

Table of Contents

2017 financial highlights

For Westminster Savings, 2017 was an outstanding year where we made significant investments for the credit union, while achieving solid performance and strong asset growth.

Assets under management



$4.0 billion

↑ 12.2%

Income before income taxes

$13.0 million ↑ 32.1%

Loans and leases receivable

$2.7 billion ↑ 16.8%

Members' equity

$195.0 million

↑ 7.8%

67,000+ customers

Members' deposits

$2.7 billion

↑ 11.5%

Key industry ratios

0.4% Return on average assets

14.2% Capital ratio

80.4% Operating efficiency

6.9% Return on equity

Investment in communities

$333,000 in direct contributions

$317,000 invested in our communities through the Westminster Savings Foundation

Percentage calculations are based on whole numbers.

General business overview

Westminster Savings Credit Union (Westminster Savings or the credit union) is a full-service financial institution, in business to *enrich the lives of our customers*. We provide retail banking services and related loans, mortgages and wealth management services to more than 67,000 customers, and hold more than $4.0 billion in assets under management. The credit union also offers a full suite of commercial lending and other services to real estate developers, small- and medium-sized enterprises and micro-businesses. Additionally, we offer new and used passenger vehicle leasing through our wholly owned subsidiary, WS Leasing Ltd. and its network of independent dealers and brokers. Through a second wholly owned subsidiary, Mercado Capital Corporation, we provide small- and mid-ticket equipment leasing services. Our leasing operations operate in all provinces and territories in Canada except Quebec.

We measure our success using a balance of financial and non-financial measures. Financially, success is measured using conventional banking industry indicators such as asset growth, financial returns and measures of capital, liquidity and operating efficiency. The credit union uses a variety of measures to assess our acceptance in the markets we serve, and to assess our performance in areas that are important to our members. Employee engagement and performance, which is measured semi-annually, is another important aspect of how we evaluate success. We know that engaged employees take great pride in what they do and will go above and beyond in their duties to provide the exceptional service to our members and customers that we aim to deliver. Westminster Savings strives to continuously improve its performance against these measures over time.

The most significant source of revenue for Westminster Savings is net interest income from financial intermediation. This represents the yield earned from loans, leases and investments, offset by deposit and other funding costs. The credit union also earns fee and commission income from these activities as well as its wealth management services, or from non-intermediation products and services such as payment services. Ancillary to this business, the credit union may realize gains or losses on the sale of financial instruments such as investments. It is also typical to record impairment losses, to reflect the expectation that some loans or leases will suffer credit losses.

To support these business activities, the credit union's operating expenses include staff compensation, as well as premises, systems, marketing and other administration costs. The credit union is also subject to federal and provincial income taxes.

We also measure comprehensive income, which takes a broader view of income measurement by including unrealized gains or losses of the credit union, including changes in certain asset values, and changes to the estimated value of employee pension plan assets and obligations.

Through the Westminster Savings Foundation (the foundation), we support community organizations that work to improve the quality of life within our general trade areas. In addition to the foundation's contributions, the credit union makes direct community investments.

Building solid customer relationships is the hallmark of our customer-focused business strategy. Our employees are also a key part of this strategy. The 432 employees at Westminster Savings and its subsidiary companies all share a commitment to delivering high-quality personal service.

Lines of business

Westminster Savings provides a full range of retail and commercial banking, wealth management and leasing solutions to meet our customers' evolving needs. Known for its customer and community focus, people-oriented culture and sound financial and operating practices, the credit union aims to be the financial partner of choice for busy families and small businesses in Metro Vancouver and the Fraser Valley, so they can achieve their most important goals.

Consumer Operations

In 2017, the consumer operations division continued to focus its efforts on enriching the lives of our membership. Overall, 2017 was a highly successful year for our branch and Member Service Centre teams. We know our branches remain an important place for customers to complete transactions, seek financial advice and access our financial planning, commercial lending and leasing solutions.

With the aim of delivering on our commitment to serve customers where they need us, we added three new locations in 2017, increasing our branch network by 25%. Westminster Savings now offers 15 convenient locations spanning Vancouver to Surrey, Langley and out to Maple Ridge. Located in the fast-growing communities of North Surrey, South Surrey and South Vancouver, the three new branches have been designed to deliver a welcoming and seamless customer experience.

Another major initiative in 2017 was the introduction of new customer service roles that combine day-to-day banking, lending and investment services. The aim of these new roles is to empower and enable more employees in a branch to deliver the wider and evolving range of services our customers are looking for. Our hope is that this new service delivery model from our knowledgeable staff will lead to a faster and more exceptional customer experience.

We also introduced some key improvements to make banking with Westminster Savings even easier. We upgraded our Unlimited Chequing Account and Unlimited Family Plan to include free *Interac*® e-Transfers. In addition, we updated our Online Banking to allow for more transaction options for Tax Free Savings accounts.

HIGHLIGHTS

We welcomed **4,900** new memberships

Funded over **1,500** mortgages to assist members with their home financing needs

Helped over **130** students pay for their schooling with a student line of credit

Opened **113** new RESP accounts to help parents save for their children's education

Assisted more members than ever before through our Member Service Centre, responding to over 90,000 calls and 3,500 emails

Supported **159** local events in our communities

Wealth Management

We have a dedicated team of wealth management professionals that provides expert advice in the areas of financial planning, estate planning, tax planning, income protection and investment management to help our customers successfully plan for their future. By learning about and regularly reviewing our customers' most important goals, we strive to provide them with tailored and practical financial plans for the future.

In 2017, we continued to develop our wealth management offerings with more of our financial planners transitioning to the role of investment advisor, with the ability to offer new investment solutions that provide customers with greater investment options than before. More than half of our investment advisors are now able to offer individual stocks and bonds to meet customers' evolving investment needs. We also hired a dedicated life insurance specialist to help our customers navigate through the increasingly complex world of income protection planning and ensure they have appropriate coverage for their families' needs, and we anticipate hiring additional insurance resources in the year ahead.

HIGHLIGHTS

7,800+
customers helped with their financial planning, estate planning and income replacement needs

$770 million
wealth assets managed in 2017

Commercial Banking

Commercial Banking provides financial services to three distinct groups of customers: small businesses, mid-sized companies and real estate developers. The team offers specialized expertise and superb service and products, including project financing, mortgages, commercial loans, lines of credit and cash management services.

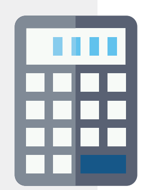
In 2017, the team continued to deliver solid results while finding opportunities to increase operational effectiveness and continuing to add value for our business customers. Employees completed Service Excellence training that we believe will enable them to deliver the best customer experience possible by assessing needs and delivering advice-focused services and tailored solutions to help customers achieve their goals.

During the year, we held focus groups with the business community to get an even deeper understanding of the banking needs of business owners. This information has been vital in prioritizing areas of focus to deliver more value to our business members moving forward.

HIGHLIGHTS

205 new loans were financed in 2017, totalling more than $390 million, which by our estimates resulted in the creation of 1,170 new jobs*

Approximately **1,900** customers were served by our Commercial Banking division, including more than 800 by our Small Business team



We financed **79** new construction developments in 2017, which provides new housing for more than 2,300 families in our local communities

**Based on the assumption that every $1 million in new loans results in three jobs being created.*

Leasing

Our leasing division offers Westminster Savings the opportunity to have a national presence in consumer and commercial vehicle, equipment and fleet leases in all provinces and territories across Canada, except Quebec, through our two subsidiaries, WS Leasing Ltd. and Mercado Capital Corporation.

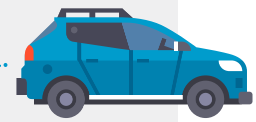
WS Leasing distinguishes itself in the automotive marketplace with fast, efficient and competitive lease structures for new and used vehicles for both individual and business clients. While Metro Vancouver and the Fraser Valley represent the largest portion of our vehicle leasing portfolio, we continued to see growth in our markets east of British Columbia in 2017. The competition from other financing options for vehicle purchasing, such as long-term loans, is high and continues to put pressure on our leasing operations.

Mercado Capital Corporation is a small- to mid-ticket equipment financing company that serves businesses across Canada. While the largest portion of its portfolio is in Alberta, we continued to experience significant growth in the Ontario, British Columbia and remaining Prairie markets during 2017, despite aggressive competition in the market. The primary markets we focus on in our equipment leasing business are the transportation and construction sectors.

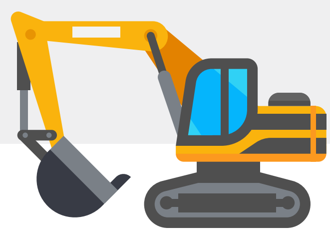
HIGHLIGHTS

$300 million lease portfolio balance at the end of 2017

1,500+ customers acquired a vehicle in 2017, thanks to financing from WS Leasing Ltd.



510+ commercial leases that added revenue-generating equipment to Canada's economy were funded through Mercado Capital Corporation



Corporate

Our corporate division encompasses various departments, including Finance, Human Resources, Information Technology, Marketing, Treasury and other administration. The corporate division outsources non-core functions that support the credit union's banking system operation, software development and investment management to best-in-class service providers to achieve efficiency gains.

Market environment

The credit union operates within a broad and very competitive financial services market, which includes Canada's chartered banks, other credit unions, virtual, specialty and niche non-regulated financial services providers, and new emerging competitors. In British Columbia, credit unions serve more than 1.9 million members (approximately 42% of the provincial population. *Source: Central 1 Credit Union*).

As financial products and services continue to become increasingly automated, commoditized and available electronically, consumers are more likely to engage multiple financial institutions in pursuit of the best value. Increasingly, full-service financial institutions like Westminster Savings are competing with virtual, specialty and niche financial services providers. These trends toward lower-cost financial services providers, increased consumer choice and market fragmentation are expected to continue in the years ahead.

Our wealth management division offers a full suite of investment and insurance products, and competes in a very active market with other financial institutions and independent firms. Investment and insurance products are complex and highly regulated financial products, with consumer choice being influenced by advisor relationships, expectation of investment returns and fees.

Our vehicle leasing operation competes against other financial institutions, finance companies and vehicle manufacturers' captive finance companies. Consumer leasing volumes are influenced by consumer confidence and other aspects of the economic environment. The market for vehicle financing continues to remain more favourable for longer-term purchase financing, which competes with leasing.

Similarly, our equipment leasing subsidiary competes with other financing companies and manufacturers that are active in equipment leasing. Equipment financing volumes are also influenced by the economy and the general level of business investment activity, particularly in the resource, infrastructure and transportation sectors.

2017 operating results

2017 was an exciting year for Westminster Savings with strong financial results, including over 12% growth in assets under management and net income at its highest level in five years. The following chart details our comparative financial and industry metrics.

Financial metrics

	2017	2016	%
Assets under management	$4.03 B	$3.59 B	↑ 12.2%
Net income	$13.24 M	$7.48 M	↑ 76.9%
Total assets	$3.17 B	$2.81 B	↑ 12.9%
Total loans	$2.41 B	$2.03 B	↑ 18.5%
Total leases	$300 M	$287 M	↑ 4.4%
Total deposits	$2.67 B	$2.39 B	↑ 11.5%

Industry metrics

	2017	2016	%
Liquidity ratio	13.7%	16.6%	↓ 17.5%
Capital ratio	14.2%	15.0%	↓ 5.3%
Return on average assets	0.44%	0.27%	↑ 63.0%
Return on equity	6.9%	4.1%	↑ 68.3%
Operating efficiency	80.4%	82.4%	↓ 2.4%

Percentage calculations are based on whole numbers.

Net income

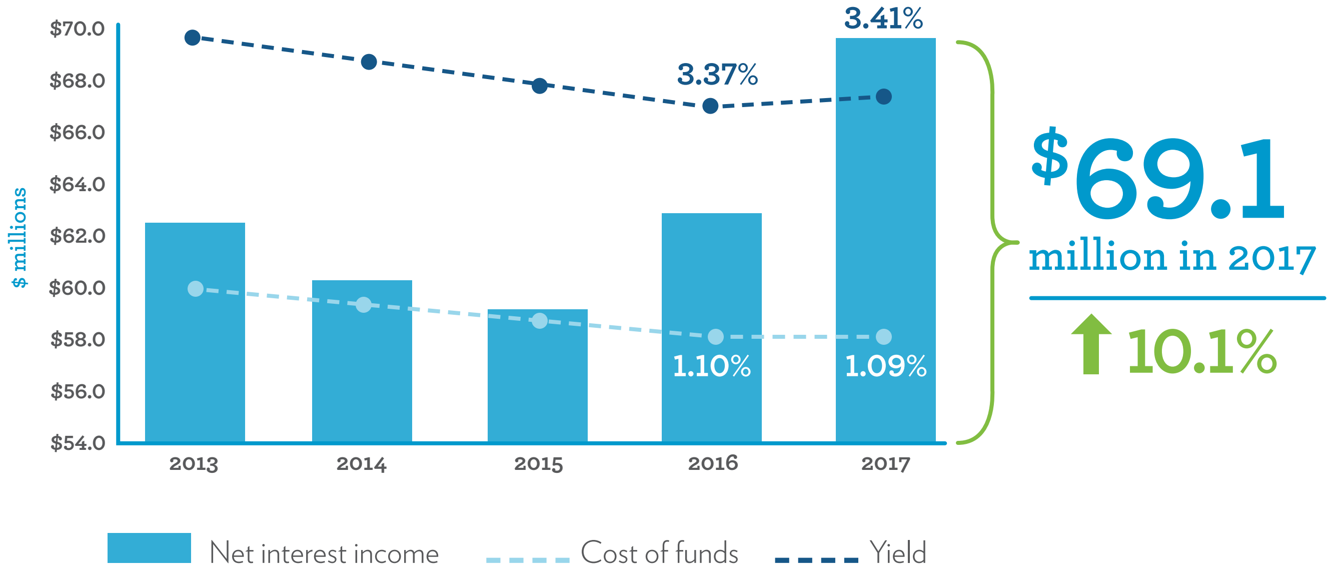
Net income is $13.2 million, up from $7.5 million in 2016.

Last year, we expanded our branch network by 25% with the aim of serving our customers where they need us. Not only do our branches play a vital role in meeting customers' banking needs, serving as advisory centres and delivering an exceptional experience, they enable access to our wealth management, small business, and commercial lending and leasing solutions.

Our focus on revenue diversification has seen all four lines of business contribute significantly to the exceptional performance seen in 2017. Interest income from our commercial, consumer and leasing lines of business saw year-over-year increases, which contributed to our success. During 2017, we continued to expand our wealth management offerings, resulting in improved revenues. In addition, the credit union was able to benefit from its investment portfolio performance, which resulted in positive gains on financial instruments.

To support these business activities, the credit union continued to invest heavily in our people through expanded training programs and technology to support the development of a high-performing team culture focused on meeting our customers' varied and evolving financial needs. This investment in our people, along with increased focus on technology improvements, resulted in increased operating expenses.

Net interest income



The largest component of the credit union's income is net interest income.

Net interest income increased to $69.1 million up from $62.7 million in 2016. The overall increase was largely due to an increase in interest income of $8.5 million that was partially offset by a $2.1 million increase in interest expense. The increase in interest income for the past year is attributable to an increase in our commercial and consumer mortgage loans balances, increases to our equipment and vehicle lease receivables balances and an increase to the rates within our lending portfolio.

The Bank of Canada announced increases to its prime rate in June and September 2017. The credit union adjusted loan and mortgage rates accordingly. As a result of the rate changes, we have seen a shift in the consumer lending portfolio back to higher yielding fixed rate products as customers moved away from variable rate products due to the uncertainty of future interest rate movements. The increase in interest rates has resulted in a slight increase in our yields across our loan portfolio. Interest rates remained relatively low and competitive pressures saw consumer and commercial lending rates change slightly throughout the year. Despite seeing overall growth within our leasing division, the growth in our vehicle leasing portfolio, which has lower yield products, combined with the increasing cost of funds across our leasing division, has contributed to an overall lower yield in our leasing portfolio.

Interest expense increased by 6.8% from 2016, primarily due to the increase in members' deposits and increased interest rates during the year. Also contributing to the growth in cost of funds was the utilization of alternative funding sources such as borrowings and increased securitization throughout 2017. The use of our borrowing facilities in the year resulted in additional interest expense of $0.5 million in 2017. Our member acquisition and deposit campaigns contributed to the overall deposit growth in the year but at a higher interest cost than 2016.

Impairment losses on loans, leases receivable, investments and other assets

In assessing its loans and leases receivable portfolios for evidence of impairment, Westminster Savings considered various factors: bankruptcy, default, payment delinquency and decline in the value of mortgage security or other collateral and additional economic considerations. Individual loans or leases may be found to be impaired due to specific factors. For loans assessed as impaired, we continue to hold substantial security that serves to protect the credit union against loss. In addition, we evaluate our overall portfolios of mortgages, loans, vehicle leases and equipment leases to quantify losses that might arise from broader factors. Westminster Savings is proactive in our management of delinquency and other credit concerns to ensure that credit losses are kept as low as possible.

The credit union incurred impairment losses on loans and leases receivable of $1.8 million in 2017, $0.2 million higher than the previous year, primarily related to the leasing division. The credit union recorded lower impairment on other assets of $2.6 million in 2017 compared to $2.8 million in 2016. Impairment losses remained relatively high in the early part of 2017 as we continued to see the after-effect of the decline in economic conditions in Alberta in 2015. The later part of the year saw the credit union's experience shift to a more favourable trend for impairment losses as fewer delinquencies and terminations were recorded across our leasing portfolio.

In determining the collective loss provision, management considers macroeconomic and industry-specific trends. Further details can be found by reading *Credit risk* in the *Key business risks* section on page 17. During the year, the credit union incurred fewer delinquencies and direct writeoffs contributing to an overall decrease in the probability of default. This was offset by the increase in the asset portfolio resulting in an overall increase in the collective provision.

Net fee and commission income

Net fee and commission income was $9.4 million, an increase of 25.2% or $1.9 million compared to 2016.

Fee and commission income increased by $1.4 million to $12.5 million in 2017 compared to $11.1 million in 2016. This was predominately driven by increases in wealth management revenues of $0.6 million, member service fees of $0.4 million, and incremental loan and leasing fees of $0.3 million.

Wealth management revenues grew $0.6 million to $5.0 million compared to $4.4 million in 2016. This was driven by increased revenues related to new wealth management product offerings. In addition to this increase, the credit union has converted more than $275.0 million of assets from the Mutual Fund Dealers Association platform to the Investment Industry Regulatory Organization of Canada, which offers an expanded product offering to our customers. The new product offerings align the credit union with the offerings of its competitors. This strategy favours the credit union in the long term as it will increase its competitiveness and allows for sustained asset and revenue growth over time.

An increase to foreign exchange gains of $0.3 million was recorded due to a slight recovery of the Canadian dollar versus the United States dollar. Loan and lease receivable fee income increased by $0.3 million in 2017 due to increased recoveries on bad debts that were previously written down.

These gains in fee and commission income were partially offset by a decrease of creditor insurance fees within insurance, mortgage and Visa® commission income as the volume of members choosing these insurance products declined in 2017.

Fee and commission expense decreased in 2017 by $0.6 million to $3.0 million compared to the previous year of $3.6 million. Member service expenses declined by 17.8% or $0.3 million from 2016 to 2017. This is a result of new data capture hardware and software that increases the efficiency of cheque clearing. During 2016, the credit union incurred one-time costs of $0.2 million associated with the introduction of new *Interac*® flash cards. The cost of operating and maintaining the new flash cards are lower on an ongoing basis.

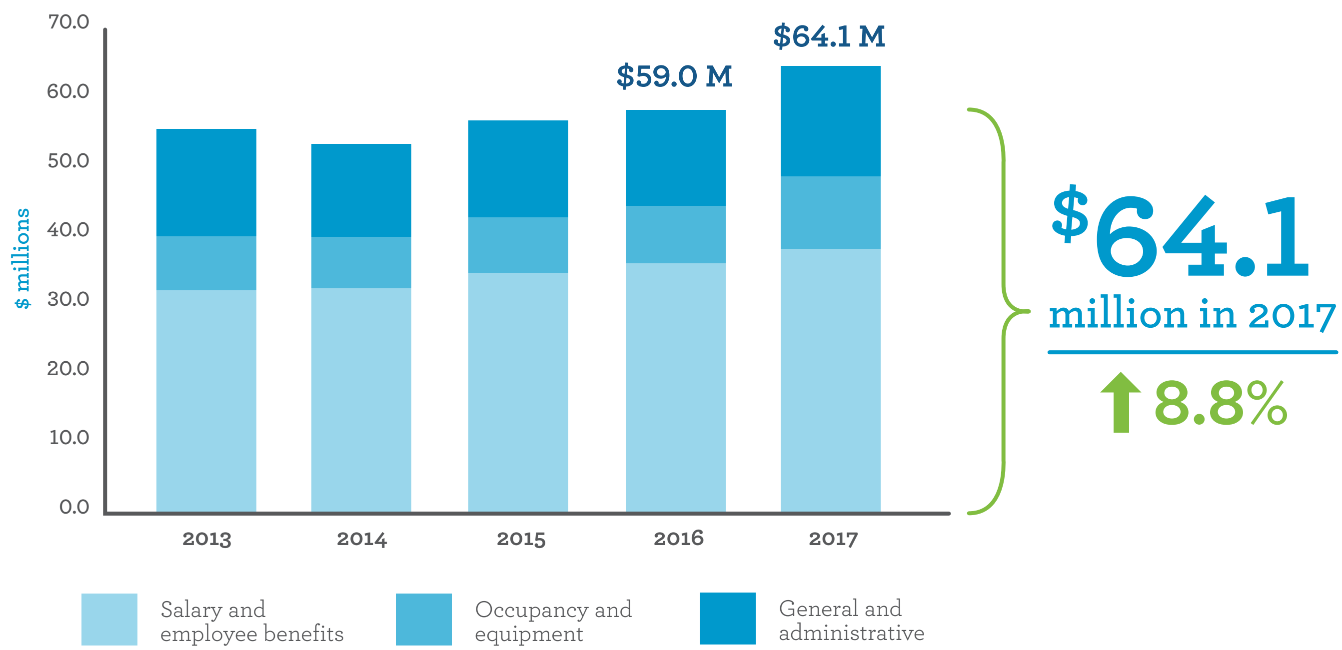
Net gains on financial investments

Certain investment assets held by the credit union are measured at fair value on the consolidated statement of financial position. Fair value changes are recorded as unrealized fair value gains and losses, and included in comprehensive income during the period that the investments are held on the balance sheet. The disposal of these assets results in realized gains or losses that are recorded in net gains on financial instruments in the consolidated statement of income. In 2017, we recorded both realized and unrealized gains from these assets. Net gains on financial instruments were the result of the sale in managed investments for a gain of $3.2 million. This is $1.8 million higher than we recorded in 2016.

Gains and losses from sale of assets

During the year, Westminster Savings redeemed shares in an investment resulting in a gain on sale of assets of $0.4 million. Comparatively, in 2016, the disposition of property resulted in a gain on sale of assets of $1.8 million.

Operating expenses



Overall operating expenses increased 8.8% to $64.1 million in 2017. Throughout the year, we continued our commitment to invest in our people and infrastructure to position the credit union for future growth and success. We also expanded our branch network by 25.0%.

Salary and employee benefits expense increased by 4.9% in 2017, primarily due to the addition of staff within our new branches. Excluding these new branches, the credit union incurred a number of staff changes throughout the year, resulting in a slight increase in average full-time equivalents. The savings in compensation expense related to the timing of vacancies were largely offset by increases in variable incentive and annual merit increases.

In 2016, we began an employee training program in line with our strategy to develop high-performing teams, which resulted in staff training expenses of $0.5 million in 2017. This is a decrease of $0.1 million from 2016. We have now successfully trained 435 employees to deliver the best customer experience possible.

Occupancy and equipment expense increased by 22.3% to $10.3 million in 2017. This was primarily due to the expansion of our branch network by 25.0%. These new branches are situated in fast-growing areas throughout the lower mainland and allow members access to all of Westminster Savings' products and services. The credit union also incurred a full year of costs related to the occupancy of our administrative teams in our new Corporate Centre in Surrey and continued investment in new technology and infrastructure.

General and administrative expense increased by 10.8% from 2017. The major component of this expense was related to additional marketing and advertising costs for the launch of our new branches ($0.4 million). The introduction of the new branches and a full year of occupancy at the Corporate Centre resulted in an additional depreciation expense of $0.4 million. We also incurred higher regulatory and legal expenses of $0.4 million. Additional relocation expenses of $0.2 million were incurred in 2017 in preparation for moving our remaining administrative teams from Pitt Meadows into our Corporate Centre in Surrey in January 2018.

We continue to focus on managing costs to better align with declining margins, ensuring our operations are as efficient and effective as possible while still making the necessary investments to grow the business.

Westminster Savings Foundation

The Westminster Savings Foundation was founded in 1992 as a charitable society to support worthy organizations within the general trade area of the credit union. Contributions to the foundation are made at the discretion of the Westminster Savings Board of Directors. In 2017, the credit union made a contribution of $250,000 to the foundation. The foundation has a community endowment fund of more than $9.0 million and disbursed grants of more than $0.3 million in 2017 to support active living and arts in the communities we serve in an effort to provide people with opportunities to get active, have fun and connect with one another. This included the first instalment of the foundation's three-year commitment to KidSport BC, Arts Umbrella and Special Olympics BC totalling $675,000 ($75,000 to each organization per year from 2017 to 2019).

The credit union contributed $0.3 million ($0.2 million in 2016) directly to community activities and initiatives, such as sponsorship of the Vancouver Symphony Orchestra's 2017/2018 Surrey Nights series and various community festivals, including New Westminster's Uptown Live festival, White Rock's Sea Festival, Burnaby's Hats Off Day and Langley's Arts Alive Festival.

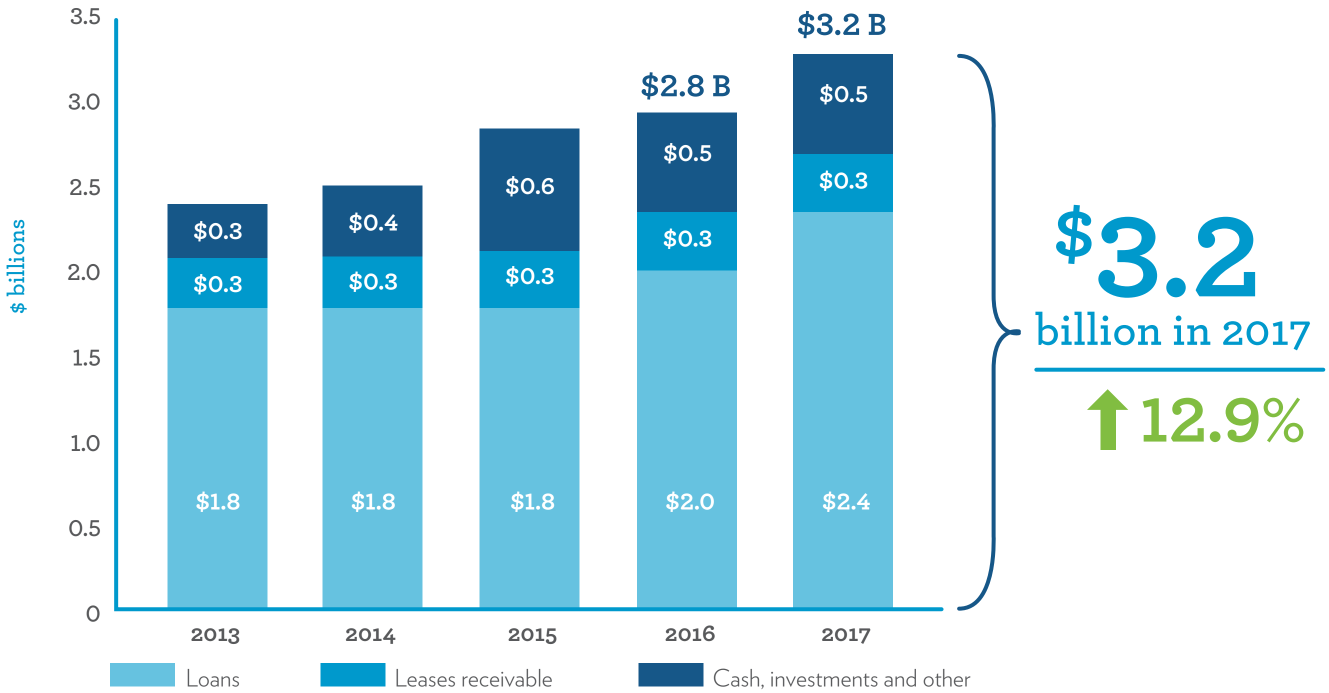
Income taxes

Taxable income levels in 2017, coupled with changes in timing differences for purposes of deferred tax have resulted in a decline in the overall level of income taxes. The credit union is subject to current tax and deferred taxes.

In October 2017, the B.C. provincial government announced that the previously planned phase-out of the credit union preferred rate deduction over a five-year period would be cancelled and retroactively reinstated, effective January 1, 2017. Accordingly, this legislative change is reflected in both current and deferred taxes in 2017. As a result of this change, the credit union saw a reversal in deferred income tax, which resulted in a favourable tax credit and an effective net tax rate of -2.2% for 2017 (23.7% in 2016).

Balance sheet

Total on-balance sheet assets



- Total on-balance sheet assets grew by $361.6 million to $3.2 billion in 2017 compared to $2.8 billion in 2016.
- Cash, investments and other assets decreased by $27.8 million.
- Loans increased by $376.8 million or 18.5%. Loan growth was largely driven by increases in the consumer asset portfolio. The credit union recorded an increase of $332.0 million or 22.1% in consumer loans and mortgages in 2017. This change was a reflection on the demand for retail loan and mortgage products in a rising British Columbia real estate market.
- Leases receivable increased $12.6 million or 4.4% from 2016 to 2017. The credit union saw increases in the equipment leasing portfolio of $10.9 million and vehicle leasing portfolio of $2.0 million, which was slightly offset by changes in the deferred leasing fees and leases receivable impairment totalling $0.3 million.

This asset growth was funded by an increase of $275.8 million in deposit growth to $2.7 billion at the end of 2017. An increase of $280.2 million in demand and term deposits in 2017 was achieved with a successful member acquisition campaign. This was partially offset by a reduction in accrued interest payable and registered deposits of $4.4 million.

Liabilities and members' equity

Members' deposits increased to $2.7 billion or by 11.5%.

For liquidity management purposes, the credit union routinely securitizes loans and leases to raise additional funding at competitive rates, with the following results:

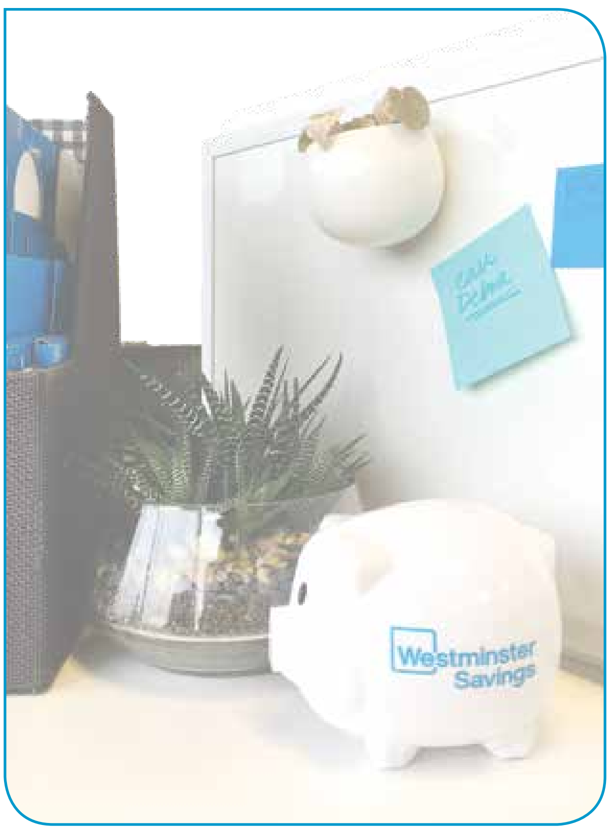
- During 2017, securitization debt obligations increased by $63.8 million. This increase is a result of $78.0 million in new loan securitizations and $55.2 million in new lease securitizations. This was offset by $69.4 million of securitizations maturing or terminating during 2017.
- Borrowing levels remained at nil at the end of 2017. This was a result of the continued growth in deposit balances and increased securitization during 2017.

The non-financial asset and liability categories are a much smaller component of our consolidated statement of financial position when compared with our customer accounts. These balances reflect the assets and liabilities used in our operations, along with certain income tax and pension-related balances. The balances in these asset and liability accounts saw modest changes from the prior year, in keeping with our ongoing business activity. Pension and income tax-related asset and liability balances have fluctuated, largely due to changes in discount and tax rates. The retirement benefit obligation and income tax payable were recorded as $8.8 million and $1.1 million compared to $4.0 million and $0.3 million in 2016.

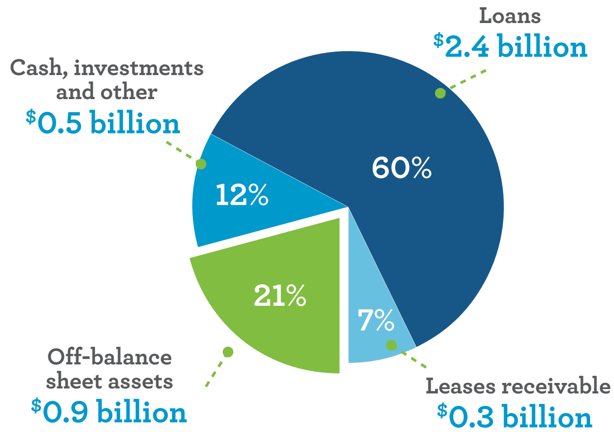
Members' equity

Members' equity is comprised of retained earnings, including current year income, net of changes in comprehensive income, and grew to $195.0 million from $180.9 million as at the end of 2017. The increase in retained earnings represents net income for the year of $13.2 million and other comprehensive gains for the year of $0.9 million.

Comprehensive income increased $7.2 million in the year to $14.2 million compared to $7.0 million in 2016. This represents net income of $13.2 million combined with net actuarial losses of $3.7 million on the credit union's defined benefit plans and favourable fluctuations in the fair market value of our managed investment portfolio of $4.7 million. These fluctuations are recorded annually to reflect changes in market conditions.



Assets under management



At December 31, 2017, off-balance sheet assets under management were $861.4 million, up $76.5 million or 9.7% from $784.9 million in 2016.

The largest component of off-balance sheet assets under management is customer investment products. At December 31, 2017, the total value of customer investment products under management was $770.4 million ($689.1 million in 2016). These increases reflected new customer investments and new product offerings along with market value increases in the capital markets.

For customers with self-directed retirement accounts, the credit union acts as administrator for a fee. Self-directed RRSP funds under administration were $48.9 million, down from $51.9 million in 2016.

Periodically, other financial institutions are invited to participate in the large-dollar loans we originate. These syndicated loans are administered for a fee, and totalled $42.1 million, down from $43.9 million in 2016.

Managing business risks

Key business risks

Westminster Savings' operations necessitate a variety of risks that may affect future results. Our objective is to limit the credit union from unacceptable business losses or earnings volatility, and to ensure that the risks we take are prudent and in proportion to the expected business benefits.

Westminster Savings manages risk through a combination of strong corporate governance and enterprise risk management (ERM) programs. These programs ensure that prudent, formal policies are in place, with appropriate oversight of our ongoing risk management activities throughout the credit union.

The credit union employs ERM to identify, assess and proactively manage risks in the face of uncertainty. The process supports the creation of enterprise value and the mitigation of risks. The ERM process is embedded in all major areas of the business.

The credit union maintains a business continuity strategy, leveraging disaster recovery and business continuity plans. These plans are tested periodically and designed to cost-effectively provide for the continuity of key credit union functions should they be impacted by a disruptive event. The credit union also carries appropriate corporate insurance.

The final protection against adverse impacts is the credit union's capital. This is an important reason as to why Westminster Savings maintains levels of capital well in excess of regulatory minimums.

The key risks faced by the credit union include:

- Credit risk
- Financial market risk
- Competitive market risk
- Operational risk
- Liquidity risk
- Compliance and regulatory risk

Other risks that may affect future results include changes in government policy, ongoing matters affecting the credit union system, fluctuations in consumer and commercial borrowing patterns, as well as personal savings and spending patterns, and changes in technology and its use by consumers and businesses.

The credit union monitors the sensitivity of its earnings to these external risk exposures, providing the information required to ensure that possible unfavourable outcomes from risk events do not exceed the credit union's capacity.

Enterprise risk management framework

Credit risk

- Assess credit risk exposure
- Monitor collateral
- Lending policy approved by the Board of Directors
- Impose limits to avoid concentration risk
- Impairment provisions
- Extensive management and board reporting

Financial market risk

- Investment policy approved by the Board of Directors
- Set investment authorities, quality, diversification and limits
- Monitor and stress test the impact from interest rate risk
- Limited foreign currency-denominated assets and liabilities

Operational risk

- Comprehensive system of internal controls
- Continuous monitoring and evaluation through our ERM program
- Selection and training of highly qualified staff
- Comprehensive insurance portfolio
- Contingency plans

Competitive market risk

- Business strategies designed to meet competitive pressures
- Monitor competitive factors

Liquidity risk

- Balance sheet management and monitoring
- Diversification of funding sources
- Regular performance of stress tests

Compliance and regulatory risk

- Monitor new and updated regulatory frameworks
- Regular review and update of policies and operational procedures to comply with legislative and regulatory requirements

Risk management

Corporate governance

Westminster Savings strives to earn and retain the trust of our customers and other stakeholders through our commitment to sound corporate governance. The credit union's corporate governance practices are continually enhanced to meet high standards and industry best practice, and are reviewed at least annually.

Board and management committees review lending, investment, risk management, capital, funding, liquidity and other key policies annually. These policies cover limits, exposure, strategies, monitoring and reporting. Changes to these policies are filed with the B.C. Superintendent of Financial Institutions Commission (FICOM) as required.

The Board of Directors monitors risk, principally through five committees composed solely of independent directors:

Board of Directors

Audit and Risk Committee	• Provides oversight over financial reporting, internal and external audit, and ERM processes • Reviews and approves financial statements and annual regulatory filings • Provides oversight over the adequacy and effectiveness of internal control procedures • Assesses the qualifications and independence of the external and internal auditors and reviews the audit plan	• Monitors the management of top organizational risks as outlined in the ERM framework, assesses mitigation strategies, approves the risk matrix and develops the risk appetite for the credit union • Monitors compliance with laws and regulations • Liaises with regulators
Investment and Loan Committee	• Monitors and reviews lending and investments, and compliance with related policies • Reviews the Investment and Lending Policy and related procedures annually, and recommends changes • Ensures there are appropriate procedures in place to implement the Investment and Lending Policies	• Monitors risk exposure, portfolio composition, delinquency, compliance and asset realization
Governance and Conduct Review Committee	• Establishes and maintains effective guidelines in applying governance principles • Establishes procedures to provide disclosure to members; and designed to prevent or resolve conflicts of interest • Reviews and approves transactions involving related parties • Reviews and approves the Governance Report to members annually	• Reviews board compensation at least every three years • Reviews the credit union's Rules at least every five years • Enhances the effectiveness of the board by reviewing and approving director education and development, and overseeing the annual board and director evaluation process

Human Resources Committee	• Ensures the compensation philosophy, policies and programs support the business strategies of the credit union and its subsidiaries • Oversees the recruitment, selection, development, performance and compensation of the CEO	• Oversees the management and administration of the Westminster Savings Employee Pension plans
Nominations Committee	• Conducts the nomination and election of directors • Reviews the competencies and skills of the board annually	• Reviews and approves policies and procedures regarding the nomination and election of directors

The Board of Directors produces an annual governance report for members, outlining information about the governance activities and practices of the credit union.

Enterprise risk management

Enterprise risk management at Westminster Savings is designed to ensure sound and prudent operations, stable earnings and the ongoing viability of the credit union. This also helps to influence the development and implementation of appropriate business strategies. Our risk management processes involve the Board of Directors and all levels of management, along with an independent internal audit function and a compliance oversight function.

The ERM process is designed to identify risks that may affect the credit union, to analyze and understand the potential impacts these risks may have and to manage these risks within our agreed risk appetite. Through this process, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment in which we operate.

Westminster Savings' ERM Committee is composed of executive leadership and other business line leaders, and reports quarterly to the Audit and Risk Committee on the ERM process and on the assessment of monitored risks. In addition to reviewing these reports, the Board of Directors performs a formal annual review of the ERM program and its results.

Two additional management committees have direct responsibility for specific areas of enterprise risk management:

- The Management Credit Committee authorizes material and related-party loans within the limits established by the Board of Directors.
- The Asset Liability Committee is charged with optimizing net interest income within acceptable levels of risk, primarily interest rate risk. The committee oversees the strategies for managing assets, liabilities and capital, monitors asset allocation and assesses the overall balance sheet risk profile of the credit union.

Both management committees are subject to oversight by the Board of Directors.

Control environment

Westminster Savings has adopted numerous procedures throughout the organization to protect the assets of the credit union and to ensure that financial, management and other reporting is accurate and complete. Maintaining a robust control environment is an important responsibility for all managers. To support management in this regard, we have internal and external audit processes that are independent of management and a separate compliance function.

Our Business Ethics Policy provides directors, officers and employees of Westminster Savings and its subsidiaries with a framework for maintaining high standards of ethical conduct with customers and other stakeholders, and within the communities we serve.

Part of this responsibility involves protecting the privacy of our customers' and stakeholders' personal information. Under our Personal Information Protection Policy, the credit union actively monitors and fully complies with all personal information and privacy legislation.

Internal audit

The credit union maintains an independent internal audit department, accountable under a formal charter to the Audit and Risk Committee of the Board of Directors. This charter mandates a corporate-wide audit responsibility that includes the credit union's subsidiaries and provides for flexible access to external specialists if required.

To ensure that independence and objectivity is maintained, the internal audit department acts in an advisory and assurance role only, with no direct management authority. Internal audit has unrestricted discretion in discharging its responsibilities.

External audit

Westminster Savings engages a recognized international audit firm to carry out the annual external audit of the credit union's financial statements. These external audit arrangements are regularly reviewed by the Audit and Risk Committee.

Capital and balance sheet management

Balance sheet management

As an important part of our overall risk strategy, we manage our capital position to ensure that sufficient and appropriate capital is available to protect against unexpected events and support ongoing growth. A strong capital position offers protection in the face of risk and preserves the security of customer deposits. Increased capital allows the credit union to pursue new initiatives and expand our services to customers. We also determine the amount of capital required to support our operating divisions and ensure that it is used in the most efficient and effective manner. We regularly monitor and complete quarterly portfolio stress testing to ensure we can support our operating divisions.

As a B.C. credit union, Westminster Savings must meet the capital requirements outlined in the *Financial Institutions Act* (FIA) of British Columbia and the related capital requirements regulation. This regulation specifies the minimum capital a credit union must maintain and how this capital is defined and measured. The calculation of the statutory capital requirement is based on FICOM's assessment of the relative risk of the assets held by a credit union, thus establishing that more capital is to be held against riskier assets.

FICOM uses three capital indicators in the assessment of credit union capital adequacy:

1. The FIA regulations require a credit union to have a capital ratio of at least 8.0% to operate without any statutory restrictions. A credit union operating below this limit will be subject to immediate statutory restrictions and may be considered non-viable by FICOM.

2. FICOM's supervisory target of 10.0% sits above the regulatory threshold and provides FICOM with sufficient time to address any threats to the solvency of the credit union before it falls below the regulatory requirement.

3. Credit unions are expected to establish their own internal capital target ratio, which should be set above the supervisory target. This internal target is used as a base for corrective internal action before capital erodes below the supervisory target.

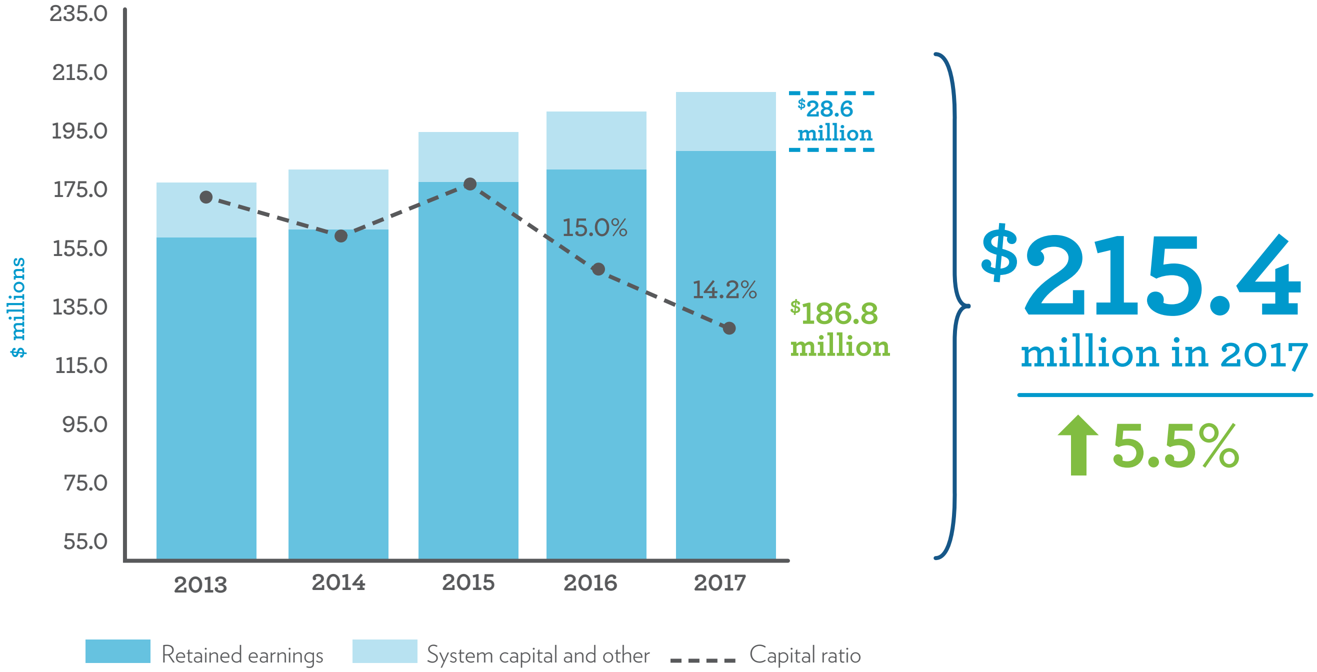
Westminster Savings' capital policy requires an annual internal capital adequacy target to be established and maintained. For 2017, our internal capital adequacy target was 10.5%. We forecast the amount and composition of our balance sheet and expected levels of risk-adjusted assets, and manage accordingly to remain well-capitalized.

The main source of Westminster Savings' capital is the retention of earnings. The credit union's capital base also includes member shares and Westminster Savings' proportionate share of system capital. System capital refers to the retained earnings of the centralized credit union organizations (Credit Union Deposit Insurance Corporation, Central 1 Credit Union and Stabilization Central Credit Union), which are owned by B.C. credit unions.

- As at December 31, 2017, Westminster Savings' total capital base was $215.4 million compared with $204.2 million in 2016.

- Westminster Savings' capital adequacy ratio, including system capital, was 14.2% at December 31, 2017, compared with 15.0% in 2016. This exceeded both regulatory and Westminster Savings' policy requirements.

Capital



The credit union's retained earnings and total capital has remained strong over the years. A second key factor affecting the capital ratio is the composition of our asset portfolios and associated underlying risks. The decrease in cash and a change in the lease portfolio along with our investments in our new branches, people and technology increased our risk-weighted asset values in 2017. An increase in our commercial loan portfolio required a higher risk weighting, which had a negative impact on our capital ratio in 2017. The significant increase in the consumer portfolio has applied downward pressure on the credit union's capital ratio as more capital has been utilized to sustain the growth seen in 2017.

Liquidity

The credit union carefully manages its liquidity to ensure that customers' requirements are met at all times. By ensuring that sufficient, readily accessible or liquid assets are available, Westminster Savings is able to meet customer demand for withdrawals and deposit redemptions, fund loans, leases and business operations, and protect the credit union against sudden, unforeseen cash needs.

As a B.C. credit union, Westminster Savings must meet the liquidity requirements outlined in the FIA and the related liquidity requirement regulation. This regulation specifies the minimum liquid assets a credit union must maintain, and how liquidity is determined. The legislation requires that liquid assets representing at least 8.0% of deposit and debt obligations be held by a credit union. This liquidity ratio is intended to ensure that liquidity is adequate in relation to the business being conducted.

- Westminster Savings' liquidity ratio was 13.7% at December 31, 2017, compared with 16.6% at December 31, 2016. The combination of increases in lending volume, net of the increase in our members' deposits, resulted in the decrease in the liquidity ratio in 2017.
- This exceeded both regulatory and Westminster Savings' policy requirements.

Loans and lease securitization

Westminster Savings routinely enters into transactions whereby the credit union or a subsidiary securitizes (sells) consumer mortgage loans or leases receivable to third party investors. This is used by the credit union to access cost-effective funding for additional growth and to manage liquidity risk, credit risk and interest rate risk. Securitization transactions have no impact on customers who have a consumer mortgage or lease with the credit union.

During the year, the credit union continued to participate in securitization programs to issue mortgage-backed securities included in the Canada Mortgage Bonds program and within an Asset-Backed Commercial Paper program. These conduits were established to reduce liquidity risk by further diversifying funding sources.

In 2017, Westminster Savings had securitized consumer mortgage loans receivables of $170.9 million ($129.0 million in 2016) and securitized leases receivables of $60.2 million ($19.1 million in 2016).

Borrowing facilities

In addition to its borrowing facility with Central 1 Credit Union, Westminster Savings maintains credit facilities with other major financial institutions. The credit union can draw on these facilities as required to finance operations. Our credit lines provide borrowing capacity of approximately 7.8% of credit union assets (8.8% in 2016).

The credit union had no change in borrowings from our credit facilities at December 31, 2017.

2018 economic outlook

The operating environment in 2018 will be influenced by factors such as slower economic growth following a stronger than expected economy in 2017, a highly competitive financial services market, and slower housing activity resulting from tightened rules for residential mortgage underwriting and higher interest rates.

The key sources of economic uncertainty are the following: the future of the North American Free Trade Agreement, inflation outlook, the degree of economic excess capacity, softness in wage growth, and elevated household debt and how that might affect the economy's response to higher interest rates.

Compared to 2017, Canada's economic growth is expected to be lower, with real Gross Domestic Product (GDP) expanding to 2.2% in 2018. The level of economic activity will be supported by rising foreign demand and the recent firming of commodity prices, still accommodative monetary and financial conditions and public infrastructure spending. The total contribution to growth from consumption and residential investment is projected to decline, partly due to higher interest rates and tightened rules for residential mortgage underwriting at federally regulated financial institutions, while the contribution from exports is expected to improve and business investment will remain steady.

In B.C., the economy continues its broad-based expansion as it benefits from a healthy labour market, stronger-than-expected performance of the housing market, strong consumer confidence, government infrastructure spending and a growing population. The B.C. economy is expected to expand at 3.5% real GDP in 2017. While current growth trends will not be sustained, B.C. economic growth will continue to have moderate-to-strong growth. GDP growth is forecast to ease to 2.5% in 2018.

Outside of B.C., Alberta and Ontario are also experiencing brisk economic growth. Alberta's economy has turned around and is experiencing a rebound in its energy sector. The 2017 growth forecast for the Alberta economy is 4.1%, with 2018 growth forecast at 2.3% to reflect a slower projected recovery in global oil prices. Ontario's broad-based economic growth is expected to be 2.9% in 2017 and a still healthy 2.1% in 2018.

In regard to the benchmark interest rate, the Bank of Canada (BoC) kept its key interest rate at 1.25% in its latest announcement on March 7, 2018. The BoC pointed to trade policy developments as an important and growing source of uncertainty for the global and Canadian outlooks. While the central bank expects more interest rate increases over time, it also mentioned the need for continued monetary policy accommodation for the economy to remain at capacity and inflation on target. The BoC will remain cautious in considering future interest rate hikes and will be guided by incoming data in assessing the economy's sensitivity to interest rates, the evolution of economic capacity and the dynamics of wage growth and inflation.

The expected economic outlook is supportive of all of Westminster Savings' lines of business. While recognizing the risks and uncertainties that may negatively impact our operating environment, we anticipate a more sustainable growth strategy in 2018 as we commit to maintain strong liquidity and capital positions.

Glossary of terms

Assets under management include on-balance sheet assets and third party investment assets that the credit union originates and manages in return for administration fees and/or commissions. Although third party assets are not recorded on the credit union's balance sheet, they represent expanded investment options for our customers, while providing the credit union with a reliable revenue stream.

Balance sheet is a statement of position that reflects the assets, liabilities and capital of the credit union at a particular point in time, detailing the balance of income and expenditure over the preceding period.

Compensation expense includes salary, benefits, employee training and development costs.

Competitive market risk is the risk of customer attrition, increased cost or other business impacts due to changes in the competitive markets for financial services, investment products, vehicle leasing and equipment leasing.

Compliance and regulatory risk is the risk of non-compliance with legislative and regulatory requirements arising from inadequate policies and operational procedures or lack of highly qualified staff.

Comprehensive income includes the net income of the credit union, along with certain unrealized gains or losses, which reflect the accounting requirement to value certain investments and pension obligations at fair value in the consolidated statement of financial position.

Credit risk is the risk of loss resulting from a borrower's inability or unwillingness to repay a loan in conjunction with inadequate collateral, or from a counterparty's inability to complete or fulfill financial obligations.

Deferred taxes reflect an amount of income tax expense related to the difference between the deferred tax assets and deferred tax liabilities between the beginning of the year and the end of the year. Deferred tax assets and liabilities are a result of temporary differences between accounting and tax carrying values, and are calculated based on estimates of the timing and amount of future reversals at the applicable future tax rates. The judgment required in assessing the future timing of reversals, amounts and future tax rates in respect of deferred taxes may result in effective tax rates that may not be consistent from year to year.

Fee and commission expense includes costs related to our delivery of transactional account services and leasing services, ATM and *Interac*® Direct Payment transaction processing costs, cheque clearing costs, investment management costs, custodial and other loan processing fees.

Fee and commission income comprises various fees, service charges, penalties and other miscellaneous revenues that are earned but not part of net interest income.

Financial market risk is the risk of loss that results from changes in external markets, including interest rates, foreign exchange rates, equity and commodity prices, and credit spreads.

General and administrative expense includes data processing, marketing and other costs of administration.

Interest rate risk represents the potential adverse impact that changes to market interest rates may have on the earnings and value of the credit union. It generally arises from differences between the term to maturity of investments, loans and leases receivable, and those of the credit union's sources of funding.

Liquidity risk refers to the risk of being unable to obtain funds at reasonable prices or within a reasonable time period to meet obligations as they come due.

Members' equity comprises retained earnings and other comprehensive income.

Net fee and commission income includes fee and commission income netted with fee and commission expense.

Net income is the sum of net interest income, net fee and commission income and other income less operating expenses and taxes.

Net interest income is the difference between financial income (interest earned on investments, loans and leases receivable) and financial expense (interest paid on members' deposits and other financing). It is the largest component of the credit union's income.

Occupancy and equipment expense includes premises rent, maintenance and other property-related costs.

Operating expenses consists of compensation expense, occupancy and equipment expense, and other general and administrative expense.

Operational risk refers to the risk of loss resulting from the failure or inadequacy of internal systems and processes, or from external events that may negatively impact the credit union. These risks are carefully managed under Westminster Savings' ERM program.

Consolidated financial statements

YEAR ENDED DECEMBER 31, 2017

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Westminster Savings Credit Union have been prepared by management in accordance with the requirements of the *Financial Institutions Act* and International Financial Reporting Standards ("IFRS"). The statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal accounting, operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and safeguarding the assets of the organization.

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

KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements. They have had full and free access to the internal audit staff, other management staff and the Audit and Risk Committee of the board.

Gavin Toy, President and CEO

Mary Falconer, SVP, CFO and Corporate Secretary

March 7, 2018

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Canada
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Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the members of Westminster Savings Credit Union

We have audited the accompanying consolidated financial statements of Westminster Savings Credit Union, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes comprising 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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.

Opinion

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 7, 2018

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of financial position
(Expressed in thousands of dollars)

December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Assets			
Cash and cash equivalents	5	$ 90,650	$ 129,809
Investments	6	341,218	332,371
Loans	7	2,409,509	2,032,750
Leases receivable	7	299,956	287,366
Premises and equipment	8	10,670	9,109
Intangible assets	9	1,830	2,001
Current taxes receivable	20	2,203	939
Deferred tax asset	21	8,130	7,911
Other assets	10	6,896	7,251
		$ 3,171,062	$ 2,809,507
Liabilities and Members' Equity			
Members' deposits	12	$ 2,668,641	$ 2,392,881
Accounts payable and accrued liabilities		17,879	14,547
Securitization debt obligations	7(f), 7(g)	265,193	201,404
Current taxes payable	20	1,119	253
Deferred tax liability	21	14,424	15,577
Retirement benefit obligations	18	8,783	3,986
		2,976,039	2,628,648
Members' equity:			
Retained earnings		186,823	177,318
Available-for-sale fair value reserve		8,200	3,541
		195,023	180,859
		$ 3,171,062	$ 2,809,507

Commitments	19
Contingencies	22

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the board:

Director
Darlene Hyde, Chair

Director
Kathleen Kennedy-Strath, Vice-Chair

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of income
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Financial income:			
Interest income from loans, leases and investments		$ 101,493	$ 93,076
Interest expense on deposits, borrowings and debts		(32,429)	(30,354)
Net interest income	13	69,064	62,722
Impairment losses on loans and leases receivable	7(a)	(1,778)	(1,532)
Net interest income after impairment		67,286	61,190
Fee and commission income		12,483	11,110
Fee and commission expense		(3,042)	(3,570)
Net fee and commission income	14	9,441	7,540
Net gains on financial instruments	15	3,201	1,361
Gain on sale of assets	4 (l), 8	389	1,752
Impairment losses on other assets	10	(2,640)	(2,823)
Net interest and other income		77,677	69,020
Operating expenses:			
Salary and employee benefits	16, 18	38,486	36,694
Occupancy and equipment		10,282	8,408
General and administrative	17	15,368	13,871
		64,136	58,973
Income before the undernoted		13,541	10,047
Contribution to Westminster Savings Foundation		(250)	-
Community investment		(333)	(238)
Income before income taxes		12,958	9,809
Provision for income taxes:			
Current	20	1,445	1,160
Deferred	20	(1,725)	1,167
		(280)	2,327
Net income		$ 13,238	$ 7,482

The accompanying notes form an integral part of these consolidated financial statements.

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of comprehensive income
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Net income	$ 13,238	$ 7,482
Other comprehensive loss:		
Items that will be reclassified to net income:		
Net gains (losses) on available-for-sale financial assets, net of tax provision of $963 (2016 provision - $168)	4,659	759
Items that will never be reclassified to net income:		
Net actuarial losses on defined benefit pension plans, net of tax provision of $22 (2016 recovery - $511)	(3,733)	(1,249)
	926	(490)
Comprehensive income	$ 14,164	$ 6,992

The accompanying notes form an integral part of these consolidated financial statements.

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of changes in members' equity
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	Available-for-sale fair value reserve	Retained earnings	Total equity
Members' equity, beginning of 2017	$ 3,541	$ 177,318	$ 180,859
Net income	-	13,238	13,238
Fair value gains on available-for-sale financial assets - net of tax provision of $963	4,659	-	4,659
Actuarial losses on defined benefit pension plans - net of tax provision of $22	-	(3,733)	(3,733)
Other comprehensive income (loss)	4,659	(3,733)	926
Comprehensive income	4,659	9,505	14,164
Members' equity, end of 2017	$ 8,200	$ 186,823	$ 195,023

	Available-for-sale fair value reserve	Retained earnings	Total equity
Members' equity, beginning of 2016	$ 2,782	$ 171,085	$ 173,867
Net income	-	7,482	7,482
Fair value gains on available-for-sale financial assets - net of tax provision of $168	759	-	759
Actuarial losses on defined benefit pension plans - net of tax recovery of $511	-	(1,249)	(1,249)
Other comprehensive income (loss)	759	(1,249)	(490)
Comprehensive income	759	6,233	6,992
Members' equity, end of 2016	$ 3,541	$ 177,318	$ 180,859

The accompanying notes form an integral part of these consolidated financial statements.

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of cash flows
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Cash flows from operating activities:		
Net income	$ 13,238	$ 7,482
Items not affecting cash:		
Depreciation of premises and equipment	1,875	1,508
Amortization of intangible assets	600	750
Impairment losses on loans and leases receivable	1,778	1,532
Impairment losses on other assets	2,640	2,823
Net interest income	(69,064)	(62,722)
Net gains on financial instruments	(3,201)	(1,361)
Gain on disposal of premises and equipment	-	(1,752)
Provision for income taxes - current	1,445	1,160
Provision for income taxes - deferred	(1,725)	1,167
Defined benefit pension expense	3,808	3,509
	(48,606)	(45,904)
Changes in non-cash operating working accounts:		
Loans	(359,133)	(210,333)
Leases receivable	(14,659)	(11,226)
Other assets	(2,285)	(7,265)
Members' deposits	276,357	78,864
Accounts payable and accrued liabilities	3,332	2,745
Interest paid	(32,946)	(33,165)
Interest received	100,765	92,297
Income tax received (paid)	(2,476)	765
Defined benefit pension plan contributions	(2,722)	(2,842)
Change in other non-cash operating accounts	-	4
Net cash flows used in operating activities	(82,373)	(136,060)
Cash flows from financing activities:		
Securitization debt increases	141,786	58,112
Securitization debt retirement	(78,077)	(56,623)
Net cash flows provided by financing activities	63,709	1,489
Cash flows from investing activities:		
Net purchase of liquidity deposits	(26,900)	(143,000)
Net sale (purchase) of investments	10,270	(2,403)
Net investments in premises and equipment	(3,436)	(311)
Net investment in intangible assets	(429)	(1,148)
Net cash flows used in investing activities	(20,495)	(146,862)
Decrease in cash and cash equivalents	(39,159)	(281,433)
Cash and cash equivalents, beginning of year	129,809	411,242
Cash and cash equivalents, end of year	$ 90,650	$ 129,809

The accompanying notes form an integral part of these consolidated financial statements.

1. General information:

Westminster Savings Credit Union (Westminster Savings or the credit union) is a full-service financial institution providing retail, wealth and commercial financial services to the Greater Vancouver area. Through its subsidiaries, WS Leasing Ltd. and Mercado Capital Corporation, vehicle and equipment leasing is provided throughout Western Canada, Ontario and the Maritimes. Westminster Savings has 15 full-service retail branches in the Greater Vancouver area.

Westminster Savings, with a head office at Suite 1900 - 13450 102 Avenue, Surrey, British Columbia, is incorporated under the *Credit Union Incorporation Act of British Columbia*, and its subsidiaries are under the *Company Act of British Columbia*. The credit union is regulated under the *Financial Institutions Act of British Columbia* and the *Credit Union Incorporation Act of British Columbia*, and is authorized to serve members within British Columbia. WS Leasing Ltd. and Mercado Capital Corporation, wholly owned subsidiaries of Westminster Savings, are permitted under the Credit Union Extra-provincial Business of Subsidiaries Regulations to the *Credit Union Incorporation Act of British Columbia* to conduct financial leasing business extra-provincially. WS Leasing Ltd. and Mercado Capital Corporation operate throughout Western Canada, Ontario and the Maritimes.

These consolidated financial statements for the year ended December 31, 2017 were approved by the Westminster Savings Board of Directors on March 7, 2018.

2. Basis of presentation

(a) Statement of compliance:

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

(b) Basis of measurement:

These consolidated financial statements have been prepared under the historical cost basis, except for the following:

- available-for-sale financial assets and financial assets and financial liabilities held at fair value through profit or loss which are measured at fair value; and
- the retirement benefit obligation, which is measured at present value of the defined benefit obligation, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

These consolidated financial statements are presented in Canadian dollars, which is the credit union's functional currency.

2. Basis of presentation (continued):

(c) Use of judgments and estimates:

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of judgments and estimates relate to the determination of asset impairment including underlying loan security values, determination of the fair values of investments, asset derecognition, income taxes and retirement benefit obligations. Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in these notes to the consolidated financial statements.

3. Significant accounting policies:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation of subsidiaries:

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Westminster Savings and its wholly-owned subsidiaries, Westminster Savings Financial Planning Ltd., WS Leasing Ltd., Mercado Capital Corporation and its subsidiary Mercado Financing Ltd. The financial statements of the consolidated subsidiaries used to prepare these consolidated financial statements were prepared as of the parent company's reporting date.

Intercompany balances, and income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Intercompany losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

(b) Foreign currency translation:

Transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

3. Significant accounting policies (continued):

(b) Foreign currency translation (continued):

Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition. Non-monetary items denominated in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognized immediately in the consolidated statement of income. Such gains and losses are presented net, and are included in fee and commission income.

When a valuation gain or loss is recognized in net income, any related foreign exchange gain or loss is recognized in net income. When a valuation gain or loss is recognized in other comprehensive income, any related foreign exchange gain and loss component is recognized in net income. For non-monetary available-for-sale financial assets, foreign exchange gain and loss related to valuation gain or loss is presented in other comprehensive income, and is included in the available-for-sale fair value reserve in members' equity.

(c) Financial assets and liabilities:

As a financial institution, a substantial portion of the assets and liabilities of the credit union are financial instruments. The credit union's financial assets and liabilities are recorded on the consolidated statement of financial position on the transaction trade date in accordance with their assigned category.

The classification of financial assets and liabilities are determined at initial recognition. Financial assets are classified as one of the following: fair value through profit or loss (FVTPL), loans and receivables, held to maturity, and available-for-sale (AFS). Financial liabilities are categorized as either FVTPL or as other financial liabilities.

(d) Cash and cash equivalents:

Cash and cash equivalents comprise balances of cash and demand deposits with banks, together with highly liquid investments with an initial term to maturity of less than 91 days, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents are classified as loans and receivables.

(e) Investments:

Investments consist of liquidity special deposits, fixed income investments, equity investments, preferred shares, shares of Central 1 Credit Union, and other investments. Interest and dividends are recorded on the consolidated statement of income as interest income from investments. Realized gains and losses on investments are recorded on the consolidated statement of income as net gains (losses) on financial instruments.

3. Significant accounting policies (continued):

(e) Investments (continued):

(*i*) Available-for-sale investments:

Available-for-sale (AFS) assets are carried at fair value on the consolidated statement of financial position. Changes in the fair values of AFS assets are recorded in other comprehensive income and as an available-for-sale fair value reserve in members' equity (net of applicable taxes), until the financial asset is disposed of or where there is objective evidence of impairment.

(*ii*) Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity. Held-to-maturity investments are measured at amortized cost.

(f) Loans and leases receivable:

(*i*) Recognition and measurement - loans:

Loans to members are stated at unpaid principal and accrued interest, net of deferred transaction costs and fees on an amortized cost basis using the effective interest method. Loans are recorded net of a specific and collective provision for credit losses.

(*ii*) Recognition and measurement - leases receivable:

Vehicle and equipment leases receivable are classified as finance leases, as the lease term is for the major part of the economic life of the asset, the present value of the minimum lease payments exceeds the fair value of the leased asset, or transfer of ownership is reasonably certain.

Vehicle and equipment leases receivable are recorded at the net present value of future minimum lease rentals, including the estimated residual value of the vehicles and equipment, net of allowances for credit losses.

Vehicles and equipment securing leases receivable which have been repossessed and are held for sale, are reclassified to repossessed property and are measured at the lower of the carrying amount and fair value less cost to sell.

(*iii*) Income recognition:

Interest income on loans and leases receivable is accounted for on an accrual basis using the effective interest method. Loan application and lease fees and mortgage broker fees are capitalized on initial recognition and amortized over the expected life of the instrument using the effective interest method. Interest on impaired loans and leases receivable is recorded at the effective rate of the written down value of the loan or lease receivable.

3. Significant accounting policies (continued):

(g) Financial liabilities:

Financial liabilities include borrowings, members' deposits, members' shares, securitization debt obligations, accounts payable and accrued liabilities and taxes payable.

(*i*) Borrowings, members' deposits, accounts payable and accrued liabilities and taxes payable are measured at amortized cost. Interest expense is accounted for on an accrual basis using the effective interest method. Deposit broker commissions are recognized immediately in net income.

(*ii*) Membership in the credit union requires the acquisition of five member shares. Member shares, which have a par value of $1 each, entitle the holder to membership in the credit union and access to the products and services offered and to other member entitlements. Member shares do not earn interest or share in the earnings of the credit union, and are redeemed at par upon termination of membership. Member shares are therefore classified as financial liabilities, and are included in members' deposits.

(*iii*) Securitization debt obligations from consumer mortgage asset securitization transactions are recorded at amortized cost net of any premium or discounts, and amortized over the term of the loan using the effective interest method. Securitization debt obligations from leases receivable asset securitization transactions are recorded at the discounted amount of the remaining scheduled lease payments. Securitization transactions are explained further in note 3(j).

(*iv*) In the ordinary course of business, the credit union periodically enters into interest rate swaps. Interest rate swap agreements are financial contracts whose value is derived from changes in interest rates. The credit union enters into these contracts to manage interest rate risk as part of the credit union's asset and liability management program.

Interest rate swaps are initially recognized at fair value on the date on which the contract is entered into, and are subsequently remeasured at their fair value, with changes in fair value reported on the consolidated statement of income as net gains (losses) on financial instruments. Fair values are calculated by using market quoted rates. All interest rate swaps are carried as assets within investments classified as fair value through profit and loss when the fair value is positive and as liabilities within accounts payable and accrued liabilities when fair value is negative.

(h) Determination of fair value:

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations wherever possible. This includes listed equity securities and quoted debt instruments. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3. Significant accounting policies (continued):

(h) Determination of fair value (continued):

For all other financial instruments, fair value is determined using valuation techniques. Fair values are estimated using models to estimate the present value of expected future cash flows, or by using other valuation techniques.

In some cases, some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net income from financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in note 4(l).

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to Westminster Savings' financial instruments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

(i) Impairment of financial assets:

(*i*) Loans and leases receivable:

At each reporting date, Westminster Savings assesses whether there is objective evidence that a loan or lease receivable is impaired. The asset (or group of assets) is considered impaired and impairment losses are incurred 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 that loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated.

The criteria that Westminster Savings uses to determine that there is objective evidence of an impairment loss include:

- Notice or other indications of bankruptcy of the borrower.
- Default, payment delinquency and other deterioration in the relationship with the borrower.
- Decline in the fair market value of the security for the loan or lease receivable.

Westminster Savings first assesses whether objective evidence of impairment exists for assets that are individually significant.

For a loan or lease receivable with a fixed interest rate, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

3. Significant accounting policies (continued):

(i) Impairment of financial assets (continued):

(*i*) Loans and leases receivable (continued):

If the loan or lease receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, Westminster Savings may measure impairment on the basis of an instrument's fair value using third party published rates or other sources.

The calculation of the present value of the estimated future cash flows of a loan or lease receivable reflects the cash flows that may result from repossession or foreclosure less costs for obtaining and selling the collateral, whether or not repossession or foreclosure is probable.

If Westminster Savings determines that no objective evidence of impairment exists for an individually assessed loan or lease receivable, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses the group for impairment. Loans or leases receivable 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.

For the purposes of a collective evaluation of impairment, loans and leases receivable are analyzed in five asset groups - consumer mortgages, commercial mortgages and loans, personal loans, vehicle leases receivable and equipment leases receivable. These groups are determined on the basis of similar credit risk characteristics.

The methodology and assumptions used by Westminster Savings for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For impaired loans and leases receivable, the carrying amount of the assets is reduced through the use of an allowance account and the amount of the estimated loss is recognized in the consolidated statement of income. When such an asset is uncollectible, it is written off against the related allowance.

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. The amount of the reversal is recognized in the consolidated statement of income.

Impairment losses and subsequent reversals are classified in impairment losses on loans and leases receivable in the consolidated statement of income.

3. Significant accounting policies (continued):

(i) Impairment of financial assets (continued):

(*i*) Loans and leases receivable (continued):

For collateralized financial assets deemed uncollectable and where collateral has been seized, the seized asset is classified in accordance with its nature, and any subsequent impairment to that asset is charged to the consolidated statement of income under impairment losses on other assets.

(*ii*) Equity investments:

Equity investments are considered impaired if the market value, established using quoted market prices, has declined by a specified percentage, or has declined for a period greater than 12 months, when compared to acquisition cost adjusted for any previous impairment.

Impairment losses are recognized immediately in net income under net gains (losses) on financial instruments. For equity investments classified as AFS, impairment is not reversed through profit or loss.

(*iii*) Non-equity investments:

Fixed income investments are considered impaired based on objective evidence which considers factors including default and change in investment ratings from reputable investment rating firms.

Impairment losses are recognized immediately in net income under net gains (losses) on financial instruments. Impairment losses are reversed through profit or loss if the decrease in the impairment can be related objectively to an event that occurred after the original impairment was recognized.

(j) Securitization and derecognition of financial assets:

In the normal course of its operations, the credit union securitizes financial assets, specifically consumer mortgages and leases receivable. Asset securitization programs provide for an immediate cash payment to the credit union from an investor, in exchange for the future payment stream from the securitized assets.

After a securitization transaction, the credit union assesses the extent to which it has retained the risks and rewards of ownership of the transferred assets. If substantially all the risks and rewards have been retained, the assets remain on the consolidated statement of financial position. If substantially all the risks and rewards have been transferred, the assets are derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the credit union assesses whether or not it has retained control of the assets. If it has not retained control, the assets are derecognized.

3. Significant accounting policies (continued):

(j) Securitization and derecognition of financial assets (continued):

When the assets remain on the consolidated statement of financial position, the credit union recognizes the consideration received as a financial liability, classified as a securitization debt obligation on the consolidated statement of financial position. This liability is retired over time as payments are made to the investor. The difference between the yield on the underlying securitized assets and the interest cost paid to the investor is recorded as income as it is earned.

When the assets are derecognized, they are removed from the consolidated statement of financial position, the securitization is accounted for as a sale and the credit union records a gain or loss based on the present value of the net benefit derived from the transaction.

As part of its participation in the Canada Mortgage Bond (CMB) Program, the credit union deposits mortgage principal and interest collections on securitized mortgages into a principal and interest re-investment account, the use of which is restricted to the purpose of making semi-annual interest payments on the credit union's obligations in relation to Canada Mortgage Bonds and the repayment of the principal amounts of the bonds at maturity.

(k) Syndication of financial assets:

In the normal course of its operations, the credit union manages asset syndications, where other financial institutions participate as co-lenders with each taking a proportionate interest in the risks and benefits of the underlying asset. The credit union recognizes its proportionate share of the underlying asset and of the related income, classified consistently with other non-syndicated assets.

(l) Interest income and interest expense:

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method.

The effective interest method is a method of calculating the amortized amount of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, Westminster Savings estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, all fees paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (continued):

(m) Net fee and commission income:

Fees and commissions received are generally recognized when the service has been provided, unless they are considered to be adjustments to the asset yield or deposit cost, in which case the effective interest method is used.

(n) Repossessed property:

In certain circumstances, property is repossessed on loans and leases receivable that are in default. Repossessed properties are revalued monthly and recorded at the lower of carrying amount and the fair value less costs to sell, and are reported within other assets.

(o) Property leases:

The credit union leases branch and administrative premises where a significant portion of the risks and rewards of ownership are retained by the lessor. Accordingly, such leases are classified as operating leases. Lease payments are charged to the consolidated statement of income within occupancy and equipment expenses on a straight-line basis over the period of the lease.

(p) Non-financial assets:

(*i*) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation. Land is recognized at cost and is not depreciated.

Premises and equipment are depreciated over their estimated useful lives using the following methods and rates:

Asset	Basis	Rate
Buildings	Double declining balance	Over 60 years
Computer equipment	Straight-line	Over 3, 5, or 10 years
Furniture and equipment	Straight-line	Over 5 years
	Double declining balance	Over 15 years
Leasehold improvements	Straight-line	Over the earlier of the useful life and the lease term

Premises and equipment are reviewed annually for impairment, or more frequently where events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. Significant accounting policies (continued):

(p) Non-financial assets (continued):

(*i*) Premises and equipment (continued):

For the purposes of assessing impairment, assets are grouped into cash-generating units reflecting Westminster Savings' operating divisions, which is the lowest level for which there are separately identifiable cash-flows associated with the assets in question. The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Premises and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(*ii*) Intangible assets:

Intangible assets include computer software licenses, goodwill and other intangible assets.

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives of one to 14 years. Intangible assets with finite lives are assessed for impairment when impairment indicators are identified. When an impairment-triggering event has occurred, any excess of carrying value over fair value is charged to net income in the period in which impairment is determined.

(q) Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include accounts payable and security deposits payable. Accounts payable and security deposits payable are measured at amortized cost.

(r) Provisions:

A provision is recognized if, as a result of a past event, Westminster Savings has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent assets or liabilities are not recognized. However, a contingent liability is disclosed, unless the possibility of an outflow of economic resources is remote. Disclosure of contingent assets is made only when the likelihood of economic benefits is high.

3. Significant accounting policies (continued):

(s) Income taxes:

Total income tax expense consists of current and deferred taxes and are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current income tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to current tax in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and the amounts attributed to the assets and liabilities for tax purposes. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

(t) Retirement benefit obligations:

Retirement pensions are provided to the credit union's employees through pension plans. The plans are funded through employer contributions to trustee-administered funds. The credit union does not provide post-retirement benefits other than pensions.

The credit union has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. A defined contribution plan is a pension plan under which the credit union pays fixed contributions into a separate entity. The credit union has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(*i*) Plans accounted for as defined benefit plans:

The pension expense and plan contributions for plans accounted for as defined benefit plans are determined by independent consulting actuaries. These plans are required to have an actuarial valuation performed once every three years.

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected unit credit actuarial cost method pro-rated on service and is charged to expense as services are rendered. The measurement date used for accounting purposes is December 31. For the purpose of calculating expected return, plan assets are valued at fair value.

3. Significant accounting policies (continued):

(t) Retirement benefit obligations (continued):

(*i*) Plans accounted for as defined benefit plans (continued):

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, and are immediately charged to other comprehensive income without subsequent reversal for recognition in net income.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position, less the fair value of plan assets, together with adjustments for unrecognized gains or losses and vested past service costs.

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 that have terms to maturity approximating the terms of the related pension liability.

Vested past-service costs are recognized immediately in net income within salary and employee benefits expenses.

(*ii*) Plans accounted for as defined contribution plans:

The credit union pays contributions to an administered group RRSP. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(u) Accounting standards issued but not yet effective:

The following standards have been recently issued and the required future application of the standard may impact future consolidated financial statements of the credit union. The credit union does not expect to adopt any of these standards prior to the mandatory effective date.

(*i*) IFRS 9: *Financial Instruments:*

In July 2014, the IASB issued IFRS 9: *Financial Instruments* (IFRS 9), which replaces IAS 39: *Financial Instruments Recognition and Measurement* (IAS 39) and deals with classification and measurement of financial assets and liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39. This new standard is effective for the credit union for the fiscal year beginning January 1, 2018 and is to be applied retrospectively.

3. Significant accounting policies (continued):

(u) Accounting standards issued but not yet effective (continued):

(*i*) IFRS 9: *Financial Instruments* (continued):

Under IFRS 9 the restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The credit union has made the decision not to restate comparative period financial information and will recognize any transitional impact as of the date of initial application, through an adjustment to opening retained earnings or the available-for-sale fair value reserve.

The new standard requires classification of assets based on the credit union's business model for managing the financial assets and the contractual cash flow characteristics of these assets. Financial assets are to be measured at fair value through profit or loss (FVTPL) unless certain conditions are met which permit measurement at amortized cost or fair value through other comprehensive income.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in the fair value attributable to changes in the entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss. There will be no impact to the credit union's accounting for financial liabilities as the credit union does not have any financial liabilities designated as FVTPL.

The credit union has completed work on the assessment of the business models for managing financial assets, and reviewed the underlying terms of its financial assets to determine contractual cash flow characteristics, leading to determination of classification. The credit union is currently estimating the impact due to classification and measurement changes.

Investments in equity instruments are required to be measured at fair value through profit or loss with an irrevocable election at initial recognition to recognize all changes in fair value on equity investments that are not held for trading through other comprehensive income. No amounts recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. The credit union has made the decision to not utilize this election, and will recognize subsequent changes in fair value of non-trading equity instruments through profit or loss.

3. Significant accounting policies (continued):

(u) Accounting standards issued but not yet effective (continued):

(*i*) IFRS 9: *Financial Instruments* (continued):

IFRS 9 also introduces a new single impairment model for financial assets. The new model is based on the measurement of the expected credit loss using a three-stage model. Stage 1 includes the recognition of credit losses based on 12 months of expected losses for performing loans where there has not been a significant increase in credit risk since origination. Stage 2 focuses on expected lifetime losses on performing loans that have experienced a significant increase in credit risk since origination and stage 3 is an estimate of lifetime losses for all credit impaired loans. The new model applies to financial assets that are measured at amortized cost or fair value through other comprehensive income. This is a significant change in the impairment model. The credit union has completed analysis of the existing portfolio and designed new processes to gather, calculate, and implement controls for the new impairment process. Ongoing work includes refining and testing the new model. The final impact will be based upon the assets in the portfolio, their credit condition, and the credit union's assessment of the current and future economic environment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The credit union does not apply hedge accounting and will not be impacted by the new standard.

(*ii*) IFRS 15: *Revenue from Contracts with Customers*:

In May 2014, the IASB issued IFRS 15: *Revenue from Contracts with Customers (*IFRS 15*)*, which replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, except for items such as financial instruments, insurance contracts and leases, which fall in the scope of other IFRSs. This framework provides a single, five-step model to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognition. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the contracts with customers.

3. Significant accounting policies (continued):

(u) Accounting standards issued but not yet effective (continued):

(*ii*) IFRS 15: *Revenue from Contracts with Customers (continued):*

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The standard is applied retrospectively, either by restating comparative period financial information or by adjusting retained earnings at the date of initial application for the cumulative effect of initially applying the standard. The credit union has not elected to early adopt IFRS 15 and will apply IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

The credit union is continuing to assess the impact of the new standard on its financial statements, including the presentation of certain revenue and expense items, the timing and measurement of revenue recognition, as well as the additional qualitative and quantitative disclosures. The effects of applying the new standard will be determined based on contracts in place at date of adoption with a one-time adjustment to opening retained earnings on that date.

(*iii*) IFRS 16: *Leases:*

IFRS 16: *Leases* (IFRS 16) was issued in January 2016 which replaces the existing leasing guidance in IAS 17: *Leases*. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standards where lessors continue to classify leases as finance or operating leases.

The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the initial date of initial application of IFRS 16. The credit union intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The credit union is currently assessing the impact of adopting this standard.

4. Financial risk management:

(a) Credit risk management:

Credit risk is the risk of financial loss resulting from a borrower's or lessee's inability to repay or from a counterparty's inability to complete or fulfill financial obligations to the credit union. Credit risk arises principally from lending, leasing and investing activities. There is also credit risk in unfunded loan and leases receivable commitments, investments in debt securities, interest rate swaps, and letters of credit.

Management of credit risk is an integral part of the credit union's activities. Credit risk is managed in accordance with lending and investment policies approved by the Board of Directors. These policies identify authorized loans, leases receivable and investment types, limit asset concentrations, stipulate credit evaluation standards and delegate approval authorities. Management policies have also been implemented including evaluating the members' ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over-limit amounts.

Management carefully monitors and manages the credit union's exposure to credit risk by a combination of methods. The overall management of credit risk is centralized in the Investment and Loan Committee which reports to the Board of Directors. The Investment and Loan Committee is responsible for approving and monitoring the credit union's tolerance for credit exposures which it does through review and approval of the credit union's lending policies and through setting limits on credit exposures to individual members and across sectors.

The credit union employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced. The credit union maintains investment and lending policies which impose guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral types for loans and leases receivable are:

- Mortgages over residential and commercial properties.
- Charges over vehicles, other property, or over business assets such as equipment, inventory accounts receivable and other assets.
- Charges over financial instruments such as deposits or other securities.

(b) Credit risk measurement:

At December 31, 2017, the maximum credit risk exposure of the credit union approximates the carrying value of all on-balance sheet credit exposures. There are undrawn commitments of $553,710 (2016 - $502,534) as at year end.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(b) Credit risk measurement (continued):

Credit risk exposure as at December 31, 2017	Outstanding	Undrawn commitments	Off-balance sheet	Total exposure
Cash equivalents	$ 17,560	$ -	$ -	$ 17,560
Liquidity deposits	222,555	-	-	222,555
Fixed income investments	14,295	-	-	14,295
Investments held at amortized cost	42,564	-	-	42,564
Consumer mortgages	1,597,270	73,652	-	1,670,922
Consumer loans	237,606	330,650	-	568,256
Commercial mortgages	308,573	2,690	-	311,263
Commercial loans and line of credit	263,090	146,718	-	409,808
Accrued interest on loans	2,749	-	-	2,749
Allowance for losses on loans	(3,643)	-	-	(3,643)
Vehicle leases receivable	152,917	-	-	152,917
Equipment leases receivable	147,594	-	-	147,594
Allowance for losses on leases	(3,332)	-	-	(3,332)
Obligation under letters of credit	-	-	10,175	10,175
Total exposure	$ 2,999,798	$ 553,710	$ 10,175	$ 3,563,683

Credit risk exposure as at December 31, 2016	Outstanding	Undrawn commitments	Off-balance sheet	Total exposure
Cash equivalents	$ 71,891	$ -	$ -	$ 71,891
Liquidity deposits	195,391	-	-	195,391
Fixed income investments	19,175	-	-	19,175
Investments held at amortized cost	57,659	-	-	57,659
Consumer mortgages	1,301,089	55,133	-	1,356,222
Consumer loans	201,820	277,029	-	478,849
Commercial mortgages	248,826	18,122	-	266,948
Commercial loans and line of credit	280,992	152,250	-	433,242
Accrued interest on loans	2,352	-	-	2,352
Allowance for losses on loans	(4,168)	-	-	(4,168)
Vehicle leases receivable	150,913	-	-	150,913
Equipment leases receivable	136,686	-	-	136,686
Allowance for losses on leases	(2,674)	-	-	(2,674)
Obligation under letters of credit	-	-	10,727	10,727
Total exposure	$ 2,659,952	$ 502,534	$ 10,727	$ 3,173,213

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(c) Asset quality:

Management monitors the amount of exposure to credit risk in each risk class to limit the exposure to high-risk assets and ensures that an appropriate risk-return profile is maintained in keeping with credit union policy.

(*i*) Securities and other investments:

Credit risk arises from investments held by the credit union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by Treasury which reports to the Asset-Liability Committee. These investments are limited to approved, reputable counterparties that are monitored on an ongoing basis. There are also limits on concentrations of individual asset types to ensure that the portfolio is diversified. The credit union monitors the stability of counterparties on an ongoing basis.

The investment ratings on fixed income investments with original maturities of greater than 90 days (note 6) are as follows:

December 31, 2017		
Senior long-term debt rating:		
DBRS: AA	$	10,921
DBRS: A		3,377
Premium/Discount		(3)
	$	14,295

December 31, 2016		
Senior long-term debt rating:		
DBRS: AA	$	15,833
DBRS: A		3,342
	$	19,175

Other investments (note 6) reflect holdings in central credit unions and related cooperative organizations.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(c) Asset quality (continued):

(*ii*) Collateralized financial assets:

As a financial institution, the credit union takes security as collateral for loans and leases receivable. The credit union maintains guidelines on the acceptability of specific types of collateral. Management monitors the amount of exposure to limit any concentrations of risk and to ensure that the overall loans and leases receivable portfolios are diversified in keeping with credit union policy.

For undrawn commitments to make collateralized loans or leases receivable, the commitment to advance funds is contingent on the pledging of acceptable collateral, in keeping with the credit union's policies.

Where significant impairment indicators are identified, the credit union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loans and leases receivable which are neither past due nor impaired is assessed in accordance with the credit union's risk rating guidelines.

The credit union's credit risk exposure for collateralized assets outstanding is secured by assets with the following security profile:

Collateral as at December 31, 2017	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 457,887	$ 1,118,923	$ 20,136	$ -	$ -	$ 324	$ 1,597,270
Consumer loans	-	135,341	71,666	2,330	4,754	23,515	237,606
Commercial mortgages	-	308,573	-	-	-	-	308,573
Commercial loans and line of credit	-	251,145	49	64	10,613	1,219	263,090
Vehicle leases receivable	-	-	-	152,917	-	-	152,917
Equipment leases receivable	-	-	-	-	147,594	-	147,594
	$ 457,887	$ 1,813,982	$ 91,851	$ 155,311	$ 162,961	$ 25,058	$ 2,707,050

Collateral as at December 31, 2016	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 408,032	$ 881,789	$ 10,936	$ -	$ -	$ 332	$ 1,301,089
Consumer loans	-	105,483	43,796	3,155	22,808	26,578	201,820
Commercial mortgages	-	248,826	-	-	-	-	248,826
Commercial loans and line of credit	-	270,420	82	75	9,200	1,215	280,992
Vehicle leases receivable	-	-	-	150,913	-	-	150,913
Equipment leases receivable	-	-	-	-	136,686	-	136,686
	$ 408,032	$ 1,506,518	$ 54,814	$ 154,143	$ 168,694	$ 28,125	$ 2,320,326

4. Financial risk management (continued):

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the impact that changes in interest rates may have on income and economic value due to the mismatch between positions that are subject to interest rate adjustments in a specified period. Interest rate risk results primarily from differences in the maturity dates or repricing dates of interest-bearing assets and liabilities. The credit union monitors interest rate risk inherent in the portfolio. It employs techniques, including maturity and repricing schedules and portfolio modeling to measure interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of the credit union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Other types of interest rate risk may involve basis risk, which is the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example, the difference between prime lending rates and savings deposit rates).

Net interest income may increase or decrease in response to changes in market interest rates. Accordingly, the credit union sets limits on the level of interest rate risk exposure. Interest rate risk is managed by Treasury and monitored by the Asset-Liability Committee.

Income simulation is used to assess the credit union's interest rate exposure. Interest rate shock analysis involves measuring the impact of a more significant change of 100 basis points or greater in interest rates. Income simulation and interest rate shock analysis are calculated monthly and reported to the Asset-Liability Committee quarterly. As at December 31, 2017, the credit union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $2,275 (2016 - $2,042) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $2,644 (2016 - $2,970) over the next 12 months.

(e) Interest rate swaps:

Interest rate exchange agreements (swaps) are transactions in which two parties exchange fixed-rate interest payments for floating-rate interest payments for a predetermined period, calculated using agreed fixed and floating rates applied to an agreed notional amount. Notional amounts are not exchanged, and do not represent credit or market risk exposure.

Interest rate swaps are used to modify and reduce the credit union's interest rate risk exposure.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(e) Interest rate swaps (continued):

Interest rate swaps are measured at fair value derived using present value and other valuation techniques. As at December 31, 2017 the balance of interest rate swaps was nil (2016 - nil).

(f) Interest rate risk measurement:

The following table summarizes carrying amounts of financial assets and liabilities to arrive at the credit union's interest rate sensitivity based on the earlier of contractual repricing or maturity dates (adjusted for prepayment assumptions):

2017	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	0.98%	$ 90,639	$ -	$ -	$ -	$ 11	$ 90,650
Investments	1.38%	43,387	99,356	99,545	46,396	52,534	341,218
Loans	3.43%	1,072,295	299,386	523,016	511,841	2,971	2,409,509
Leases receivable	6.34%	32,619	87,838	141,424	38,629	(554)	299,956
	3.42%	$ 1,238,940	$ 486,580	$ 763,985	$ 596,866	$ 54,962	$ 3,141,333
Liabilities							
Members' deposits	1.22%	$ 1,372,675	$ 988,794	$ 277,423	$ 18,599	$ 11,150	$ 2,668,641
Securitization debt obligations	2.01%	31,233	92,460	68,805	72,477	218	265,193
Accounts payable and accrued liabilities	-	-	-	-	-	17,879	17,879
Current taxes payable	-	-	-	-	-	1,119	1,119
	1.29%	$ 1,403,908	$ 1,081,254	$ 346,228	$ 91,076	$ 30,366	$ 2,952,832
Interest rate sensitivity gap	2.13%	$ (164,968)	$ (594,674)	$ 417,757	$ 505,790	$ 24,596	$ 188,501

2016	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	0.56%	$ 129,806	$ -	$ -	$ -	$ 3	$ 129,809
Investments	0.90%	15,994	59,323	143,753	63,329	49,972	332,371
Loans	3.28%	998,046	234,779	428,997	370,908	20	2,032,750
Leases receivable	6.44%	30,825	83,182	140,211	33,380	(232)	287,366
	3.20%	$ 1,174,671	$ 377,284	$ 712,961	$ 467,617	$ 49,763	$ 2,782,296
Liabilities							
Members' deposits	1.06%	$ 1,265,130	$ 836,359	$ 251,424	$ 29,234	$ 10,734	$ 2,392,881
Securitization debt obligations	1.70%	28,770	56,218	100,714	15,563	139	201,404
Accounts payable and accrued liabilities	-	-	-	-	-	14,547	14,547
Current taxes payable	-	-	-	-	-	253	253
	1.10%	$ 1,293,900	$ 892,577	$ 352,138	$ 44,797	$ 25,673	$ 2,609,085
Interest rate sensitivity gap	2.10%	$ (119,229)	$ (515,293)	$ 360,823	$ 422,820	$ 24,090	$ 173,211

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(g) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result in being unable to meet financial obligations in a timely manner and at reasonable prices.

To mitigate this risk, the credit union is required by regulation to maintain sufficient levels of liquid assets. Required liquidity levels are expressed as a percentage of members' deposits, borrowings and the portion of securitization debt obligation relating to consumer mortgages. The minimum liquidity levels required by regulation are 8% in 2017 (2016 - 8%). At December 31, 2017 and 2016, the credit union's liquidity exceeded this required level.

Liquidity is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain prudent levels of liquidity in relation to its deposits and other debt obligations, in order to retain customer confidence in the credit union and to enable the credit union to meet all financial obligations. This is achieved through management of loan portfolio growth in relation to deposit growth, through asset securitizations, and through asset-liability maturity management techniques. The credit union also maintains committed borrowing facilities that it can access to meet liquidity needs, as explained in note 11.

Management reviews forecasts of the credit union's liquidity requirements on a monthly basis as part of its liquidity management program; ensuring funding is available to meet cash requirements.

(h) Liquidity risk measurement:

The table below presents a maturity analysis of financial liabilities which shows the cash flows contractually payable by the credit union:

2017	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 3 years	3 years	Total
Members' deposits	$ 1,093,417	$ 245,997	$ 1,034,455	$ 286,791	$ 33,080	$ 2,693,740
Securitization debt obligations	2,345	4,651	64,187	103,649	105,986	280,818
Accounts payable and accrued liabilities	17,879	-	-	-	-	17,879
Current taxes payable	-	1,119	-	-	-	1,119
Total liabilities (contractual maturity dates)	$ 1,113,641	$ 251,767	$ 1,098,642	$ 390,440	$ 139,066	$ 2,993,556

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(h) Liquidity risk measurement (continued):

2016	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 3 years	3 years	Total
Members' deposits	$ 1,037,716	$ 210,801	$ 855,849	$ 256,979	$ 55,208	$ 2,416,553
Securitization debt obligations	1,080	2,292	55,387	62,024	87,036	207,819
Accounts payable and accrued liabilities	14,547	-	-	-	-	14,547
Current taxes payable	-	253	-	-	-	253
Total liabilities (contractual maturity dates)	$ 1,053,343	$ 213,346	$ 911,236	$ 319,003	$ 142,244	$ 2,639,172

(i) Equity price risk:

The credit union's investment portfolio includes equity investments. Fluctuations in the value of equity securities impact the recognition of both realized and unrealized gains and losses on securities held. The credit union has policies in place to limit and monitor its exposure to individual issuers and classes of securities.

A 10% change in equity prices would have a $4,241 (2016 - $4,377) impact on comprehensive income. The analysis is based on the assumption that all equity and equity-related investments increase/decrease while all other variables are held constant.

(j) Foreign exchange risk:

The credit union is subject to currency risk which arises on financial instruments that are denominated in a foreign currency. Foreign exchange risk is managed in accordance with a policy approved by the Board of Directors. The credit union's policy is to manage currency risk to preclude any material impact on net income. The potential impact of changes to foreign exchange rates on net income is not expected to be significant.

The amount of foreign exchange gains for 2017 is $781 (2016 - $515). These amounts are included in the consolidated statement of income under fee and commission income.

(k) Fair value of financial instruments:

The table below sets out the fair values of financial instruments using the valuation methods and assumptions referred in note 4(l) and analyses them by the level in the fair value hierarchy. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(k) Fair value of financial instruments (continued):

2017	Level 1	Level 2	Level 3	Total fair value	Total carrying value
Assets:					
Financial instruments carried at fair value:					
Liquidity deposits	$ -	$ 222,555	$ -	$ 222,555	$ 222,555
Fixed income investments		3,374	10,921	14,295	14,295
Equity investments	38,405	-	4,001	42,406	42,406
Preferred shares	6,948	-	-	6,948	6,948
Central 1 Class E shares	-	1,931	-	1,931	1,931
Other investments	-	229	-	229	229
Financial instruments carried at amortized cost:					
Cash and cash equivalents	73,090	17,560	-	90,650	90,650
Investments held to maturity	-	42,816	-	42,816	42,564
Consumer mortgages	-	1,589,839	-	1,589,839	1,597,270
Consumer loans	-	237,589	-	237,589	237,606
Commercial mortgages	-	308,042	-	308,042	308,573
Commercial loans and line of credit	-	262,773	-	262,773	263,090
Vehicle leases receivable	-	153,335	-	153,335	152,917
Equipment leases receivable	-	147,997	-	147,997	147,594
Financial instruments carried at cost:					
Central 1 Class A shares	-	10,290	-	10,290	10,290
Central 1 Class E shares	-	1	-	1	1
Total financial assets	$ 118,443	$ 2,998,331	$ 14,922	$ 3,131,696	$ 3,138,919
Liabilities:					
Financial instruments carried at amortized cost:					
Members' deposits	$ -	$ 2,636,733	$ -	$ 2,636,733	$ 2,668,641
Securitization debt obligations	-	261,776	-	261,776	265,193
Financial instruments carried at cost:					
Accounts payable and accrued liabilities	17,879	-	-	17,879	17,879
Current taxes payable	1,119	-	-	1,119	1,119
Total financial liabilities	$ 18,998	$ 2,898,509	$ -	$ 2,917,507	$ 2,952,832

In 2017, there were no transfers between the levels of fair value hierarchy (2016 - nil).

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(k) Fair value of financial instruments (continued):

2016	Level 1	Level 2	Level 3	Total fair value	Total carrying value
Assets:					
Financial instruments carried at fair value:					
Liquidity deposits	$ -	$ 195,391	$ -	$ 195,391	$ 195,391
Fixed income investments	-	3,342	15,833	19,175	19,175
Equity investments	37,944	-	5,830	43,774	43,774
Preferred shares	5,482	-	-	5,482	5,482
Other investments	-	208	-	208	208
Financial instruments carried at amortized cost:					
Cash and cash equivalents	57,918	71,891	-	129,809	129,809
Investments held to maturity	-	57,894	-	57,894	57,659
Consumer mortgages	-	1,309,338	-	1,309,338	1,301,089
Consumer loans	-	201,851	-	201,851	201,820
Commercial mortgages	-	252,143	-	252,143	248,826
Commercial loans and line of credit	-	280,959	-	280,959	280,992
Vehicle leases receivable	-	151,610	-	151,610	150,913
Equipment leases receivable	-	137,317	-	137,317	136,686
Financial instruments carried at cost:					
Central 1 Class A shares	-	10,681	-	10,681	10,681
Central 1 Class E shares	-	1	-	1	1
Total financial assets	$ 101,344	$ 2,672,626	$ 21,663	$ 2,795,633	$ 2,782,506
Liabilities:					
Financial instruments carried at amortized cost:					
Members' deposits	$ -	$ 2,376,161	$ -	$ 2,376,161	$ 2,392,881
Securitization debt obligations	-	200,806	-	200,806	201,404
Financial instruments carried at cost:					
Accounts payable and accrued liabilities	14,547	-	-	14,547	14,547
Current taxes payable	253	-	-	253	253
Total financial liabilities	$ 14,800	$ 2,576,967	$ -	$ 2,591,767	$ 2,609,085

(l) Methods and assumptions:

Investments (excluding investments in Central 1, other investments, principal and interest reinvestment accounts and sub note-junior notes, which are held at cost or amortized cost) are reported on the consolidated statement of financial position at fair value. These values are based on quoted market prices if available and other valuation techniques, including discounted cash flows.

Investment in shares of Central 1, which is required by governing legislation and as a condition of membership in Central 1, are classified as available-for-sale.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(l) Methods and assumptions (continued):

During 2017, 3,864 Central 1 Class E shares with a carrying value of $0.01 per share, equal to the cost, were redeemed at $100 per share resulting in a gain on sale of assets of $386 (2016 - nil).

Effective December 31, 2017 Central 1 announced that 24.9502% of the credit union's Class E shares would be redeemed at a value of $100 per share subsequent to year end. These shares have been recorded at a fair value of $100 per share, with the gain of $1,932 (2016 - nil) being recorded in other comprehensive income.

All other investments in Central 1 Class A shares and Class E shares are recorded at cost as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

The fair values of loans, leases receivable and members' deposits with fixed rates and fixed maturity dates are determined by discounting cash flows using the Government of Canada yield curve.

Other inputs to the valuation model for fixed rate loans and leases receivable include scheduled loan amortization rates and estimated prepayment rates.

The following table reconciles the credit union's Level 3 fair value measurements from December 31, 2016 to December 31, 2017:

	2017	2016
	Fair value measurements using Level 3 inputs investments	Fair value measurements using Level 3 inputs investments
Level 3, beginning of year	$ 21,663	$ 19,797
New investments	-	6,000
Sold investments	(6,060)	(4,293)
Return of capital	(321)	(246)
Change in fair market value	(360)	578
Other	-	(173)
Level 3, end of year	$ 14,922	$ 21,663

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(l) Methods and assumptions (continued):

Level 3 includes investments where fair value is determined based on third party proprietary software, indices and methodologies. Level 3 fair values are comparable to internally derived valuations. Unobservable input is primarily the spread over the risk-free interest rate. An increase in the spread would have a negative effect on fair value. This is mitigated as the investments move closer to maturity. One investment type has volatility as an unobservable input. An increase in volatility would have a positive effect on fair value.

Since the fixed income Level 3 investments are principal protected, the risk of a decrease in principal only exists if these investments are not held to maturity. Prior to maturity, fair value of these investments change with the level interest rates, spread over risk-free rate, volatility and underlying index.

The sensitivity of fair value to a 10% increase/decrease change in these inputs is shown in the following table:

	2017		2016	
Input	10% increase	10% decrease	10% increase	10% decrease
Reference Index Level	$ 896	$ (612)	$ 1,117	$ (578)
Risk-free rate	(50)	51	(22)	53
Spread over risk-free rate	(33)	33	(38)	68
Volatility	31	(29)	88	41

(m) Capital management:

The *Financial Institutions Act* regulations prescribe the minimum required capital that must be held by the credit union. The level of capital required is based on the risk-weighted value of the assets held by the credit union. The prescribed minimum ratio of capital to risk-weighted assets is 8%, along with a requirement that at least 35% of its capital base consist of retained earnings.

Capital is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain a prudent relationship between the capital base and the underlying risks of the business, in order to support business growth and expansion of services to members. Credit union policy requires that a capital ratio of 10.5% be maintained.

(Expressed in thousands of dollars, unless otherwise indicated)

4. Financial risk management (continued):

(m) Capital management:

Management regards a strong capital base as an integral part of the credit union's business strategy. The credit union's objectives for capital management include maintaining substantially all credit union capital in the form of retained earnings. The credit union maintains a capital plan to ensure that long-term capital requirements are met. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

At December 31, 2017 and 2016, the credit union's capital ratios were in compliance with the regulatory requirements and with the credit union's internal policy requirements.

5. Cash and cash equivalents:

	2017	2016
Cash	$ 73,091	$ 57,918
Liquidity deposits with original maturities of less than 91 days	10,011	68,774
Fixed income investments with original maturities of less than 91 days	7,548	3,117
	$ 90,650	$ 129,809

Cash includes cash reserve account balances of $4,993 (2016 - $4,875) as described in notes 7(f) (*ii*) and 7(g).

6. Investments:

	2017	2016
Available-for-sale:		
Liquidity deposits with original maturities of greater than 90 days	$ 222,555	$ 195,391
Fixed income investments with original maturities of greater than 90 days	14,295	19,175
Equity investments	42,406	43,774
Preferred shares	6,948	5,482
Central 1 Class A shares	10,290	10,681
Central 1 Class E shares	1,932	1
Other investments	229	208
Held-to-maturity:		
Principal and interest reinvestment accounts (Note 7 (f))	39,876	56,805
Sub note - junior note	2,687	854
	$ 341,218	$ 332,371

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable:

	2017	2016
Consumer mortgages	$ 1,597,270	$ 1,301,089
Consumer loans	237,606	201,820
Total consumer loans	1,834,876	1,502,909
Commercial mortgages	308,573	248,826
Commercial loans and lines of credit	263,090	280,992
Total commercial loans	571,663	529,818
Accrued interest receivable	2,749	2,352
Deferred fee revenue	(1,977)	(1,704)
Deferred fee cost	5,841	3,543
Allowance for impairment losses on loans	(3,643)	(4,168)
Total loans	$ 2,409,509	$ 2,032,750

Total loans include securitized loan balances of $170,944 (2016 - $129,017) as described in note 7 (f):

	2017	2016
Mortgage backed securities loan balances	$ 129,707	$ 87,780
Asset-backed commercial paper loan balances	41,237	41,237
Total securitized loan balances	$ 170,944	$ 129,017

Total loans include restricted loan balances of $152,803 (2016 - $172,238) pledged as collateral for borrowings as described in note 11.

	2017	2016
Vehicle leases receivable	$ 152,917	$ 150,913
Equipment leases receivable	147,594	136,686
Deferred fee revenue	(1,409)	(1,455)
Deferred fee cost	4,186	3,896
Allowance for impairment losses on leases receivable	(3,332)	(2,674)
Total leases receivable	$ 299,956	$ 287,366

Total leases receivable include securitized leases receivable balances of $60,156 (2016 - $19,116) as described in note 7(g).

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable (continued):

(a) Allowance for losses on loans and leases receivable:

	Beginning of year	Change in provision	2017 Total	2016 Total
Consumer mortgages	$ 235	$ (79)	$ 156	$ 235
Consumer loans	565	(132)	433	565
Commercial loans	3,368	(314)	3,054	3,368
Allowance for losses on loans	4,168	(525)	3,643	4,168
Allowance for losses on leases receivable	2,674	658	3,332	2,674
	6,842	133	6,975	6,842
Specific allowance	-	-	-	-
Collective allowance	6,842	133	6,975	6,842
End of year	$ 6,842	$ 133	$ 6,975	$ 6,842

The impairment losses on loans and leases receivable in the consolidated statement of income are $1,778 (2016 - $1,532). This includes direct write-offs on loans of $234 (2016 - $240) and direct write-offs on leases receivable of $1,411 (2016 - $1,205). Also included is the reduction in provision on loans of $525 (2016 - reduction of $549) and increase in provision on leases receivable of $658 (2016 - increase of $636).

Recoveries from previous loan write-offs of $100 (2016 - $145) and recoveries from previous leases receivable write-offs of $756 (2016 - $584) are included in fee and commission income.

(b) Leases receivable:

	December 31, 2017			December 31, 2016		
	Future minimum lease payments	Unearned finance income on finance leases	Present value of minimum lease payments	Future minimum lease payments	Unearned finance income on finance leases	Present value of minimum lease payments
Not later than 1 year	$ 109,612	$ (10,061)	$ 99,551	$ 105,881	$ (9,685)	$ 96,196
Later than 1 year and not later than 5 years	224,276	(24,172)	200,104	213,148	(22,945)	190,203
Later than 5 years	877	(21)	856	1,222	(22)	1,200
	$ 334,765	$ (34,254)	$ 300,511	$ 320,251	$ (32,652)	$ 287,599

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable (continued):

(c) Individually impaired loans and leases receivable:

A loan is considered impaired when the security is deficient, there is a reasonable expectation of loss and a specific allowance for credit losses has been established. There were no individually impaired loans in 2017 or 2016 for consumer mortgages, consumer loans, commercial loans and mortgages and lease receivables.

(d) Past due loans and leases receivable:

Loans and leases receivable are considered past due when a member or counterparty has not made a payment within 30 days of the contractual due date. These loans and leases receivable are secured and collection efforts are reasonably expected to result in repayment.

	Current	Past due		
December 31, 2017	0-30 days	30-90 days	90+ days	Total
Consumer mortgages	$ 1,589,321	$ 6,568	$ 1,381	$ 1,597,270
Consumer loans	234,446	3,148	12	237,606
Commercial loans	571,660	3	-	571,663
Leases receivable	295,187	5,324	-	300,511
	$ 2,690,614	$ 15,043	$ 1,393	$ 2,707,050

	Current	Past due		
December 31, 2016	0-30 days	30-90 days	90+ days	Total
Consumer mortgages	$ 1,296,442	$ 3,536	$ 1,111	$ 1,301,089
Consumer loans	201,097	623	100	201,820
Commercial loans	526,448	34	3,336	529,818
Leases receivable	280,170	6,744	685	287,599
	$ 2,304,157	$ 10,937	$ 5,232	$ 2,320,326

(e) Repossessed property:

At December 31, 2017, the credit union held repossessed vehicles and equipment of $3,259 (2016 - $1,766). These assets are valued at the lower of carrying amount and fair value less costs to sell, and are reported as other assets (note 10) in the consolidated statement of financial position.

7. Loans and leases receivable (continued):

(f) Loans securitized:

Periodically, the credit union securitizes loans, mainly in order to obtain diverse, low cost funding and to manage interest rate risk. Securitization involves selling loans to special purpose vehicles or trusts (securitization vehicles), which buy the loans and then issue interest bearing securities to investors at specified interest rates.

Securitization agreements are assessed to determine whether the transfers of financial assets should result in all or a portion of the transferred loans being derecognized from the consolidated statement of financial position. The derecognition requirements include an assessment of whether the credit union transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

The credit union has no securitized mortgage receivables qualifying for derecognition.

Contracts with the securitization vehicles provide for the payment to the credit union over time of the excess of the sum of interest and fees collected from customers, in connection with the loans that were sold, over the yield paid to investors in the securitization vehicle. The exposure to variability of future interest income and expense has been incorporated into the credit union's interest rate sensitivity calculations in note 4(d).

The credit union has no right or obligation to repurchase any securitized loan.

(*i*) Mortgage-backed securities and the CMB Program:

The credit union is an approved issuer of mortgage-backed securities, including mortgage-backed securities issued for inclusion in the CMB Program.

Direct participation in the CMB Program involves the creation of mortgage-backed securities which are then transferred to Canada Housing Trust, a special purpose vehicle, which in turn, issues securities to third party investors. Canada Housing Trust uses the proceeds of bond issuances to fund the purchase of mortgage-backed securities from the credit union and other approved issuers of mortgage-backed securities. These transfers of financial assets by the credit union did not qualify for derecognition principally because the credit union retains significant exposure to prepayment and other risks associated with the transferred mortgages.

As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability (securitization debt obligation) that is subsequently measured at amortized cost.

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable (continued):

(f) Loans securitized (continued):

(*i*) Mortgage-backed securities and the CMB Program (continued):

Securitization liabilities recognized when mortgage-backed securities are transferred into the CMB Program are mostly non-amortizing and are repaid in full on the final maturity date of the Canada Mortgage Bonds. Interest payments are made semi-annually. Collections of principal and interest on the underlying mortgages are retained and reflected in the principal and interest reinvestment accounts. The balances in these accounts are reinvested to ensure there are sufficient funds available to service the interest coupon on the liability and the eventual settlement of the liability on maturity of the Canada Mortgage Bonds, which is typically at the end of five years. As at December 31, 2017, the balance of the principal and interest reinvestment accounts were $39,876 (2016 - $56,805). The decrease was due to CMB maturities in 2017.

As Central 1 is an approved swap counterparty to the CMB Program, the credit union enters into a swap agreement with Central 1 which mirrors an equivalent swap agreement which Central 1 enters into with Canada Housing Trust to exchange interest cash flows related to the securitization activity. The credit union receives the mortgage interest on the transferred mortgage receivables and pays the funding cost of the program, which is principally derived from the coupon rate of the Canada Mortgage Bonds.

As at December 31, 2017, the balance of mortgage receivables underlying the mortgage-backed securities that have been sold were $129,707 (2016 - $87,780). As at December 31, 2017, $23,108 (2016 - $38,701) of additional mortgage receivables have been issued as mortgage-backed securities, but remained unsold to the CMB program.

The table below is a continuity schedule showing the change in the carrying amounts of mortgage receivables that are underlying issued mortgage-backed securities that have been sold to the CMB program.

Year	Opening	New securitizations	Amortization	Prepayments and liquidations	Maturities	Closing
2017	$ 87,780	$ 77,945	$ (3,316)	$ (23,617)	$ (9,085)	$ 129,707
2016	77,596	51,804	(2,861)	(24,128)	(14,631)	87,780

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable (continued):

(f) Loans securitized (continued):

(*i*) Mortgage-backed securities and the CMB Program (continued):

As at December 31, 2017, the balance of the securitization debt obligation related to these securitization transactions was $165,531 (2016 - $142,435) including new securitizations of $71,039 (2016 - $50,316).

The table below is a continuity schedule showing the change in the carrying amounts of the securitization debt obligations relating to mortgage backed securities and CMB program.

Year	Opening	Net Cash Changes	Other	Closing
2017	$ 142,435	$ 23,085	$ 11	$ 165,531
2016	116,866	25,561	8	142,435

The table below sets out the carrying amounts of the mortgage receivables securitized and the reinvestment accounts along with the associated securitized debt obligations for securitizations that did not qualify for derecognition.

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligations	$ 129,707	$ 165,438	$ 87,780	$ 142,353
Principal and interest reinvestment accounts	39,876	-	56,805	-
Accrued interest	-	93	-	82
	$ 169,583	$ 165,531	$ 144,585	$ 142,435

(*ii*) Asset-Backed Commercial Paper (ABCP) program:

The credit union participates in an ABCP program to securitize uninsured consumer mortgages receivables.

Under the program, uninsured consumer mortgage receivables are securitized with a trust vehicle and, in turn, the trust funds these mortgage assets by issuing ABCP to investors. The ABCP is secured by cash flows received on the underlying consumer mortgage receivables.

7. Loans and leases receivable (continued):

(f) Loans securitized (continued):

(*ii*) Asset-Backed Commercial Paper (ABCP) program:

The transfer of financial assets under this program did not qualify for derecognition principally because the credit union retains significant exposure to risks associated with the transferred assets. As such, transactions under this program are accounted for as financing activities and result in the recognition of a securitization debt obligation that is subsequently measured at amortized cost. The credit union receives the mortgage interest on the transferred uninsured consumer mortgage receivables and pays the funding cost of the program.

Central 1 plays a key role in this securitization program by providing a performance guarantee. The performance guarantor is responsible for ensuring the performance of the credit union. This means guaranteeing that all payments of interest and principal are made when due.

A pool of uninsured consumer mortgage receivables was established in 2015. The program has a co-ownership structure, in that a portion of the pool of uninsured consumer mortgage receivables were securitized with the trust and the credit union retained ownership of the remaining interest in the pool.

The original balance securitized with the trust was $41,237, which represented a 25.3% interest in the co-ownership pool. The remaining interest was retained by the credit union.

Since the securitization was completed, the credit union has elected to apply all principal collected on the underlying consumer mortgage receivables against its interest in the co-ownership pool. As a result, at December 31, 2017, the trust's interest in the co-ownership pool, in dollar terms, has remained constant at $41,237, representing 72.4% (2016 - 47.3%) interest in the co-ownership pool.

As at December 31, 2017, the balance of the uninsured consumer mortgage receivables included in the co-ownership pool was $56,933 (2016 - $87,134), of which $41,237 was securitized with the trust.

Proceeds on this securitization transaction were $40,000, which reflects 3% over collateralization. As at December 31, 2017, the balance of the securitization debt obligation related to this securitization transaction was $40,036 (2016 - $40,034). This balance includes accrued interest of $36 (2016 - $34). Interest is accrued at a floating rate. The principal portion of this balance did not change because the trust continued to own the same amount of uninsured consumer mortgage receivables in the co-ownership pool.

7. **Loans and leases receivable (continued):**

(f) Loans securitized (continued):

(*ii*) Asset-Backed Commercial Paper (ABCP) program:

If the pool amortizes down to $41,237, the trust will hold a 100% interest in the co-ownership pool. At this point, further amortization would be applied fully against the trust's interest in the pool. The credit union could elect to contribute additional uninsured consumer mortgage receivables into the co-ownership pool. If this were to occur, the credit union could elect to apply all principal collected on the underlying uninsured consumer mortgage receivables against its interest in the co-ownership pool.

Under this program the credit union provides limited recourse in two ways. Firstly, a cash reserve account is maintained as a reserve against losses. Losses pertaining to the trust's interest in uninsured consumer mortgage receivables are applied against the cash reserve account. The balance of the cash reserve account is returned to the credit union as the trust's interest in the mortgage receivables amortizes. The balance of the cash reserve account is included in cash and cash equivalents (note 5). As at December 31, 2017, the cash reserve account balance was $600 (2016 - $600). Secondly, the trust's interest in the mortgage receivables was over collateralized by 3%. The trust has no recourse to the credit union's interest in the co-ownership pool or to any other assets of the credit union.

To ensure cash flows received on the uninsured consumer mortgage receivables are sufficient to pay ABCP investors, an interest rate swap is integral to the structure. The interest rate swap locks-in interest costs on the trust's interest in fixed rate mortgage receivables in the co-ownership pool. The credit union is not a counter-party to this interest rate swap.

(g) Leases receivable securitized:

The credit union securitizes leases receivable to obtain alternate sources of funding and to manage interest rate risk. The credit union had one lease receivable securitization program in place during 2017.

Securitized leases receivable do not qualify for derecognition principally because the credit union retains significant exposure to credit and prepayment risk associated with the transferred leases receivable. As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability (securitization debt obligations) at an amount approximately equivalent to the securitization proceeds.

Securitization debt obligations are subsequently measured at the discounted amount of the remaining scheduled lease payments.

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans and leases receivable (continued):

(g) Leases receivable securitized (continued):

During 2017, the credit union securitized $56,970 (2016 - nil) of leases receivable.

As at December 31, 2017, leases receivable balances of $60,156 (2016 - $19,116) had been securitized.

On leases receivable securitizations, the credit union funds a cash reserve account. Credit losses on leases receivable are applied against the cash reserve account. The balance of the cash reserve account is returned to the credit union as the securitized assets amortize.

The cash reserve account is included in cash and cash equivalents (note 5). As at December 31, 2017, cash reserve account balances were $4,393 (2016 - $4,275).

Securitization debt obligations recognized on lease securitization transactions are limited recourse liabilities. The special purpose vehicles or trusts have recourse against the cash flows on the securitized leases receivable.

As at December 31, 2017, the securitization debt obligations relating to leases receivable securitizations were $59,626 (2016 - $18,935), including new securitizations of $55,154 (2016 - nil).

The table below is a continuity schedule showing the change in the carrying amounts of the securitization debt obligations relating to leases receivable securitization transactions that did not qualify for derecognition.

Year	Opening	Net Cash Changes	Other	Closing
2017	$ 18,935	$ 40,624	$ 67	$ 59,626
2016	43,047	(24,072)	(40)	18,935

(Expressed in thousands of dollars, unless otherwise indicated)

8. Premises and equipment:

2017	Land and buildings	Computer equipment and ATM equipment	Furniture and equipment	Leasehold improvements	Total
Balance, January 1, 2017	$ 1,524	$ 955	$ 4,717	$ 1,913	$ 9,109
Additions	-	529	1,259	1,648	3,436
Disposals	-	-	-	-	-
Depreciation	(40)	(317)	(1,120)	(398)	(1,875)
Balance, December 31, 2017	$ 1,484	$ 1,167	$ 4,856	$ 3,163	$ 10,670
At December 31, 2017:					
Cost	$ 2,998	$ 4,344	$ 13,605	$ 13,747	$ 34,694
Accumulated depreciation	(1,514)	(3,177)	(8,749)	(10,584)	(24,024)
Net book value	$ 1,484	$ 1,167	$ 4,856	$ 3,163	$ 10,670

2016	Land and buildings	Computer equipment and ATM equipment	Furniture and equipment	Leasehold improvements	Total
Balance, January 1, 2016	$ 3,039	$ 931	$ 2,897	$ 1,689	$ 8,556
Additions	30	452	2,758	577	3,817
Disposals	(1,482)	(67)	(207)	-	(1,756)
Depreciation	(63)	(361)	(731)	(353)	(1,508)
Balance, December 31, 2016	$ 1,524	$ 955	$ 4,717	$ 1,913	$ 9,109
At December 31, 2016:					
Cost	$ 2,998	$ 3,814	$ 12,345	$ 12,099	$ 31,256
Accumulated depreciation	(1,474)	(2,859)	(7,628)	(10,186)	(22,147)
Net book value	$ 1,524	$ 955	$ 4,717	$ 1,913	$ 9,109

During 2017 the credit union did not dispose of any property. During 2016, the credit union disposed of a property for proceeds of $3,500. The gain of $1,752 on disposal of the property was recorded as gain on sale of assets in the consolidated statement of income. Amortization of premises and equipment is recorded on the consolidated statement of income under occupancy and equipment expenses.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Intangible assets:

2017	Computer software licences	Other intangible assets	Total intangible
Balance, January 1, 2017	$ 1,310	$ 691	$ 2,001
Additions	429	-	429
Amortization	(444)	(156)	(600)
Balance, December 31, 2017	$ 1,295	$ 535	$ 1,830
At December 31, 2017:			
Cost	$ 4,543	$ 2,192	$ 6,735
Accumulated amortization and impairment	(3,248)	(1,657)	(4,905)
Net book value	$ 1,295	$ 535	$ 1,830

2016	Computer software licences	Other intangible assets	Total intangible
Balance, January 1, 2016	$ 755	$ 848	$ 1,603
Additions	1,148	-	1,148
Amortization	(593)	(157)	(750)
Balance, December 31, 2016	$ 1,310	$ 691	$ 2,001
At December 31, 2016:			
Cost	$ 4,113	$ 2,192	$ 6,305
Accumulated amortization and impairment	(2,803)	(1,501)	(4,304)
Net book value	$ 1,310	$ 691	$ 2,001

Amortization of intangible assets is recorded in the consolidated statement of income under general and administrative expenses

(Expressed in thousands of dollars, unless otherwise indicated)

10. Other assets:

	2017	2016
Repossessed property (note 7(f))	$ 3,259	$ 1,766
Accounts receivable	2,064	4,284
Prepaid expenses	1,573	1,201
	$ 6,896	$ 7,251

Impairment losses of $2,640 (2016 - $2,823) were recorded on repossessed property. Recoveries from repossessed property of $756 (2016 - $584) are included in fee and commission income.

11. Borrowings:

The credit union has three approved credit facilities totaling $248.0 million (2016 - $248.0 million). The first, with Central 1, is secured by a general charge over the assets of the credit union. For credit facilities with other financial institutions, security in the amount of $152.8 million (2016 - $172.2 million) is provided by a first charge against specific insured consumer mortgages which are in priority position in relation to the general charge of Central 1. All borrowings are repayable within 12 months. Total borrowings at year end 2017 and 2016 were nil.

12. Members' deposits:

	2017	2016
Demand deposits	$ 982,941	$ 898,795
Term deposits	1,419,669	1,223,594
Registered savings plans	254,882	258,753
Member shares	288	280
Accrued interest payable	10,861	11,459
	$ 2,668,641	$ 2,392,881

The number of member shares issued at December 31, 2017 was 287,605 (2016 - 279,635). Member shares have a par value of $1 and entitle the holder to membership in the credit union, access to the products and services offered and to other member entitlements. Member shares do not earn interest or share in the earnings of the credit union, and are redeemed at par upon termination of membership.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Net interest income:

	2017	2016
Interest income:		
Interest and dividends from investments:		
Available-for-sale	$ 4,669	$ 4,225
Held-to-maturity	681	706
Interest from loans	77,285	69,468
Interest from leases receivable	18,858	18,677
	101,493	93,076
Interest expense:		
Interest expense on borrowings	592	107
Interest expense on members' deposits	26,977	25,752
Interest expense on securitization debt obligations	4,860	4,495
	32,429	30,354
	$ 69,064	$ 62,722

14. Net fee and commission income:

	2017	2016
Fee and commission income:		
Loan and leases receivable fees	$ 1,825	$ 1,535
Insurance, mortgage and visa commissions	1,238	1,493
Member service fees and commissions	3,216	2,804
Wealth management fees	5,032	4,381
Foreign exchange and other	1,172	897
	12,483	11,110
Fee and commission expense:		
Loan and leases receivable expenses	749	940
Member service expenses	1,272	1,548
Loans and leases receivable securitization fees	216	192
Other fees	805	890
	3,042	3,570
Net fee and commission income	$ 9,441	$ 7,540

(Expressed in thousands of dollars, unless otherwise indicated)

15. Net gains on financial instruments:

		2017		2016
Net realized gains on available-for-sale financial assets	$	3,632	$	2,107
Impairment losses on available-for-sale financial assets		(431)		(890)
Net gains (losses) on financial instruments at fair value through profit and loss		-		144
	$	3,201	$	1,361

16. Salary and employee benefits:

		2017		2016
Salaries and commissions expense (note 23(b))	$	30,089	$	28,863
Employee benefits expense (note 18(b))		7,199		6,601
Other		1,198		1,230
	$	38,486	$	36,694

17. General and administrative expenses:

		2017		2016
Data processing and electronic banking	$	3,790	$	3,633
Insurance, audit and dues		3,592		3,517
Marketing and sales expenses		2,184		1,756
Depreciation of premises and equipment		1,875		1,508
Intangible asset amortization		600		750
Consulting and legal		937		600
Stationary, supplies and other		2,390		2,107
	$	15,368	$	13,871

(Expressed in thousands of dollars, unless otherwise indicated)

18. Retirement benefit obligations:

Retirement pensions are provided to the credit union's employees through various pension plans, which are funded through employer contributions. The largest plan is the Westminster Savings Employee Pension Plan (WSEPP), a defined benefit plan serving the employees of Westminster Savings. The credit union provides a money purchase plan group RSP for the employees of Mercado Capital Corporation.

The credit union also participates in a multi-employer defined contribution pension plan. This plan serves a small number of active and retired employees and is closed to new entrants. The credit union also participates in a Supplemental Employee Retirement Plan (SERP) that serves a small number of employees and is open to new participants.

For WSEPP and the SERP, the pension expense and plan contributions are determined in consultation with independent actuaries. The plans are required to have an actuarial valuation performed once every three years. The latest actuarial valuation was performed as at December 31, 2014 and the obligation and assets as at December 31, 2017 have been estimated by the actuary by extrapolating the results from the actuarial valuation of December 31, 2014 using the assumptions noted. The next valuation will be completed in 2018, with an effective date of December 31, 2017.

(a) Funded status of defined benefit pension plans:

The funded status of the WSEPP and SERP plans is the net asset or liability that reflects the difference between the fair value of plan assets and the present value of pension benefit obligations.

	2017	2016
Fair value of plan assets:		
Fair value of plan assets, beginning of year	$ 58,635	$ 55,767
Interest income on plan assets	2,270	2,246
Return on plan assets	1,762	686
Employer contributions	2,722	2,842
Benefit payments	(3,601)	(2,906)
	61,788	58,635
Present value of defined benefit obligations:		
Benefit obligation, beginning of year	62,621	57,327
Current service cost	3,706	3,445
Interest cost	2,372	2,310
Benefit payments	(3,601)	(2,906)
Actuarial loss	5,473	2,445
	70,571	62,621
Deficiency of plan assets over obligations	$ (8,783)	$ (3,986)

(Expressed in thousands of dollars, unless otherwise indicated)

18. Retirement benefit obligations (continued):

(b) Pension benefit expense:

The amounts recognized in the consolidated statement of income for the WSEPP and SERP defined pension benefit expense included in salary and employee benefits expense were as follows:

		2017		2016
Current service cost	$	3,706	$	3,445
Net interest on net defined benefit liability		102		64
Pension benefit expense	$	3,808	$	3,509

(c) Investment returns:

The expected return on the WSEPP and SERP defined benefit pension plan assets is determined by considering the discount rate that is used to measure the defined benefit obligation. Expected yields on fixed interest investments are based on gross redemption yields as at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The actual return on plan assets, including interest income was $4,032 (2016 - $2,932).

(d) Investment composition and diversification:

Pension fund assets for the WSEPP and SERP defined benefit pension plans are held in a diversified and balanced fund in which the target asset allocation is mandated by the Pension Plan Investment Policy. The objective of this investment policy is to seek acceptable returns with low risk over the expected investment time horizon.

Actual asset allocation of the fair value of plan assets is as follows:

	2017	2016
Equity securities	48.5%	50.7%
Debt securities	48.5%	45.8%
Other	3.0%	3.5%
	100.0%	100.0%

(Expressed in thousands of dollars, unless otherwise indicated)

18. Retirement benefit obligations (continued):

(e) Actuarial assumptions:

Assumptions regarding future mortality experience are determined based on actuarial advice in accordance with published statistics and experience in Canada. Mortality assumptions are based on the Canadian Pension Mortality (CPM) Private Sector Mortality tables. These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

The significant assumptions used in the measurement of the present value of the WSEPP and SERP defined pension benefit obligations are as follows:

	2017	2016
Discount rates	3.5%	3.9%
Salary scale	3.0%	3.0%
Inflation	2.0%	2.0%

At December 31, 2017, the weighted average duration of the defined benefit obligations was 21.1 years (2016 – 20.2 years).

(f) Five-year summary:

	2017	2016	2015	2014	2013
Present value of defined benefit obligations	$ 70,571	$ 62,621	$ 57,327	$ 51,994	$ 40,271
Fair value of plan assets	61,788	58,635	55,767	51,136	43,091
Deficit (surplus) in the plan	8,783	3,986	1,560	858	(2,820)
Experience losses (gains) on plan liabilities	87	29	3,469	(74)	27
Return on plan assets	(1,762)	(686)	(1,797)	(2,794)	(4,626)

(Expressed in thousands of dollars, unless otherwise indicated)

18. Retirement benefit obligations (continued):

(g) Sensitivity to changes in the discount rates:

The sensitivity of the defined benefit obligation to changes in the discount rates is shown below:

	2017	2016
Discount rate:		
Impact of a 1% increase	$ (12,658)	$ (10,707)
Impact of a 1% decrease	16,438	13,839

The results shown in the sensitivity table were determined by recalculating the defined benefit obligation but only changing the assumption for which the sensitivity is required and then calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the previous period to the methods or assumptions used in preparing the sensitivity analysis.

(h) Expected contributions:

Expected contributions to the defined benefit plans for the year ending December 31, 2018 are $3,011 (2017 - $2,604).

19. Commitments:

The credit union is committed to payments for premises and for information systems under operating leases extending to 2031. The lease arrangements may include escalation clauses to reflect fair market rates. At December 31, the future minimum lease payments are as follows:

	Premises leases	Information systems
No later than 1 year	$ 4,488	$ 3,577
Later than 1 year and not later than 5 years	14,179	9,379
Later than 5 years	15,984	1,603
	$ 34,651	$ 14,559

Premises lease expense of $6,986 (2016 - $5,710) is recorded on the consolidated statement of income under occupancy and equipment expenses.

(Expressed in thousands of dollars, unless otherwise indicated)

20. Income taxes:

(a) Income tax expense (recovery):

	2017	2016
Current tax:		
Corporate tax on income for the year	$ 381	$ 1,160
Adjustments in respect of prior years	314	-
Other	750	-
	$ 1,445	$ 1,160
Deferred tax:		
Origination and reversal of temporary difference	$ 1,282	$ 639
Change in estimated tax rate applied	(3,007)	517
Other	-	11
	$ (1,725)	$ 1,167

(b) Reconciliation of effective tax rate:

The combined federal and provincial basic corporate income tax rate is 26.0% (2016 - 26.0%) of the income for the year. The tax on the credit union's income before tax differs from the theoretical amount that would arise using the basic corporation tax rate of the credit union as follows:

	2017		2016	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Combined federal and provincial statutory income tax rates	$ 3,369	26.0%	$ 2,550	26.0%
Credit union rate reduction	(1,072)	(8.3)%	(356)	(3.6)%
Non-deductible or taxable items	(229)	(1.8)%	(272)	(2.8)%
Effect of change in estimated tax rate on deferred tax provision	(3,007)	(23.2)%	383	3.9%
Other	659	5.1%	22	0.2%
	$ (280)	(2.2)%	$ 2,327	23.7%

The effective tax rate for 2017, based on income before tax, was a recovery of 2.2% (2016 - provision of 23.7%). During 2017 the credit union has applied the provincial credit union deduction that had been previously announced to be phased out over five years but was re-instated by the British Columbia government during the year.

In addition to the corporate tax expense charged to the consolidated statement of income, tax provision of $985 has decreased other comprehensive income in the year (2016 - $343 increased), as follows:

(Expressed in thousands of dollars, unless otherwise indicated)

20. Income taxes (continued):

(b) Reconciliation of effective tax rate (continued):

2017	Before tax amount	Total tax	After tax amount
Movements in available-for-sale financial assets:			
Gains due to changes in fair value	$ 5,940	(1,017)	$ 4,923
Losses transferred to consolidated statement of income	(318)	54	(264)
Actuarial losses on defined benefit pension plans	(3,711)	(22)	(3,733)
Other comprehensive loss	$ 1,911	(985)	926

2016	Before tax amount	Total tax	After tax amount
Movements in available-for-sale financial assets:			
Gains due to changes in fair value	$ 901	(163)	$ 738
Losses transferred to consolidated statement of income	26	(5)	21
Actuarial losses on defined benefit pension plans	(1,760)	511	(1,249)
Other comprehensive loss	$ (833)	343	(490)

21. Deferred tax:

Deferred taxes are calculated on temporary differences under the liability method using tax rates expected to apply when the liability is settled or the asset is realized.

(a) Deferred income tax assets are attributable to the following items:

	2017	2016
Pension	$ 2,502	$ 2,524
Allowance for losses on loans and leases receivable	1,448	1,663
Deferred revenues and intangible assets	1,383	1,638
Investments	16	21
Loss carryforward	2,781	2,065
	$ 8,130	$ 7,911

(Expressed in thousands of dollars, unless otherwise indicated)

21. Deferred tax (continued):

(b) Deferred income tax liabilities are attributable to the following items:

	2017	2016
Pension	$ 580	$ 1,080
Leasing	11,495	12,430
Deferred expenses	1,921	1,952
Investments	331	-
Premises and equipment	97	115
	$ 14,424	$ 15,577

22. Contingencies:

In the normal course of business, various claims and legal proceedings arise against the credit union. While the outcome of future outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the credit union's financial position.

23. Related party disclosures:

Related parties of the credit union include wholly owned subsidiaries, post-employment benefit plans, as well as directors and key management personnel and their close family members.

All subsidiaries are wholly owned, and include Westminster Savings Financial Planning Ltd., WS Leasing Ltd., Mercado Capital Corporation and its subsidiary Mercado Financing Ltd.

Related parties include Westminster Savings Employee Pension Plan and the Supplemental Employee Retirement Plan, as outlined in note 18, and Westminster Savings Foundation. As a sponsor of the Westminster Savings Employee Pension Plan and the Supplemental Employee Retirement Plan the credit union provides administrative services to the plans. These services were not charged to the plans. Actuarial and other administrative expenses of the plans are paid directly by the plans. The credit union funded contributions to the plans of $2,722 (2016 - $2,842).

At December 31, 2017 the credit union has a receivable of nil (2016 - $100) from the Westminster Savings Foundation. The credit union maintains deposits on behalf of the Westminster Savings Foundation of $590 (2016 - $5,818). The credit union paid interest on these deposits of $57 (2016 - $169). The credit union donated $250 (2016 - nil) to the Westminster Savings Foundation.

(Expressed in thousands of dollars, unless otherwise indicated)

23. Related party disclosures (continued):

(a) Directors and key management personnel:

Directors and key management personnel include all members of the Westminster Savings Board of Directors, and key management who have authority for planning, directing or controlling the activities of the organization. This group also includes those who are close family members of the above. A number of banking transactions are entered into with directors and key management personnel in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of such transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	Loans and advances		Deposits	
	2017	2016	2017	2016
Outstanding at January 1	$ 1,700	$ 2,151	$ 2,193	$ 1,478
Net transactions during the year	(183)	(451)	753	715
Outstanding at December 31	$ 1,517	$ 1,700	$ 2,946	$ 2,193
Interest income earned on loans paid on deposits	$ 57	$ 63	$ 43	$ 26

No allowances have been recognized in respect of loans given to related parties (2016 - nil). The loans and advances held by directors and other key management personnel (and close family members) at December 31, 2017 of $1,517 (2016 - $1,700) are repayable monthly over a range of 1 to 7 years and have interest rates ranging from 2.7% to 5.7%. The loans advanced to the directors during the year are secured by real estate or chattels. No impairment losses have been recorded against balances during the year with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at year end.

The above deposits are unsecured, carry variable interest rates and are repayable on demand.

23. Related party disclosures (continued):

(b) Key management compensation:

	2017	2016
Salaries and other short-term employee benefits	$ 4,633	$ 4,171
Post-employment and termination benefits	919	955
Total key management compensation	$ 5,552	$ 5,126

Post-employment benefit and termination benefits represent retirement pension obligation and termination benefits amounts paid or payable, pursuant to agreements to members of key management who left the organization during the period.