

Financial statements of

**AUTO WORKERS COMMUNITY
CREDIT UNION LIMITED**

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of
AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

We have audited the accompanying financial statements of Auto Workers Community Credit Union Limited, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, members' equity and cash flows for the year ended December 31, 2017, 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 necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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, these financial statements present fairly, in all material respects, the financial position of Auto Workers Community Credit Union Limited as at December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

TORONTO, Ontario
January 24, 2018



Licensed Public Accountants

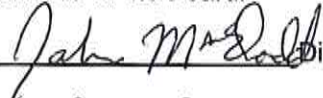
AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
Statement of Financial Position

As at December 31	2017	2016
Assets		
Cash and cash equivalents (note 4)	\$ 12,248,304	\$ 5,162,538
Investments (note 5)	29,980,486	28,271,533
Accrued interest receivable - member loans	416,966	410,123
- investments	81,746	43,460
Prepaid expenses and other assets	1,564,656	722,237
Income taxes receivable	124,972	-
Member loans receivable (notes 7, 8)	366,186,945	332,414,953
Pension asset (note 10)	259,000	-
Deferred income tax asset (note 18)	1,805,182	1,620,772
Derivative financial instruments (note 6)	40,778	29,729
Capital assets (note 9)	3,969,577	4,478,798
	\$ 416,678,612	\$ 373,154,143
Liabilities, Member Entitlements and Members' Equity		
Liabilities		
Demand loan payable (note 16(a))	\$ -	\$ 5,000,000
Accounts payable and other liabilities	3,096,727	2,640,916
Income taxes payable	-	138,476
Future pension obligation (note 10)	-	89,600
Obligation for post-employment benefits other than pensions (note 11)	5,165,300	4,751,700
Derivative financial instruments (note 6)	40,778	29,729
Mortgage securitization liabilities (note 13)	52,068,327	-
	60,371,132	12,650,421
Member entitlements		
Members' accounts and deposits (note 12)	333,440,606	338,762,806
Members' share capital (note 14)	2,983,228	3,165,854
Accrued member interest, dividends and patronage return	1,888,997	1,855,927
	338,312,831	343,784,587
Members' equity		
Members' share capital (note 14)	7,311,354	7,230,855
Retained earnings	15,172,882	12,796,438
Accumulated other comprehensive loss	(4,489,587)	(3,308,158)
	17,994,649	16,719,135
	\$ 416,678,612	\$ 373,154,143

Commitments (note 16)

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED**Statement of Comprehensive Income**

Year ended December 31	2017	2016
Interest income		
Residential mortgage loan interest	\$ 10,871,174	\$ 10,365,148
Commercial loan interest	797,631	1,041,281
Personal loan interest	495,065	579,717
Investment interest and dividends	401,152	233,873
	<u>12,565,022</u>	<u>12,220,019</u>
Interest on members' accounts and deposits (note 12)	4,365,413	4,490,456
Interest expense - other	538,428	94,011
	<u>4,903,841</u>	<u>4,584,467</u>
Financial margin	7,661,181	7,635,552
Other income (note 19)	2,685,264	4,117,910
	<u>10,346,445</u>	<u>11,753,462</u>
Expenses		
Currency costs and bank charges	162,402	248,239
Data processing and networking	587,456	665,734
Depreciation	509,221	479,785
D.I.C.O. insurance and F.S.C.O. assessment	298,254	314,266
Insurance	102,569	95,206
Marketing and development	121,447	127,128
Member services	682,202	848,544
Occupancy costs	523,197	548,020
Office	90,962	100,863
Provision for impairment losses on member loans	150,000	150,000
Salaries and employee benefits	4,071,517	4,954,333
	<u>7,299,227</u>	<u>8,532,118</u>
Net income before member distributions and provision for income taxes	3,047,218	3,221,344
Deduct: Dividends and patronage return (note 14)	30,983	30,554
Net income before provision for income taxes	3,016,235	3,190,790
Provision for current income taxes	372,114	463,910
Provision for deferred income taxes	119,937	23,124
Net income for the year	<u>\$ 2,524,184</u>	<u>\$ 2,703,756</u>
Other comprehensive income (loss), net of tax		
Actuarial losses on employee future benefits	\$ (594,519)	\$ (577,589)
Reclassification of realized gains on available-for-sale investments (net)	(586,910)	16,463
Total other comprehensive loss	<u>(1,181,429)</u>	<u>(561,126)</u>
Net comprehensive income for the year	<u>\$ 1,342,755</u>	<u>\$ 2,142,630</u>

See accompanying notes to financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Statement of Members' Equity

	Available for-sale investments	Employee future benefits	Accumulated comprehensive income (loss)	Members' shares	Retained earnings	Total
Balance on December 31, 2015	\$ 591,883	\$ (3,338,915)	\$ (2,747,032)	\$ 7,092,069	\$ 10,233,473	\$ 14,578,510
Net income	-	-	-	-	2,703,756	2,703,756
Distributions to members	-	-	-	-	(140,791)	(140,791)
Net change in members' shares	-	-	-	138,786	-	138,786
Change in unrealized gains on available-for-sale investments	16,463	-	16,463	-	-	16,463
Net loss from employee future benefits	-	(577,589)	(577,589)	-	-	(577,589)
Balance on December 31, 2016	\$ 608,346	\$ (3,916,504)	\$ (3,308,158)	\$ 7,230,855	\$ 12,796,438	\$ 16,719,135
Net income	-	-	-	-	2,524,184	2,524,184
Distributions to members	-	-	-	-	(147,740)	(147,740)
Net change in members' shares	-	-	-	80,499	-	80,499
Change in unrealized gains on available-for-sale investments	(586,910)	-	(586,910)	-	-	(586,910)
Net loss from employee future benefits	-	(594,519)	(594,519)	-	-	(594,519)
Balance on December 31, 2017	\$ 21,436	\$ (4,511,023)	\$ (4,489,587)	\$ 7,311,354	\$ 15,172,882	\$ 17,994,649

See accompanying notes to financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
Statement of Cash Flows

Year ended December 31	2017	2016
Cash provided (used) by operating activities		
Interest received on residential mortgage loans	\$ 10,841,661	\$ 10,343,094
Interest received on personal loans	499,633	578,342
Interest received on commercial loans	815,733	1,048,921
Interest received on investments	362,866	256,694
Interest paid on member deposits	(4,341,685)	(4,268,216)
Other income received	2,685,264	4,117,910
Recoveries on loans previously written off	21,469	45,331
Payments to employees and suppliers	(7,860,478)	(7,700,811)
Income taxes paid	(608,462)	(335,303)
Net cash provided by operating activities	2,416,001	4,085,962
Cash used by investing activities		
Change in member loans (net)	(33,943,462)	(10,153,294)
Purchase of investments (net)	(2,295,863)	(3,206,476)
Purchase of capital assets	-	(614,227)
Net cash used by investing activities	(36,239,325)	(13,973,997)
Cash provided (used) by financing activities		
Change in member deposits (net)	(5,322,200)	2,833,488
Change in member share capital (net)	(102,128)	(12,316)
Dividends and interest rebates paid on member deposits & capital accounts	(196,481)	(194,879)
Central 1 demand loan	(5,000,000)	3,000,000
Interest paid on external borrowings	(538,428)	(94,011)
Proceeds from mortgage securitizations	55,681,122	-
Principal repayments on mortgage securitizations	(3,612,795)	-
Net cash provided by financing activities	40,909,090	5,532,282
Net increase (decrease) in cash and cash equivalents	7,085,766	(4,355,753)
Cash and cash equivalents, January 1	5,162,538	9,518,293
Cash and cash equivalents, December 31	\$ 12,248,304	\$ 5,162,540

See accompanying notes to financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial statements

December 31, 2017

1 Nature of business

Auto Workers Community Credit Union (the "Credit Union") is a multi-branch financial institution incorporated under the Credit Unions and Caisses Populaires Act, 1994 (the "Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit cards, Internet banking and telephone banking. The Credit Union head office is located at 322 King Street West, Oshawa, Ontario.

In accordance with the Deposit Insurance Corporation of Ontario Bylaw No. 5, the Credit Union is a Class 2 credit union.

These financial statements have been authorized for issue by the Board of Directors on January 24, 2018.

2 Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the International Accounting Standards Board ("the IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

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 below.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in the financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Cash and cash equivalents

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

Cash is classified as held for trading and is carried at fair value.

Investments

(a) Central 1 deposits

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

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Investments (continued)

(b) Equity instruments

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

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

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

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

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

Derivative financial instruments and hedging

(a) 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, in both cases shown on the statement of financial position.

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

- (i) 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;
- (ii) For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- (iii) The effectiveness of the hedge can be reliably measured; and
- (iv) The hedge is expected to be highly effective at inception and remains highly effective at 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 or cash flow hedges at this time.

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

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

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

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Derivative financial instruments and hedging (continued)

(b) Other non-hedge derivatives

The Credit Union designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Member loans

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

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

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

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

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the 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 individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit 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 for 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 decreased and the decrease can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Loans written off

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. Loans are written off against the provisions for impairment if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Capital assets

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

Building	5 to 30 years
Equipment	2 to 10 years
Parking area	20 years

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

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 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. The Credit Union has one cash-generating unit, the land and building, for which impairment testing is performed.

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

Recognition of securitization arrangements

The Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements as part of its program of liquidity, capital, and interest rate risk management. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the secured assets. The determination of the requirements for continued recognition requires significant judgment.

Further details of securitization arrangements are disclosed in note 13.

Income taxes

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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

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

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Post-employment future benefits

The Credit Union sponsors a defined benefit pension plan and other post-employment benefits to retired employees and their spouses. 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. The benefits include medical services, life insurance and extended health care benefits. The benefit plans are further described in notes 10 and 11. This non-pension post-employment benefit plan is not funded.

The Credit Union accrues its obligations under a defined benefit employee pension plan and the related costs, net of plan assets. The cost of the defined benefit pension and the other post-employment benefits that relate to employees' current service is charged to income annually. The cost is computed at each reporting date by an independent actuary using the projected unit credit cost method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, the assets are valued at fair market value.

The discount rate used to measure the interest cost on the accrued future employee benefit obligation is set with reference to market interest rates on high-quality debt instruments.

Pension Plans

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

The defined benefit pension plan has been frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015. An integration of payment structure was established for employee to employer payments, initially at 2% for staff and 8% for the employer.

Members' accounts and 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 costs, using the effective interest rate method.

Members' share capital

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

Shares that contain redemption features at the option of the holder subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments.

Members' dividends

Dividends to members are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Derecognition of financial instruments

Financial assets are derecognized when contractual rights to the cash flows from the asset have expired, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset.

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

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognized on member loans on an accrual basis using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash flows over the expected life of the financial instrument back to the net carrying amount of the financial asset.

Revenue from investment income is recognized in the period it is earned.

Commissions, fees, and related revenues are recognized when the related service is provided and the income is contractually due.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

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

Standards, amendments and interpretations not yet effective

New standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Credit Unions future financial statements are as follows. The Credit Union intends to adopt these standards when they become effective.

- IFRS 9, Financial Instruments, was issued in July 2014. IFRS 9 replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss ("FVTPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Credit Union does not anticipate any changes to the measurement basis of its financial assets or financial liabilities as a result of these changes in accounting policy.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

2 Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

- IFRS 9 now includes a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The model applies to all financial assets that are not measured at FVTPL, including specified financial guarantees and loan commitments issued. The model uses a dual measurement approach under which a loss allowance is measured for each financial asset as either: 12-month expected credit losses; or lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. It is expected that the changes will result in an increase in the allowance for impaired loans and an earlier recognition of impairment losses in profit and loss. The Credit Union will undertake a thorough assessment of the new requirements to determine the implications to current impairment modelling and processes.
- IFRS9 also includes changes to hedge accounting guidance and aims to improve the decision usefulness of the financial statements by better aligning hedge accounting with the risk management activities of an entity. It has removed or amended some of the key prohibitions and rules within IAS 39, providing more flexibility to an entity in establishing relationships that would qualify for hedge accounting. It is not anticipated that any of the Credit Union's current hedging relationships will be impacted. The Credit Union will assess the impact of the new requirements as it relates to future derivative strategies prior to the effective date of implementation.

IFRS 9 is effective for accounting periods beginning on or after January 1, 2018.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014. IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
- IFRS 15 has been revised to incorporate the amendment issued by the International Accounting Standards Board (IASB) in September 2015. The amendment defers the effective date of IFRS 15 by one year to annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Credit Union is in the process of evaluating the impact of the new standard.
- IFRS 16, *Leases*, was issued in January 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. The new standard replaces the previous leases standard, IAS 17, *Leases*. Changes are primarily to lessee accounting. The new standard calls for all leases with a duration of more than 12 months to be reflected 'on-balance sheet'. A financial liability will be recognized for the lease obligation. A corresponding non-financial asset will be recognized for the 'right-of-use' asset. The obligation covers the full lease term which includes the non-cancelable lease period plus any optional periods where there is a significant economic incentive for the lessee to exercise.

For lessees, all lease liabilities will be recorded at fair value and lease payments will be split between interest expense and principal reductions. The right-of-use asset will be amortized straight-line over the shorter of the useful life of the asset or the term of the lease. In effect, this will result in higher expense in the early years of the lease as interest expense will decrease over time.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the impact of IFRS 16 but does not anticipate a material impact as the number of leases held by the Credit Union is minimal.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

3 Critical accounting estimates and judgments

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

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

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

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 5.

Member loan loss provision

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

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence for impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in note 8.

Post-employment future benefits

Post-employment future benefit plan costs, assets and obligations depend on factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, the rate of return on plan assets, wage escalation, inflation rates, health care costs and demographic factors such as retirement age, mortality and employee turnover. Any change in these assumptions will have an impact on the costs, assets and/or obligations relating to these plans, but the discount rate and the return on assets have the greatest impact and are subject to greater volatility. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further information regarding employee future benefits is presented in notes 10 and 11.

The Credit Union establishes the discount rate as at each reporting date. This rate is used to determine the present value of future cash flows related to the defined benefit obligation. To determine this rate, the Credit Union uses the interest rate of corporate bonds with a maturity similar to that of the benefit obligation and market conditions.

A decrease of 1% in the discount rate as at the end of the period would have an impact of a \$2,291,800 (2016 - \$2,279,900) increase on the present value of the defined benefit obligation and a \$921,800 (2016 - \$811,000) increase in the present value of the obligation for post-employment benefits (other than pensions).

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

3 Critical accounting estimates and judgments (continued)

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters. Any differences will be accounted for in the year of settlement.

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

4 Cash

Cash consists of cash on hand and cash in current accounts held with Central 1. The average yield on cash as at December 31, 2017 was 1.25% (2016 - 0.93%).

5 Investments

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

Central 1 deposits

As at December 31

Central 1 deposits

	2017	2016
Discount deposit liquidity reserve	\$ 11,524,788	\$ 24,308,100
Floating rate liquidity deposit	14,093,290	-
USD discount deposit	1,254,500	-
	\$ 26,872,578	\$ 24,308,100

Equity instruments

Central 1 Credit Union shares - Class A	\$ 1,366,758	\$ 1,430,354
Central 1 Credit Union shares - Class E	1,313,000	1,378,600
Concentra Trust Company, 671.371 shares	6,714	6,714
CUCO Co-op Class B investment shares	21,436	747,765
	\$ 2,707,908	\$ 3,563,433

Other investments

Credential Securities Inc. promissory note	\$ 250,000	\$ 250,000
The Co-operators Group Limited, 6.00% Class C, series B preference shares	150,000	150,000
	400,000	400,000
Total investments	\$ 29,980,486	\$ 28,271,533

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

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5 Investments (continued)

As at December 31	2017	2016
Discount deposit liquidity reserve		
Yield	1.04%	0.63%
Interest	0.69% to 1.32%	0.58% to 0.72%
Maturity dates from	Jan 12, 2018	Jan 17, 2017
to	May 19, 2022	Jan 11, 2018
Floating rate liquidity deposit		
Yield	1.47%	NA
Interest	1.42% to 1.59%	NA
Maturity dates from	Jun 30, 2022	NA
to	Oct 11, 2022	NA
USD discount deposit		
Yield	1.88%	NA
Interest	1.53% to 2.37%	NA
Maturity dates from	May 23, 2018	NA
to	May 24, 2022	NA

Central 1 deposits - liquidity reserve

The Credit Union is required to maintain a liquidity reserve deposit with Central 1 equal to 6% of the Credit Union's total assets. The minimum required liquidity reserve deposit is adjusted monthly based on the total assets of the Credit Union. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central 1. At maturity, these deposits are reinvested at market rates for various terms. The carrying value of the liquidity reserve in Central 1 approximates its fair value.

Equity investments - Central 1 Credit Union shares

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. The Credit Union's share of Central 1 capital requirements is based on asset size relative to other Class A members. Central 1 periodically rebalances the investment. Dividends are at the discretion of Central 1. Dividends received on these shares in 2017 amounted to \$61,350 (2016 - \$44,834). The shares in Central 1 are carried at cost as they do not have quoted market prices in an active market and fair value is not reasonably determinable. The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

CUCO Co-op Class B investment shares

On September 2, 2011, the Credit Union received 502,471,006 CUCO Co-op Class B investment shares in exchange for its proportionate interest in the ABCP LP. The shares are redeemable for an amount equal to the fair market value at the time of redemption only upon approval of the board of CUCO Co-op. The shares are transferable only upon approval of the board of CUCO Co-op. The shares are non-voting, non-par value, non-retractable and non-convertible. The shares have a discretionary dividend entitlement but no fixed dividend rights.

At December 31, 2017 a valuation was completed by CUCO Co-op on the underlying investments of the CUCO Co-op utilizing valuation techniques based on discounting the future cash flows. The valuation was based on conditions existing at the balance sheet date and is unaudited. As a result of this valuation and distributions during the year, the carrying value of the investment in the CUCO Co-op shares on the Credit Union's balance sheet was adjusted to \$21,436 (2016 - \$747,765). During the year the Credit Union received \$70,904 (2016 - \$113,795) from the CUCO Co-op which has been recorded as a return of capital. The Credit Union also received dividends in the amount of \$653,635 (2016 - \$Nil) which has been recorded in income.

At a special general meeting of the shareholders on September 27, 2017, the shareholders of CUCO Cooperative Association voted in favour to dissolve the company. The dissolution is expected to be finalized in 2018.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

6 Derivatives

The Credit Union has outstanding \$1,453,166 (2016 - \$856,885) in index-linked products to its members. The index-linked products are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of \$40,778 (2016 - \$29,729).

7 Member loans receivable

As at December 31	2017	2016
Residential mortgage loans	\$ 334,626,141	\$ 295,248,911
Personal loans	6,106,132	7,698,467
Commercial loans	25,300,104	29,469,650
	366,032,377	332,417,028
Add: Transaction costs	1,519,081	1,244,776
Allowance for impaired loans (note 8)	(1,364,513)	(1,246,851)
	\$ 366,186,945	\$ 332,414,953

Transaction costs represent the unamortized portion of fees paid to mortgage brokers. These costs are amortized to income over the term of the residential mortgage loans through reducing the effective yield.

Terms and conditions

Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years. Residential and commercial mortgage loans bear interest at fixed (not in advance) and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years based on a maximum amortization of twenty-five years. Line of credit loans bear interest at variable rates and are repayable at a minimum of interest only, not in advance, subject to annual review.

Commercial and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest installments over a maximum of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments.

All loans are open and, at the option of the borrower, may be repaid at any time without notice or penalty, with the exception of commercial and residential loans and mortgages with a term exceeding one year.

Average yields to maturity

Member loans bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

	Principal	Yield
2017		
Variable rate	\$ 89,343,698	4.07%
Fixed rate due less than one year	48,816,458	3.53%
Fixed rate due between one and five years	227,872,221	3.55%
	<u>\$ 366,032,377</u>	
2016		
Variable rate	\$ 100,593,185	3.89%
Fixed rate due less than one year	39,857,659	4.15%
Fixed rate due between one and five years	191,966,184	3.52%
	<u>\$ 332,417,028</u>	

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

7 Member loans receivable (continued)**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:

As at December 31	2017	2016
Unsecured loans	\$ 6,013,121	\$ 6,701,317
Residential mortgages insured - other	52,682,181	80,180,188
Residential mortgages insured by government	40,909,732	40,381,590

Fair value

The fair value of member loans at December 31, 2017 was \$360,875,000 (2016 - \$334,160,000).

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.

8 Allowance for impaired loans

The total allowance for impaired loans comprises the following:

As at December 31	2017	2016
Collective allowance	\$ 1,336,513	\$ 992,296
Individual specific allowance	28,000	254,555
	\$ 1,364,513	\$ 1,246,851

The activity in the individual specific allowance for impaired loans is as follows:

	2017			
	Mortgage Loans	Commercial Loans	Personal Loans	Total
Balance at January 1, 2017	\$ -	\$ 171,616	\$ 82,939	\$ 254,555
Recoveries on loans previously written off	-	97	21,372	21,469
Provision charged to net income	-	(171,713)	(22,503)	(194,216)
Loans written off	-	-	81,808	81,808
	-	-	(53,808)	(53,808)
Balance at December 31, 2017	\$ -	\$ -	\$ 28,000	\$ 28,000
Total impaired loans	\$ 4,095,585	\$ 479,750	\$ 88,434	\$ 4,663,769

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

8 Allowance for impaired loans (continued)

	2016			
	Mortgage Loans	Commercial Loans	Personal Loans	Total
Balance at January 1, 2016	\$ -	\$ 619,489	\$ 152,164	\$ 771,653
Recoveries on loans previously written off	-	1,605	43,726	45,331
Provision charged to net income	-	(328,588)	(69,747)	(398,335)
Loans written off	-	292,506 (120,890)	126,143 (43,204)	418,649 (164,094)
Balance at December 31, 2016	\$ -	\$ 171,616	\$ 82,939	\$ 254,555
Total impaired loans	\$ 2,310,885	\$ 336,767	\$ 163,988	\$ 2,811,640

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

As at December 31	2017		2016	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency:				
Less than 30 days	\$ 5,889,311	\$ 7,222	\$ 4,289,135	\$ 202,320
30 to 90 days	-	9,020	1,441,151	2,840
Over 90 days	579,009	11,758	313,758	49,395
Total loans in arrears	6,468,320	28,000	6,044,044	254,555
Total loans not in arrears	359,564,057	-	32,372,984	-
Total loans	\$366,032,377	\$ 28,000	\$ 38,417,028	\$ 254,555

Key assumptions in determining the allowance for impaired loans collective provision

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

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 allowance for impaired loans is calculated on specific accounts in accordance with the Deposit Insurance Corporation of Ontario directives. It is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount of the allowance for impaired loans.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

9 Capital assets

	Land	Building	Equipment and leaseholds	Parking area	Total
Cost					
Balance at January 1, 2016	\$ 266,132	\$ 7,249,956	\$ 4,291,392	\$ 120,797	\$ 11,928,277
Additions	-	327,977	89,093	197,157	614,227
Disposals	-	(54,599)	(2,879,635)	(120,797)	(3,055,031)
Balance on December 31, 2016	266,132	7,523,334	1,500,850	197,157	9,487,473
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance on December 31, 2017	\$ 266,132	\$ 7,523,334	\$ 1,500,850	\$ 197,157	\$ 9,487,473
Accumulated depreciation					
Balance at January 1, 2016	\$ -	\$ 3,493,552	\$ 3,958,906	\$ 120,797	\$ 7,573,255
Depreciation expense	-	333,081	139,977	6,728	479,786
Disposals	-	(43,934)	(2,879,635)	(120,797)	(3,044,366)
Balance on December 31, 2016	-	3,782,699	1,219,248	6,728	5,008,675
Depreciation expense	-	344,236	143,700	21,285	509,221
Disposals	-	-	-	-	-
Balance on December 31, 2017	\$ -	\$ 4,126,935	\$ 1,362,948	\$ 28,013	\$ 5,517,896
Net book value					
December 31, 2016	266,132	3,740,635	281,602	190,429	4,478,798
December 31, 2017	\$ 266,132	\$ 3,396,399	\$ 137,902	\$ 169,144	\$ 3,969,577

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

10 Employee pension plan

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union, as the legal administrator of the Plan and has retained the services of CUMIS as a third party administrator.

Assets of the pension fund are held by CUMIS and invested in a Deposit Administration Fund, operated by CUMIS, and in a balanced fund, operated by McLean Budden and Philips Hagar North.

The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

As outlined in note 2, the defined benefit plan was frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015. Contributions by the Credit Union to the defined contribution plan during the year were \$183,835 (2016 - \$194,185).

An actuarial valuation was performed as at March 1, 2015. The changes in the defined benefit plan during the year are as follows:

(a) Elements of the defined benefit pension expense recognized in the year:

	2017	2016
Expected return on assets	\$ (561,900)	\$ (597,300)
Interest cost on accrued pension obligations	549,900	596,700
Settlement loss	279,100	507,800
	\$ 267,100	\$ 507,200

(b) Plan assets:

	2017	2016
Fair value, beginning of the year	\$ 14,734,600	\$ 15,130,800
Employer contributions	1,076,300	1,288,400
Benefits paid	(1,728,600)	(2,415,500)
Expected return on assets	561,900	597,300
Actuarial gain	400,200	133,600
Fair value, end of the year	\$ 15,044,400	\$ 14,734,600

The fair value of plan assets as at December 31 is categorized by type of asset as follows:

	2017	2016
Equities	42%	40%
Fixed term	55%	58%
Short term	3%	2%

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

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10 Employee pension plan (continued)

(c) Accrued pension obligations:

	2017	2016
Obligation, beginning of year	\$ 14,824,200	\$ 15,507,200
Settlement loss	279,100	507,800
Interest cost on plan obligation	549,900	596,700
Benefits paid	(1,728,600)	(2,415,500)
Actuarial (gain) loss	860,800	628,000
Obligation, end of year	\$ 14,785,400	\$ 14,824,200

(d) Reconciliation of funded status to the amount recorded in the statement of financial position:

	2017	2016
Fair value of plan assets	\$ 15,044,400	\$ 14,734,600
Accrued pension obligation	(14,785,400)	(14,824,200)
Plan surplus (deficit)	\$ 259,000	\$ (89,600)

(e) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2017	2016
Discount rate	3.50%	3.90%
Expected return on plan assets	3.50%	3.90%
Expected rate of compensation increases	2.00%	NA

11 Post-employment benefits - non-pension

The changes in the defined benefit plan during the year are as follows:

(a) Elements of the post-retirement non-pension expense recognized in the year:

	2017	2016
Current service cost	\$ 56,500	\$ 54,700
Interest cost on accrued obligations	184,000	178,800
	\$ 240,500	\$ 233,500

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

11 Post-employment benefits - non-pension (continued)

(b) Accrued benefit obligations:

	2017	2016
Obligation, beginning of year	\$ 4,751,700	\$ 4,384,000
Current service cost	56,500	54,700
Retiree premiums	38,300	37,700
Interest cost on plan obligation	184,000	178,800
Benefits paid	(219,700)	(194,900)
Actuarial (gain) loss	354,500	291,400
Obligation, end of year	\$ 5,165,300	\$ 4,751,700

(c) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2017	2016
Discount rate	3.50%	3.90%

12 Members' accounts and deposits

As at December 31	2017	2016
Chequing accounts	\$ 17,964,721	\$ 16,899,573
Demand deposits	99,214,459	90,516,640
Term deposits	110,787,622	128,792,849
Registered savings plans	44,546,040	48,285,378
Registered income funds	23,850,336	23,119,746
Tax free savings accounts	37,260,870	31,274,339
	333,624,048	338,888,525
Less: Transaction costs	(183,442)	(125,719)
	\$ 333,440,606	\$ 338,762,806

Transaction costs represent the unamortized portion of fees paid to deposit brokers. These costs are amortized to expense over the term of the deposit through increasing the effective rate paid on the deposit.

Interest expense on members' accounts and deposits are summarized as follows:

For the year ending December 31	2017	2016
Chequing accounts	\$ 25,416	\$ 24,021
Demand deposits	225,249	198,820
Term deposits	2,572,732	2,779,897
Registered savings plans	610,737	653,924
Registered income funds	352,206	343,445
Tax free savings accounts	579,073	490,349
	\$ 4,365,413	\$ 4,490,456

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

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12 Members' accounts and deposits (continued)

Terms and conditions

Chequing accounts and demand savings accounts are due on demand and bear interest at variable rates which depend upon the type of account and the balance maintained.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity.

Registered plans and tax free savings accounts consist of fixed rate deposits and variable rate deposits.

Average yields to maturity

Members' accounts and deposits bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

	Principal	Yield
2017		
Variable rate	\$ 159,043,257	0.51%
Fixed rate due less than one year	112,039,487	1.59%
Fixed rate due between one and five years	<u>62,541,304</u>	2.18%
	<u>\$ 333,624,048</u>	
2016		
Variable rate	\$ 131,046,232	0.45%
Fixed rate due less than one year	169,413,445	1.61%
Fixed rate due between one and five years	<u>38,428,848</u>	1.89%
	<u>\$ 338,888,525</u>	

Fair value

The fair value of member deposits at December 31, 2017 was \$335,672,000 (2016 - \$337,886,000).

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

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

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13 Mortgage securitization liability

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. These arrangements allow the Credit Union to transfer fully insured residential mortgages to unrelated third parties, generally through the transfer of these assets to multi-seller conduits which issue securities to investors.

These transactions are derecognized from the statement of financial position when the transaction meets the derecognition criteria described in note 2. In instances where the Credit Union's mortgage securitizations do not result in a transfer of contractual cash flows of the mortgages or the assumption of an obligation to pay the cash flows of the mortgages to a transferee, the Credit Union has not derecognized the transferred asset and has instead recorded a secured borrowing with respect to any consideration received.

During the year, the Credit Union had outstanding mortgage securitization liabilities pertaining to the use of a securitization vehicle to access liquidity. Under the securitization vehicle, the Credit Union packages insured mortgage loan receivables into National Housing Act mortgage backed securities ("MBS") and in turn sells the MBS to Canada Housing Trust ("CHT") and Central 1 directly through the Canada Mortgage Bond Program ("CMB Program"). CHT is financing through the issuance of government guarantee mortgage bonds, which are sold to third party investors. Proceeds of the issuances are used by CHT to purchase the government guaranteed MBS from approved issuers.

As all mortgages securitized by the Credit Union are required to be fully insured prior to sale, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. As the Credit Union remains exposed to interest rate risk, timely payment and prepayment risks associated with the underlying assets, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for a secured financing transactions in the Credit Union's statement of financial position and statement of comprehensive income.

Costs incurred in the establishment of a securitization issue are amortized over the life of the issue as part of mortgage securitization cost of funds included within interest expense - other.

The following summarizes the carrying value of assets of the Credit Union that have been securitized and sold by the Credit Union to third parties as well as the carrying value of the corresponding mortgage securitization liability:

Year-ended December 31	2017	2016
Securitized mortgages transferred via CMB Program (included in member loans)	\$ 55,681,122	\$ -
Less: principal repayments	(3,612,795)	-
Total designated assets	52,068,327	-
Mortgage securitization liabilities	(52,068,327)	-
Net amount	\$ -	\$ -

The fair value of the securitized mortgages and the mortgage securitization liabilities as at December 31, 2017 was \$49,103,929 and \$51,681,649 (2016 - NA), respectively.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

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14 Members' share capital

The authorized share capital of the Credit Union consists of the following:

- (i) an unlimited number of Class A Patronage Shares;
- (ii) an unlimited number of Class B special shares, issuable in series ("Class B Life Shares");
- (iii) an unlimited number of Class C special shares, issuable in series ("Class C Investment Shares");
- (iv) an unlimited number of Class D special shares, issuable in series ("Class D Foundation Shares"); and
- (v) an unlimited number of Membership Shares.

For payment of dividend or in the event of the liquidation, dissolution or winding up of the Credit Union the shares rank in terms of priority as follows:

Class D Foundation Shares
Class C Investment Shares
Class B Life Shares
Class A Patronage Shares
Membership Shares

The issued share capital consists of the following:

As at December 31	2017		2016	
	Equity	Liability	Equity	Liability
Class A Patronage shares	\$ -	\$ 2,863,125	\$ -	\$ 3,037,718
Class C Investment shares	7,311,354	-	7,230,855	-
Membership shares	-	120,103	-	128,136
	\$ 7,311,354	\$ 2,983,228	\$ 7,230,855	\$ 3,165,854

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

Significant terms of the issued share capital is as follows:

(a) Class A Patronage Shares

Class A Patronage Shares result from patronage rebates or dividends. Class A Patronage Shares rank in priority to Membership Shares and form part of the Credit Union's permanent share capital. Pursuant to the articles of the Credit Union, Class A Patronage Shares are redeemable upon termination of membership in the Credit Union, or at any time after the death of a shareholder. Dividends are non cumulative.

The Credit Unions and Caisses Populaires Act, 1994 permits the redemption of patronage shares of the Credit Union if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption. Redemptions in any fiscal year may not exceed 10% of the total Class A Patronage Shares outstanding at the beginning of that fiscal year.

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14 Members' share capital (continued)

(b) Class C Special Shares

The holders of Class C Special Shares are entitled to receive dividends, when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act, which are described in note 15.

The Series 96 Class C Special Shares are redeemable after five years from the date of issuance or at any time after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Series 96 Class C Special Shares outstanding at the beginning of that fiscal year.

The Credit Union has the option to purchase for cancellation all or any part of the outstanding Series 96 Class C Special Shares at any time after the expiry of five years from the issue date.

(c) Membership Shares

Each member is required as a condition of membership to hold 2 (2016 - 2) Membership Shares, which are issued at \$5 per share.

The Credit Unions' and Caisses Populaires Act, 1994 permits the redemption of Membership Shares if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption.

Distributions to members for each class of shares is as follows:

	2017		2016	
	Net income	Equity	Net income	Equity
Class A Patronage Shares	\$ 30,983	\$ -	\$ 30,554	\$ -
Class C Investment Shares	-	174,840	-	166,617
Less: related income taxes	-	(27,100)	-	(25,826)
	\$ 30,983	\$ 147,740	\$ 30,554	\$ 140,791

15 Capital management

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

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

Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to each asset class, operational and interest rate risk criteria. The prescribed risk weightings are dependant on the degree of inherent risk in the asset.

As at December 31, 2017, the Credit Union met the capital requirements of the Act which require a calculated members' capital ratio of 4% and a risk weighted asset ratio of 8%.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

15 Capital management (continued)

Regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2017	2016
Tier 1 Capital		
Class A Patronage shares	\$ 2,863,125	\$ 3,037,718
Class B Investment shares	7,311,354	7,230,855
Less: Redeemable Class B Investment shares	(731,135)	(723,086)
Membership shares	120,103	128,136
Retained earnings	15,172,882	12,796,438
less: Pension asset	(259,000)	-
	24,477,329	22,470,061
Tier 2 Capital		
Redeemable portion of Class B Investment shares	731,135	723,086
General provisions	1,336,513	992,296
Accumulated other comprehensive income	(4,489,587)	(3,308,158)
	(2,421,939)	(1,592,776)
Total Regulatory Capital	\$ 22,055,390	\$ 20,877,285
% of total assets	5.30%	5.60%
% of total risk weighted capital	15.03%	15.94%
The Act also requires that the Credit Union maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs. Assets qualifying for liquidity comprise:		
	2017	2016
Cash	\$ 12,248,304	\$ 5,162,538
Discount deposit liquidity reserve	11,524,788	24,308,100
Floating rate liquidity deposit	14,093,290	-
USD discount deposit	1,254,500	-
	\$ 39,120,882	\$ 29,470,638
% of member deposits	11.73%	8.57%

16 Commitments

(a) Credit facilities

The Credit Union maintains line of credit and overdraft facilities totaling \$1,000,000 CDN (2016 - \$1,000,000 CDN) which bears various interest rates based on a percentage of the Credit Union's assets and \$200,000 US (2016 - \$200,000 US) which bears interest at the U.S. Base Rate, currently 4.25% (2016 - 4.00%). The Credit Union also has available a demand loan facility for \$16,000,000 CDN (2016 - \$16,000,000), and a capital markets line totaling \$nil (2016 - \$1,200,000 CDN) for total facilities of \$17,200,000 (2016 - \$18,400,000) at Central 1.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

16 Commitments (continued)

(a) Credit facilities (continued)

If the balance outstanding on the line of credit and overdraft facility is less than 0.5% of the Credit Union's total assets, interest is calculated at the Bank of Canada's overnight bank rate plus 75 basis points. The overnight bank rate as at December 31, 2017 was 1.00% (2016 - 0.5%). For outstanding balances greater than 0.5% of the Credit Union's total assets, interest is calculated at the Bank of Canada prime rate of 2.95% (2016 - 2.7%).

If the balance outstanding on the CDN and USD line of credit and overdraft facility exceeds the authorized limit, interest on the CDN facility is calculated at the Central 1 prime rate plus 2.00% and interest on the U.S. facility is calculated at U.S. Base Rate plus 4.00%.

The facilities are renewable annually and are secured by an assignment of book debts and a General Security Agreement and is renewable annually.

As at December 31, 2017 the Credit Union has not drawn on these facilities (2016 - \$5,000,000 utilized).

(b) Operating lease

The Credit Union has extended the operating lease for the rental of premises for the Bowmanville branch until June 30, 2020, with an option to renew for a further five years. The minimum required lease payments excluding HST and TMI are as follows:

2018	\$	63,096
2019		64,468
2020		65,839
2021		67,211
2022		68,583

(c) Member loans

The Credit Union has the following commitments to its members as at December 31, 2017 on account of unadvanced loans, unused lines of credit, and unadvanced letters of credit:

	2017	2016
Unadvanced commercial mortgages	\$ 1,832,331	\$ 2,605,825
Unadvanced residential mortgages	-	1,862,793
Unused lines of credit	54,324,358	55,249,118
Letters of credit	97,819	255,971
	\$ 56,254,508	\$ 59,973,707

When the loans are advanced, they are subject to the same terms and conditions as described in Note 7.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

17 Related party transactions

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

	2017	2016
Compensation:		
Salaries and other short-term employee benefits	\$ 337,796	\$ 332,483
Director remuneration	42,555	46,930
	\$ 380,351	\$ 379,413

In accordance with the requirements of the Act and accompanying Regulations, no specified officers or employees received total remuneration in excess of \$150,000.

	2017	2016
Loans to key management personnel:		
Aggregate value of loans advanced	\$ 1,607,668	\$ 650,137
Interest received on loans advanced	37,470	36,667
Total value of lines of credit advanced	4,142	1,660
Interest received on lines of credit advanced	1,111	3
Unused value of lines of credit	186,500	80,840
Deposits from key management personnel:		
Aggregate value of term and savings deposits	\$ 274,806	\$ 196,926
Total interest paid on term and savings deposits	247	2,157

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions which apply to members for each class of loan.

All loans conform to the Credit Union's policies with respect to term, interest rates and limits and have been approved by the Board of Directors. None of the loans to restricted parties were impaired as at December 31, 2017 and accordingly, there is no allowance for impaired loans required.

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

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

18 Income taxes

The provision for income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2017	2016
Net income before income taxes	\$ 3,016,235	\$ 3,190,790
Statutory income tax rate	26.50%	26.50%
Expected income tax provision	799,302	845,559
Decrease in taxes resulting from:		
Small business and credit union deduction	(184,428)	(345,476)
Other	(122,823)	(13,049)
Provision for income taxes	\$ 492,051	\$ 487,034
Comprised of:		
Current provision	\$ 372,114	\$ 463,910
Deferred provision	119,937	23,124
	\$ 492,051	\$ 487,034

The movement in 2017 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2017	Recognize in Net Income	Recognize in OCI	Closing Balance at December 31, 2017
2017				
Deferred tax assets				
Property, plant and equipment	\$ 90,434	\$ 49,704	\$ -	\$ 140,138
Allowance for impaired loans	269,705	71,820	-	341,525
Step deposits	43,046	(4,355)	-	38,691
Employee future benefits	1,318,442	(237,106)	203,492	1,284,828
Deferred tax asset	\$ 1,721,627	\$ (119,937)	\$ 203,492	\$ 1,805,182
Deferred tax liabilities				
Unrealized gain on CUCO Co-op Class B investment shares	\$ 100,855	\$ -	\$ (100,855)	\$ -
2017 net deferred tax asset	\$ 1,620,772	\$ (119,937)	\$ 304,347	\$ 1,805,182

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

18 Income taxes (continued)

The movement in 2016 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2016	Recognize in Net Income	Recognize in OCI	Closing Balance at December 31, 2016
2016				
Deferred tax assets				
Property, plant and equipment	\$ 53,296	\$ 37,138	\$ -	\$ 90,434
Allowance for impaired loans	138,030	131,675	-	269,705
Step deposits	44,294	(1,248)	-	43,046
Employee future benefits	1,310,398	(200,203)	208,247	1,318,442
Deferred tax asset	\$ 1,546,018	\$ (32,638)	\$ 208,247	\$ 1,721,627
Deferred tax liabilities				
Unrealized gain on CUCO Co-op Class B investments shares	\$ 110,369	\$ (9,514)	\$ -	\$ 100,855
2016 net deferred tax asset	\$ 1,435,649	\$ (23,124)	\$ 208,247	\$ 1,620,772

19 Other income

	2017	2016
Commissions and fees	\$ 1,418,948	\$ 3,731,577
Dividend on CUCO Class B investment shares	685,975	-
Mortgage discharge penalties	501,757	315,484
Foreign exchange gains	58,424	28,266
Safety deposit box rental	20,160	22,241
CUMIS profit sharing	-	20,342
	\$ 2,685,264	\$ 4,117,910

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

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20 Financial instrument classification and fair value

The following table represents the carrying amount by classification.

	Held for trading	Available-for-sale	Held to maturity	Loans and receivables	Other liabilities
December 31, 2017					
Cash	\$ 12,248,304	\$ -	\$ -	\$ -	\$ -
Investments	-	3,107,908	-	26,872,578	-
Loans to members	-	-	-	366,186,945	-
Accrued interest receivable	-	-	-	498,712	-
Derivative financial instruments	40,778	-	-	-	-
Members' deposits	-	-	-	-	(333,440,606)
Accounts payable and accrued liabilities	-	-	-	-	(3,096,727)
Accrued interest payable	-	-	-	-	(1,888,997)
Derivative financial instruments	-	-	-	-	(40,778)
Mortgage securitization liabilities	-	-	-	-	(52,068,327)
Member's share capital	-	-	-	-	(10,294,582)
	\$ 12,289,082	\$ 3,107,908	\$ -	\$ 393,558,235	\$(400,830,017)
December 31, 2016					
Cash	\$ 5,162,538	\$ -	\$ -	\$ -	\$ -
Investments	-	3,963,433	-	24,308,100	-
Loans to members	-	-	-	332,414,953	-
Accrued interest receivable	-	-	-	453,583	-
Derivative financial instruments	29,729	-	-	-	-
Members' deposits	-	-	-	-	(338,762,806)
Accounts payable and accrued liabilities	-	-	-	-	(2,640,916)
Accrued interest payable	-	-	-	-	(1,855,927)
Derivative financial instruments	-	-	-	-	(29,729)
Demand loan payable	-	-	-	-	(5,000,000)
Member's share capital	-	-	-	-	(10,396,709)
	\$ 5,192,267	\$ 3,963,433	\$ -	\$ 357,176,636	\$(358,686,087)

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

20 Financial instrument classification and fair value (continued)

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. 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.

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Central 1 Credit Union shares	\$ -	\$ 2,679,758	\$ -	\$ 2,679,758
Co-operative Trust shares	-	6,714	-	6,714
CUCO Co-op Class B investment shares	-	-	21,436	21,436
	\$ -	\$ 2,686,472	\$ 21,436	\$ 2,707,908
December 31, 2016				
Central 1 Credit Union shares	\$ -	\$ 2,808,954	\$ -	\$ 2,808,954
Co-operative Trust shares	-	6,714	-	6,714
CUCO Co-op Class B investment shares	-	-	747,765	747,765
	\$ -	\$ 2,815,668	\$ 747,765	\$ 3,563,433

There were no transfers between Level 1 and level 2 for the years ended December 31, 2017 and 2016. The following table presents a reconciliation of level 3 investments:

	2017	2016
Balance, beginning of the year	\$ 747,765	\$ 845,097
Income recognized through net income	(655,425)	-
Return of capital distributions	(70,904)	(113,795)
Unrealized gains recognized in other comprehensive income	-	16,463
Balance, end of the year	\$ 21,436	\$ 747,765

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

21 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, while 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 Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

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

Risk measurement

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

Objectives, policies and procedures

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

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

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

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

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

There has been an increase to credit risk in the current year resulting from the growth in the member loan portfolio. There have been no significant changes from the previous year in the exposure to risk relating to policies, procedures and methods used to measure the risk.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

21 Financial instrument risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

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

Objectives, policies and procedures

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

Provisions of The Credit Unions and Caisses Populaires Act, 1994 require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

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

The 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.

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.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

21 Financial instrument risk management (continued)

Market risk

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

Interest rate risk

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

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

Risk measurement

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

Objectives, policies and procedures

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

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of \$587,000 (2016 - decrease of \$23,450) while a decrease in interest rates of 1% could result in an decrease to net income of \$335,000 (2016 - increase of \$791,970).

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.

Risk measurement

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

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$500,000 in U.S. funds.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Notes to Financial Statements

December 31, 2017

21 Financial instrument risk management (continued)

Market risk (continued)

Currency risk (continued)

The Credit Union has the following balances denominated in U.S. dollars:

As at December 31	2017	2016
Cash on hand and on deposit	\$ 502,137	\$ 1,121,400
USD discount deposit	1,000,000	-
Member accounts and deposits	(1,473,335)	(1,447,757)
Net exposure	\$ 28,802	\$ (326,357)

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

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

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Union's portfolio does not include significant equity holdings and is therefore not subject to significant equity risk.