Grant Thornton

Financial Statements

Grand Forks District Savings Credit Union

December 31, 2014

Contents

Grant Thornton

Independent auditors' report

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To the members of Grand Forks District Savings Credit Union:

We have audited the accompanying financial statements of Grand Forks District Savings Credit Union ("the Credit Union"), which comprise the statement of financial position as at December 31, 2014, and the statement of earnings and comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Forks District Savings Credit Union as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kelowna, BC
February 19, 2015

Grant Thornton LLP
Chartered accountants

Grand Forks District Savings Credit Union
Statement of financial position
December 31

	2014	2013
Assets		
Cash and cash equivalents (Note 5)	**$ 6,241,104**	$ 7,040,034
Investments (Note 6)	**37,144,391**	32,064,910
Investments accounted for using the equity method (Note 6)	**408,780**	393,344
Receivables and prepaid expenses	**117,920**	124,696
Derivative financial instruments (Note 7)	**570,571**	370,720
Loans (Note 8)	**166,847,697**	169,897,259
Property, equipment and intangible asset (Note 10)	**2,053,451**	2,311,321
Income taxes recoverable	**11,900**	-
Deferred income tax asset (Note 14)	**81,332**	42,248
Total assets	**$ 213,477,146**	$ 212,244,532
Liabilities		
Deposits (Note 11)	**$ 198,135,610**	$ 197,015,133
Income taxes payable	**-**	8,621
Payables and other liabilities (Note 12)	**1,795,757**	2,021,784
Total liabilities	**199,931,367**	199,045,538
Members' equity		
Retained earnings	**13,413,787**	12,991,818
Accumulated other comprehensive income	**131,992**	207,176
Total members' equity	**13,545,779**	13,198,994
	$ 213,477,146	$ 212,244,532

Commitments (Note 22)

On behalf of the Board

M Strukoff ______ Director   S. Schroeder ______ Director

Grand Forks District Savings Credit Union
Statement of earnings and comprehensive income

Year ended December 31	2014	2013
Financial income		
Loans	**$ 6,689,488**	$ 7,110,207
Cash and cash equivalents and investments	**1,056,954**	1,331,621
	7,746,442	8,441,828
Financial expense		
Deposits	**1,956,086**	2,095,650
Provision for credit losses, net of recoveries (Note 9)	**26,455**	260,448
	1,982,541	2,356,098
Financial margin	**5,763,901**	6,085,730
Other income (Note 16)	**1,052,991**	1,234,935
Operating margin	**6,816,892**	7,320,665
Operating expenses (Note 17)	**6,310,158**	6,533,480
Equity in income (loss) of subsidiary	**15,336**	(38,423)
Earnings before income taxes	**522,070**	748,762
Income taxes (Note 14)	**100,101**	188,110
Net earnings	**421,969**	560,652
Other comprehensive loss, (net of tax)		
Unrealized gain (losses) on cash flow hedges	**166,716**	(48,687)
Unrealized actuarial losses	**(241,900)**	-
Total other comprehensive loss for the year	**(75,184)**	(48,687)
Total comprehensive income for the year	**$ 346,785**	$ 511,965

Grand Forks District Savings Credit Union
Statement of changes in members' equity
Year ended December 31, 2014

	Retained earnings	Accumulated other comprehensive income	Total members' equity
Balance on December 31, 2012	**$ 12,431,166**	**$ 255,863**	**$ 12,687,029**
Net earnings	560,652	-	560,562
Other comprehensive loss			
Unrealized losses on cash flow hedges, net of tax ($17,106)	-	(48,687)	(48,687)
Balance on December 31, 2013	**$ 12,991,818**	**$ 207,176**	**$ 13,198,994**
Net earnings	421,969	-	421,969
Other comprehensive loss			
Unrealized gain on cash flow hedges, net of tax ($41,679)	-	166,716	166,716
Unrealized actuarial losses	-	(241,900)	(241,900)
Balance on December 31, 2014	**$ 13,413,787**	**$ 131,992**	**$ 13,545,779**

Grand Forks District Savings Credit Union
Statement of cash flows

Year ended December 31		2014		2013
Increase (decrease) in cash and cash equivalents				
Operating activities				
Earnings before income taxes	$	**522,070**	$	748,762
Adjustments for non-cash items				
Equity in (income) loss of subsidiary		**(15,336)**		38,423
Distributions to members		**356,483**		647,340
Depreciation		**384,242**		379,837
Provision for credit losses, net of recoveries		**26,455**		260,448
Gain on disposal of wealth management portfolio		**-**		(146,667)
Gain on disposal of property, equipment and intangible asset		**-**		(460)
Unrealized loss on derivative financial instruments		**8,544**		6,442
Income taxes (paid) refunded, net		**(201,384)**		70,240
Changes in non-cash operating working capital				
Receivables and prepaid expenses		**6,776**		288,313
Derivative financial instruments		**-**		(14,694)
Loans, net of repayments		**3,023,107**		(1,783,303)
Deposits, net of withdrawals		**1,113,028**		(5,711,732)
Payables and other liabilities		**(183,348)**		(65,227)
		5,040,637		(5,282,278)
Financing activities				
Patronage distributions paid		**(641,063)**		(661,072)
Addition to (redemption of) equity shares, net		**7,449**		(2,261)
		(633,614)		(663,333)
Investing activities				
Investments, net		**(5,079,481)**		6,181,038
Purchase of shares in investments accounted for using the equity method		**(100)**		(285,000)
Purchase of property, equipment and intangible asset		**(126,372)**		(197,657)
Proceeds from disposal of property, equipment and intangible asset		**-**		460
		(5,205,953)		5,698,841
Net decrease in cash and cash equivalents		**(798,930)**		(246,770)
Cash and cash equivalents, beginning of year		**7,040,034**		7,286,804
Cash and cash equivalents, end of year	$	**6,241,104**	$	7,040,034

1. Governing legislation and nature of operations

Grand Forks District Savings Credit Union ('the Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the Boundary Area of British Columbia. The products and services offered to its members include mortgages, personal, commercial and other, chequing and savings accounts, term, demand and other deposits. The Credit Union's head office is located at 447 Market Avenue, Grand Forks BC.

These financial statements have been approved and authorized for issue by the Board of Directors on February 19, 2015.

2. Summary of presentation and statement of compliance

Basis of presentation

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

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

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

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

3. Summary of significant accounting policies

Investments in joint ventures

A joint venture is an arrangement that the Credit Union controls jointly with one or more other investors, and over which the Credit Union has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in joint ventures are accounted for using the equity method.

(continued)

3. Summary of significant accounting policies (continued)

Investments in joint ventures (continued)

Any goodwill or fair value adjustment attributable to the Credit Union's share in the joint venture is not recognized separately and is included in the amount recognized as investment.

The carrying amount of the investment in joint ventures is increased or decreased to recognize the Credit Union's share of the profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Credit Union.

Unrealized gains and losses on transactions between the Credit Union and its joint ventures are eliminated to the extent of the Credit Union's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through net earnings, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

(continued)

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in net earnings or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is evidence or events have been identified that affect the value or expected earnings of the financial asset. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in net earnings are presented within 'financial income' or 'financial expense', except for impairment of trade receivables which is presented within 'other operating and administrative expenses'.

Loans and receivables
Cash and cash equivalents, receivables and all member loans that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have been designated as loans and receivables.

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

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

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

(continued)

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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

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

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

The accounting treatment for loan fees varies depending on the transaction. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

Bad debts written off
Member loans are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the allowance for impaired loans, if an allowance for impaired loans had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net earnings.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. The Credit Union's liquidity term deposits have been classified as held-to maturity investments.

(continued)

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Held-to-maturity investments (continued)
Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in net earnings.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's available-for-sale financial assets include the Credit Union's investments in Central 1 Credit Union ("Central 1"), CUPP Services Ltd., Credential Securities Inc. and Stabilization Central Credit Union.

These investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Impairment charges are recognized in net earnings.

Financial liabilities
The Credit Union's financial liabilities include deposits, trade payables, other liabilities and member's shares.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in net earnings.

All interest-related charges are included within the deposits' component of financial expense.

Derivative financial instruments
Derivative financial instruments are accounted for at fair value through profit or loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment.

Derivative financial instruments are contracts that are utilized to manage financial risk such as changes in interest rates or other financial indices. The Credit Union uses derivative financial instruments, primarily interest rate swaps, to manage interest rate exposure and applies hedge accounting where applicable.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

(continued)

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

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

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

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

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

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

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

(continued)

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedges (continued)
If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to net earnings.

Property, equipment and intangible asset

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

Building	45 years
Building improvements	20 years
External	15 years
HVAC	15 years
Parking lot	12 years
Furniture and fixtures	10 years
Computer equipment	3 years
Systems software	8 years

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within 'other income' or 'operating expenses'.

Intangible assets include systems software used in administration that qualifies for recognition as an intangible asset. Systems software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over its contract term of eight years. Residual values and useful lives are reviewed at each reporting date.

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

(continued)

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from net earnings in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Credit Union’s forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax recoveries or expense in net earnings, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(continued)

3. Summary of significant accounting policies (continued)

Deposits

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

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

Post-employment benefits and short-term employee benefits

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Credit Union participates in a second defined benefit pension plan sponsored by Central 1. The liability recognized in the statement of financial position for the defined benefit plan is the present value of the defined benefit obligation ("DBO") at the reporting date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation is determined using the project unit credit method on an annual basis by an independent actuary. The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the pension cost charged to the statement of comprehensive income.

Actuarial gains and losses related to the defined benefit pension plan are recorded directly in equity through other comprehensive income as they arise. Post-employment benefit expenses are included in 'salaries and benefits'.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

(continued)

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Members' shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities.

Distributions to Members

Patronage distributions on shares classified as liabilities are recognized in net earnings when declared and approved by the Board of Directors.

Revenue recognition

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

(continued)

3. Summary of significant accounting policies (continued)

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in net earnings.

Standards and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2014 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – (amendments to IFRS 10 and IAS 28)
The IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 to address an acknowledged inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and those in IAS 28 Investments in Associates in dealing with the sale or contribution of a subsidiary.

The Amendments are to be applied prospectively to the sale or contribution of assets. Annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces IAS 18 *Revenue,* IAS 11 *Construction Contracts* and some revenue-related Interpretations; establishes a new control-based revenue recognition model; changes the basis for deciding whether revenue is to be recognized over time or at a point in time; provides new and more detailed guidance on specific topics; and expands and improves disclosures about revenue.

IFRS 15 applies to contracts with customers to provide goods or services, including construction contracts and licensing of intellectual property. It will not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers.

Annual periods beginning on or after January 1, 2017. Early adoption is permitted.

(continued)

3. Summary of significant accounting policies (continued)

IFRS 9 Financial Instruments

IFRS 9 is part of phase I of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS in respect of financial assets. All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available for sale, held-to-maturity, and loans and receivables categories will no longer exist. Classification of financial assets is based on an entity's business model for managing the financial assets and their contractual cash flow characteristics. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model.

Annual periods beginning on or after January 1, 2018.

4. Judgements and estimates

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgements, estimates and assumptions.

Judgements

During the current year, management was not required to make judgements about the recognition and measurement of assets, liabilities, income and expenses.

Estimates

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

Member loan loss provision

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

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 9.

(continued)

4. Judgements and estimates (continued)

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2014, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for computer equipment and system software.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make.

Please see Notes 13 and 14 for information regarding defined benefit liability and income taxes.

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the cash resources at December 31, 2014 is 0.52% (2013 – 0.71%).

	2014	2013
Cash and current accounts	**$ 4,907,930**	$ 5,923,551
Term deposits and accrued interest		
Callable or maturing in three months or less	**1,333,174**	1,116,483
	$ 6,241,104	$ 7,040,034

6. Investments

	2014	2013
Term deposits	**$ 36,283,239**	$ 31,214,628
Shares		
Central 1 Credit Union	**769,628**	758,758
CUPP Services Ltd.	**81,272**	81,272
Credential Securities Inc.	**10,000**	10,000
Stabilization Central Credit Union	**252**	252
	$ 37,144,391	$ 32,064,910

Term deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

The fair value of term deposits at December 31, 2014 was $36,557,025 (2013 - $31,250,568) and have an average yield of 1.93%.

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

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

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

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

	2014	2013
Investment in 0948859 B.C. Ltd. (dba MoneyWorks)		
Cost of shares	**$ 505,100**	$ 505,100
Equity in deficit	**(23,087)**	(38,423)
Other cost adjustments	**(73,333)**	(73,333)
	408,680	393,344
Investments in Kootenay Risk Services Ltd.		
Cost of shares	**100**	-
	$ 408,780	$ 393,344

(continued)

6. Investments (continued)

The Credit Union has the following investments in joint ventures:

	Equity Interest
0948859 B.C. Ltd. (dba MoneyWorks)	33.33%
Kootenay Risk Services Ltd.	25.00%

MoneyWorks provides wealth management financial services and is accounted for using the equity method in accordance with IAS 28. Summarized financial information for MoneyWorks is set out below:

		September 30, 2014		September 30, 2013
Current assets	**$**	**564,735**	$	497,063
Non-current assets		**1,127,327**		1,129,316
Total assets	**$**	**1,692,062**	$	1,626,379
Current liabilities	**$**	**162,732**	$	156,982
Non-current liabilities		**69,995**		69,365
Total liabilities	**$**	**232,727**	$	226,347
Revenue	**$**	**1,100,898**	$	661,449
Income (loss) and total comprehensive income (loss) for the year	**$**	**59,303**	$	(115,268)
Amortization expenses	**$**	**11,832**	$	5,493
Tax expense	**$**	**13,707**	$	3,435

Kootenay Risk Services Ltd. provides risk management services and is accounted for using the equity method in accordance with IAS 28. Summarized financial information for Kootenay Risk Services Ltd. is set out below:

		September 30, 2014
Current assets	**$**	**400**
Non-current assets		**-**
Total assets	**$**	**400**
Current liabilities	**$**	**728**
Non-current liabilities		**4,399**
Total Liabilities	**$**	**5,127**
Revenue	**$**	**-**
Loss and comprehensive loss for the year	**$**	**5,127**

7. Derivative financial instruments

As at December 31, 2014, the Credit Union had entered into interest rate swap contracts for a total of $30 million of notional principal (2013 - $40 million, $20 million of this being in forward starting agreements) whereby it has agreed to pay at floating interest rates based on Banker's Acceptance rates and receive at fixed interest rates. The swap contracts have fixed interest rates ranging from 2.01% to 2.58% and mature from July 2017 to September 2019. The agreements are secured by a general security agreement covering all assets of the Credit Union.

8. Loans

	2014	2013
Personal loans		
Residential mortgages	**$ 87,521,365**	$ 87,833,138
Other	**18,719,854**	19,406,225
Commercial loans		
Mortgages	**40,791,991**	45,247,604
Other	**2,522,130**	3,800,350
Purchased mortgages	**17,224,125**	13,489,903
Accrued interest	**398,651**	474,097
Deferred loan fees	**(83,372)**	(98,993)
	167,094,744	170,152,324
Allowance for impaired loans (Note 9)	**(247,047)**	(255,065)
	$ 166,847,697	$ 169,897,259

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.5% to prime plus 4.5%. The Credit Union's prime rate at December 31, 2014 was 3.0% (2013 - 3.0%).

The interest rate offered on fixed rate loans advanced at December 31, 2014 range from 2.79% to 15% (December 31, 2013 – 3.25% to 15.0%).

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

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

(continued)

8. Loans (continued)

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

Average yields to maturity

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

	2014		2013	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 24,280,511**	**4.22%**	$ 29,077,281	4.23%
Fixed rate due less than one year	**36,460,705**	**4.18%**	34,817,034	4.63%
Fixed rate due between one and five years	**106,038,249**	**3.79%**	105,882,905	4.04%
	$ 166,779,465		$ 169,777,220	

Credit quality of loans

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

	2014	2013
Unsecured loans	**$ 3,603,053**	$ 3,646,071
Loans secured by cash, member deposits	**1,686,105**	1,969,643
Loans secured by other property	**125,073,469**	128,181,203
Residential mortgages insured by government	**33,279,052**	33,917,267
Other	**3,137,786**	2,063,036
	$ 166,779,465	$ 169,777,220

Fair value

The fair value of member loans at December 31, 2014 was $167,909,256 (2013 - $171,921,759).

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

9. Allowance for impaired loans

Total allowance for impaired loans:

	2014	2013
Collective allowance	**$ 232,191**	$ 234,351
Individual specific allowance	**14,856**	20,714
Total allowance	**$ 247,047**	$ 255,065

Change in individual specific allowance and collective allowance for impairment:

	Beginning balance	Provision (recoveries)	Write-offs	2014 Ending balance	2013 Ending balance
Commercial loans	$ 119,160	$ 32,418	$ (1,523)	**$ 150,055**	$ 119,160
Personal loans	135,905	(32,418)	(6,495)	**96,992**	135,905
Total provision	$ 255,065	$ -	$ (8,018)	**$ 247,047**	$ 255,065
Percentage of total loans, accrued interest and deferred loan fees				**0.15%**	0.15%

In addition to the adjustments to the above noted provisions, during the year $26,455 was directly written off to bad debts expense (2013 - $83,020).

Impaired loans and related allowances

	Loan balances	Specific allowance	2014 Carrying amount	2013 Carrying amount
Commercial loans	$ 70,288	$ 5,031	**$ 65,257**	$ 51,861
Personal loans	213,722	9,825	**203,897**	509,415
	$ 284,010	$ 14,856	**$ 269,154**	$ 561,276

(continued)

9. Allowance for impaired loans (continued)

Key assumptions in determining the allowance for impaired loans collective provision

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience.

For purposes of the collective allowance, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security. The information below, which details the total non-impaired loan balances by classification as at year end, was used in the calculation of the collective allowance.

	2014			
	Residential Mortgage	**Personal**	**Commercial**	**Total**
Balance at December 31, 2014	**$ 87,351,676**	**$ 3,079,567**	**$ 41,429,282**	**$ 131,860,525**

	2013			
	Residential Mortgage	Personal	Commercial	Total
Balance at December 31, 2013	$ 87,337,301	$ 3,507,055	$ 46,130,766	$ 136,975,122

10. Property, equipment and intangible asset

	Property and equipment								Intangible asset	
	Land	Buildings	Building Improvements	External	HVAC	Parking lot	Furniture & fixtures	Computer equipment	System software	Total
Cost										
Balance, December 31, 2013	$ 239,792	$ 1,718,857	$ 317,098	$ 234,319	$ 105,515	$ 37,637	$ 1,089,377	$ 909,224	$ 805,385	$ 5,457,204
Additions	-	-	-	4,937	34,280	-	8,745	79,822	-	127,784
Disposals	-	-	-	-	-	-	-	(1,412)	-	(1,412)
Balance, December 31, 2014	**$ 239,792**	**$ 1,718,857**	**$ 317,098**	**$ 239,256**	**$ 139,795**	**$ 37,637**	**$ 1,098,122**	**$ 987,634**	**$ 805,385**	**$ 5,583,576**
Accumulated depreciation										
Balance, December 31, 2013	$ -	$ 919,059	$ 117,836	$ 81,941	$ 51,878	$ 33,214	$ 684,395	$ 752,520	$ 505,040	$ 3,145,883
Depreciation	-	38,197	15,855	15,813	9,129	2,211	95,169	107,350	100,518	384,242
Disposals	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2014	**$ -**	**$ 957,256**	**$ 133,691**	**$ 97,754**	**$ 61,007**	**$ 35,425**	**$ 779,564**	**$ 859,870**	**$ 605,558**	**$ 3,530,125**
Net book value										
December 31, 2013	$ 239,792	$ 799,798	$ 199,262	$ 152,378	$ 53,637	$ 4,423	$ 404,982	$ 156,704	$ 300,345	$ 2,311,321
December 31, 2014	**$ 239,792**	**$ 761,601**	**$ 183,407**	**$ 141,502**	**$ 78,788**	**$ 2,212**	**$ 318,558**	**$ 127,764**	**$ 199,827**	**$ 2,053,451**

11. Deposits

	2014	2013
Term	**$ 62,794,650**	$ 66,106,104
Demand	**82,664,940**	78,280,685
Registered savings plans	**39,098,776**	41,131,901
Tax free savings accounts	**12,512,598**	10,370,065
Accrued interest	**765,650**	834,831
Membership equity shares (Note 15)	**298,996**	291,547
	$ 198,135,610	$ 197,015,133

Terms and conditions

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The historical interest rates offered on term deposits issued at December 31, 2014 range from 0.40% to 2.85%.

Demand deposits are due on demand and bear interest at an interest rate up to 1.5% at December 31, 2014. Interest, where applicable, is calculated daily and paid on the accounts monthly.

The registered savings plan accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rate accounts issued at December 31, 2014 bear interest at rates up to 1.25%. Members may make withdrawals from their registered savings plan accounts according to their needs or to satisfy statutory requirements.

Included in demand deposits is an amount of $2,261,382 denominated in United States dollars.

Average yields to maturity

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

	2014		2013	
	Principal	**Yield**	Principal	Yield
Non-interest sensitive	**$ 18,911,411**	**0.00%**	$ 17,438,797	0.00%
Variable rate	**18,552,000**	**1.23%**	19,811,000	1.16%
Fixed rate due less than one year	**124,753,175**	**0.81%**	120,887,489	0.83%
Fixed rate due between one and five years	**34,854,378**	**1.90%**	37,751,470	1.86%
	$ 197,070,964		$ 195,888,756	

(continued)

11. **Deposits** (continued)

Fair value

The fair value of member deposits at December 31, 2014 was $197,939,105 (2013 - $197,021,540).

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

12. Payables and other liabilities

Payables and other liabilities recognized in the statement of financial position can be analyzed as follows:

		2014		2013
Trade payables	**$**	**329,920**	$	424,109
Accrued payroll liabilities		**1,093,443**		940,702
Patronage and dividends		**372,394**		656,973
Total payables and other liabilities	**$**	**1,795,757**	$	2,021,784

All amounts are short-term except for the defined benefit obligations of $851,900 (2013 - $610,800) associated with the pension plans as described in Note 13.

13. Pension plan

Grand Forks District Savings Credit Union is one of several employers that participate in the BC Credit Union Employees' Pension Plan. The Plan is a multi-employer contributory defined benefit pension plan governed by a 12-member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Plan, as at December 31, 2012 has about 3,100 active employees and approximately 550 retired plan members. Total plan assets are $354M.

(continued)

13. Pension plan (continued)

Every three years, an actuarial valuation is performed to assess the financial position of the Plan, and the adequacy of the funding level. The most recent actuarial valuation, which was conducted as at December 31, 2012, indicated a going concern unfunded liability of $32.3M and a solvency deficiency of $129.9M. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. Employer contributions to the plan for fiscal 2014 were $319,794 (2013 - $216,957).

The next actuarial valuation is scheduled for December 31, 2015 with results available in mid-2016. The Trustees of the Plan may, however, decide to conduct a valuation sooner than December 2015.

Pensions and other employee obligations

The liabilities recognized for pensions and other employee remuneration consist of the following amounts:

		2014		2013
Non-current:				
Defined benefit plans	**$**	**851,900**	$	610,800
Current:				
Other short term employee obligations	**$**	**241,543**	$	329,902

The current portion of these liabilities represents the Credit Union's obligations to its current and former employees that are expected to be settled during 2015. Other short-term employee obligations arise mainly from accrued holiday entitlement at the reporting date and various pension payments. As none of the employees are eligible for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.

The Credit Union has set up non-pension retiree benefits plans that are available to certain senior workers. According to the plan, a certain percentage of current salary is converted into a pension component each year. Pensions under this scheme are paid out once a beneficiary retires.

The reconciliation of the Credit Union's defined benefit obligations (DBO) and plan assets to the amounts presented on the statement of financial position for each of the reporting periods are presented below:

(continued)

13. Pension plan (continued)

Pensions and other employee obligations (continued)

The details of the Credit Union's DBO are as follows:

	2014	2013
Defined benefit obligation 1 January	**$ 610,800**	$ 601,400
Current service cost	**15,300**	15,000
Interest cost	**27,400**	25,400
Benefits paid	**(38,400)**	(36,100)
Actuarial losses	**236,800**	5,100
Defined benefit obligation 31 December	**$ 851,900**	$ 610,800
Unfunded	**$ 851,900**	$ 610,800

The DBO was determined using the following actuarial assumptions:

	2014	2013
Discount rate	**3.75%**	4.50%
Expected rate of return on plan assets	**Not applicable**	Not applicable
Expected rate of salary increases	**3.00%**	3.00%
Medical cost trend rates	**3%-5%**	3%-5%
Inflationary increases	**2.00%**	2.50%

These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. Other assumptions are based on management's historical experience.

The estimate of the DBO is particularly sensitive to medical cost trends as well as the discount rates used. If the rates assumed in the actuarial valuation had varied by +/- 1 percent, this would have altered the Credit Union's defined benefit obligation as follows:

	+1%	-1%
Medical/dental trend rates	92,100	(74,900)
Discount rates	(98,800)	123,000

(continued)

13. Pension plan (continued)

Statement of comprehensive income

The charge to the statement of comprehensive income comprises:

		2014		2013
Employee benefits expense:				
Current service cost	**$**	**15,300**	$	15,000
Interest costs		**27,400**		25,400
Total expenses recognized in net earnings	**$**	**42,700**	$	40,400

All expenses summarized above were included within employee benefits expense.

Amounts recognized in other comprehensive income:

		2014		2013
Unrealized actuarial losses	**$**	**241,900**	$	-

Statement of comprehensive income

Expected returns on plan assets are based on a weighted average of expected returns of the various assets in the plan, and include an analysis of historical returns and predictions about future returns. Expected returns on plan assets are estimated by independent pension scheme appraisals undertaken by external values in close co-ordination with each fund's treasury board.

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately $58,600 to be paid for 2015.

14. Income taxes

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

		2014		2013
Current tax expense				
Based on current year taxable income	**$**	**139,185**	$	209,600
Deferred tax expense				
Origination and reversal of temporary differences		**(39,084)**		(21,490)
Income taxes	**$**	**100,101**	$	188,110

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

		2014		2013
Current tax				
Change in unrealized gain on derivative instruments recorded in other comprehensive income	**$**	**41,679**	$	(17,106)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2013 – 25.75%) are as follows:

		2014		2013
Earnings before income taxes	**$**	**522,070**	$	748,762
Expected taxes based on the statutory rate	**$**	**135,738**	$	192,806
Tax rate reductions		**(25,100)**		(28,567)
Taxable other comprehensive income		**54,183**		(16,942)
Depreciation in excess of capital cost allowance		**44,548**		35,954
Deferred gain on disposal of wealth portfolio		**-**		(37,767)
Equity in earnings (loss) of subsidiaries		**(2,831)**		9,894
Deductible portion of loan allowance		**(716)**		41,163
Other		**(24,958)**		(4,047)
Total income tax expense		**180,864**		192,494
Included in other comprehensive income		**(41,679)**		17,106
Current tax expense	**$**	**139,185**	$	209,600

(continued)

14. Income taxes (continued)

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at January 1, 2014	Recognized in net earnings	**Closing Balance December 31, 2014**
Deferred tax liabilities			
Deferred gain on MoneyWorks investment	$ 14,667	$ -	**$ 14,667**
Property, equipment and intangible asset	94,530	(34,267)	**60,263**
	109,197	(34,267)	**74,930**
Deferred tax assets			
Allowance for loan losses	18,027	28,714	**46,741**
Employee future benefits	133,418	(23,897)	**109,521**
Deferred tax asset	151,445	4,817	**156,262**
Net deferred tax asset	$ (42,248)	$ (39,084)	**$ (81,332)**

15. Members' shares

The Credit Union issues one class of shares designated as membership equity of $1 par value.

Membership equity shares
Membership equity shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.

Membership shares issued and outstanding are included in deposit balances (see Note 11).

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

During the year, the Credit Union declared patronage distributions of $343,253 (2013 - $633,030) and dividends on membership shares of $13,230 (2013 - $14,310). Total distributions to members are included in operating expenses (Note 17).

16. Other income

		2014		2013
Account service fees	$	**531,968**	$	555,178
Foreign exchange		**119,429**		149,517
Gain on disposal of wealth management portfolio		**-**		146,667
Insurance commissions and fees		**136,928**		104,463
Loan administration fees		**75,323**		86,587
Mutual fund fees		**21,516**		6,946
Other		**131,772**		149,250
Safety deposit rentals		**36,055**		36,327
	$	**1,052,991**	$	1,234,935

17. Operating expenses

		2014		2013
Advertising and member relations	$	**34,150**	$	36,823
Depreciation		**384,242**		379,837
Community involvement		**76,783**		48,472
Data processing		**545,567**		566,343
Distributions to members		**356,483**		647,340
Dues and assessments		**222,408**		215,135
Human resource development		**84,267**		97,686
Occupancy		**455,737**		467,593
Other		**310,253**		324,044
Phoenix Foundation donation		**50,000**		100,000
Professional fees		**449,069**		295,969
Salaries and benefits		**3,237,556**		3,258,213
Service charges		**103,643**		96,025
	$	**6,310,158**	$	6,533,480

18. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, post-employment benefit plans for the Credit Union's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

		2014		2013
Compensation to key management personnel				
Salaries and other short-term employee benefits	**$**	**914,108**	$	940,614
Total pension and other post-employment benefits		**90,642**		69,418
	$	**1,004,750**	$	1,010,032

		2014		2013
Loans and lines of credit to key management personnel				
Aggregate value of loans and lines of credit advanced	**$**	**1,830,157**	$	1,691,136
Aggregate value of un-advanced loans and lines of credit		**466,249**	$	561,117

The Credit Union's policy for lending to key management personnel is that all such loans and leases were granted in accordance with normal lending terms.

		2014		2013
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**2,531,543**	$	3,026,500

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

19. Financial instrument classification and fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

The only financial instruments carried at fair value for the years ended December 31, 2014 and 2013 were Level 2 derivative financial instruments.

There were no transfers between Level 1 and 2 for the years ended December 31, 2014 and 2013.

20. Financial instrument risk management

General objectives, policies, and processes

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

(continued)

20. Financial instrument risk management (continued)

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being the Boundary Area of British Columbia.

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

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

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

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

(continued)

20. Financial instrument risk management (continued)

Credit risk (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans in total (by category), delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and provision for credit losses quarterly.

For 2014 or 2013, there have been no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

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

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes.

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

Provincial legislation requires the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 8% of deposits and borrowings.

The Credit Union manages liquidity risk by:

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

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(continued)

20. Financial instrument risk management (continued)

Liquidity risk (continued)

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

		2014 Maximum exposure		2013 Maximum exposure
Qualifying liquid assets on hand				
Cash	**$**	**4,074,787**	$	5,041,492
Liquidity reserve deposit		**15,288,080**		17,455,960
Discount deposits and term deposits		**22,000,000**		14,500,000
Total liquidity requirement at 8%		**(15,850,849)**		(15,761,211)
Excess liquidity requirement	**$**	**25,512,018**	$	21,236,241

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

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. As at December 31, 2014, the Credit Union had entered into interest rate swap contracts for a total of $30 million of notional principal (2013 - $40 million, $20 million of this being in forward starting agreements) The swaps mature from July 2017 to September 2019. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

(continued)

20. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)
The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates. The following table details the Credit Union's exposure to interest rate risk.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

		Interest sensitive balances in $000's				
	Average Rates	Within 3 months	4 months to 1 year	Beyond 1 year	Not interest sensitive	Total
Assets						
Cash resources	0.52%	$ 1,333	$ -	$ -	$ 4,908	$ 6,241
Loans	3.94%	25,161	34,761	107,254	(328)	166,848
Other	2.00%	2,953	13,183	20,147	4,105	40,388
		29,447	47,944	127,401	8,685	213,477
Liabilities						
Deposits	1.07%	91,499	52,322	35,103	19,211	198,135
Other	0.00%	-	-	-	1,796	1,796
		91,499	52,322	35,103	21,007	199,931
Balance sheet mismatch		(62,052)	(4,378)	92,298	(12,322)	13,546
Derivatives		(30,000)	-	30,000	-	-
Interest sensitivity position 2014		**$ (92,052)**	**$ (4,378)**	**$ 122,298**	**$ (12,322)**	**$ 13,546**
Interest sensitivity position 2013		$ (8,423)	$ 8,229	$ 91,361	$ (77,969)	$ 13,198

(continued)

20. Financial instrument risk management (continued)

Market risk (continued)

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net earnings of $177,802 while a decrease in interest rates of 1% could result in an increase to net earnings of $118,137.

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

Currency risk

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

The Credit Union’s foreign exchange risk is related to United States dollar deposits. The Credit Union controls its exposure to changes in the United States currency exchange rates by limiting the un-hedged holdings in foreign currency to 0.5% of total assets in accordance with its investment policy. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

For the year-ended December 31, 2014, the Credit Union's exposure to foreign exchange risk is within policy.

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

21. Capital requirements and management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union includes retained earnings, accumulated other comprehensive income, and equity shares totalling $13.8 million (2013 - $13.5 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union’s current capital base is equal to 19.82% (2013 - 18.18%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the Board of Directors. The Capital Appreciation Plan forecasts the Credit Union’s capital position over a five year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2014.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets. Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union’s capital adequacy ratio.

22. Commitments

Member loans

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

Unused lines of credit	$ 26,689,781
Letters of credit	$ 340,075

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

Data processing services

The Credit Union is committed to acquiring online data processing services until November 30, 2016 at an approximate cost of $300,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union are comprised of a loan that has been syndicated and administered in its capacity as an agent. Off balance sheet funds are not included in the statement of financial position and have a value at year end as follows:

	2014	2013
Syndicated loans	**$ 1,173,565**	$ 1,208,886

23. Comparative figures

Some of the comparative figures have been reclassified to follow current year financial statement presentation.