First Credit Union
Consolidated Financial Statements
December 31, 2018

Contents

Management's Responsibility

To the Members of First Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 19, 2019

[Signed]	*[Signed]*
President & CEO	CFO

Independent Auditor's Report

To the Members of First Credit Union:

Opinion

We have audited the consolidated financial statements of First Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of First Credit Union for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 27, 2018.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, British Columbia

MNP LLP

March 19, 2019

Chartered Professional Accountants

First Credit Union
Consolidated Statement of Financial Position
As at December 31, 2018

	2018	*2017*
Assets		
Cash and interest-bearing deposits *(Note 5)*	**37,647,543**	30,418,515
Investments *(Note 6)*	**6,910,281**	5,517,348
Members' loans receivable and accrued interest *(Note 7), (Note 24)*	**378,096,897**	329,094,825
Income taxes recoverable	**-**	116,696
Property, plant and equipment *(Note 8)*	**4,500,041**	4,802,822
Intangible assets *(Note 9)*	**608,314**	518,733
Other assets *(Note 10)*	**5,715,294**	5,400,910
Deferred tax assets *(Note 16)*	**123,147**	-
Derivative assets held for risk management *(Note 11)*	**535,045**	680,842
Investment in associates *(Note 12)*	**8,271,774**	9,186,675
	442,408,336	385,737,366
Liabilities		
Member deposits and accrued interest *(Note 13)*	**369,040,289**	320,240,096
Income taxes payable	**225,255**	-
Trade payables and accrued liabilities	**1,525,380**	1,419,279
Secured borrowings *(Note 15)*	**39,323,621**	31,648,415
Finance lease payable	**-**	4,311
Deferred tax liabilities *(Note 16)*	**-**	153,135
Patronage dividends payable	**360,000**	393,870
	410,474,547	353,859,109

Commitments and contingencies *(Note 18)*

Members' equity		
Member shares *(Note 17)*	**2,441,242**	2,914,290
Retained earnings	**27,896,951**	27,378,164
Contributed surplus *(Note 19)*	**1,595,596**	1,585,803
	31,933,789	31,878,257
	442,408,336	385,737,366

Approved on behalf of the Board

[Signed]
Director

[Signed]
Director

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Income
For the year ended December 31, 2018

	2018	*2017*
Interest income		
Member loans	**12,323,027**	10,389,802
Investments	**800,505**	380,492
	13,123,532	10,770,294
Interest expense		
Member deposits	**4,142,992**	3,076,074
Borrowings	**651,995**	323,898
	4,794,987	3,399,972
Net interest income	**8,328,545**	7,370,322
Provision for credit losses *(Note 7), (Note 24)*	**80,141**	116,221
Net interest income after provision for credit losses	**8,248,404**	7,254,101
Other income *(Note 20)*	**3,293,795**	3,689,589
Net interest and other income, after provision	**11,542,199**	10,943,690
Operating expenses		
Salaries and employee benefits	**5,707,385**	5,586,277
Dues and assessments	**657,148**	561,869
Office	**631,799**	646,750
Clearing and processing	**409,454**	380,571
Professional fees	**366,514**	379,123
Advertising and promotion	**438,261**	271,447
Occupancy	**227,831**	221,216
Travel and entertainment	**171,003**	154,361
Loan fees	**164,570**	160,186
General and administrative	**83,279**	60,647
Insurance	**61,903**	80,747
Wealth management	**20,568**	15,589
Depreciation	**660,760**	594,656
	9,600,475	9,113,439
Net income before other items	**1,941,724**	1,830,251
Distribution to members *(Note 17)*	**385,453**	321,392
	1,556,271	1,508,859
Other items		
Gain on investments	**49,383**	589,423
Loss from investment in associate *(Note 12)*	**(806,175)**	(737,800)
	(756,792)	(148,377)
Net income before income taxes	**799,479**	1,360,482
Income taxes *(Note 16)*		
Current	**499,812**	282,219
Deferred	**(259,231)**	27,443
	240,581	309,662
Net income	**558,898**	1,050,820

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2018

	2018	*2017*
Net income	**558,898**	1,050,820
Other comprehensive income	**-**	-
Total comprehensive income for the year	**558,898**	1,050,820

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2018

	Member shares	*Contributed surplus*	*Retained earnings*	*Total equity*
Balance December 31, 2016	**4,431,813**	**1,598,495**	**26,361,550**	**32,391,858**
Comprehensive income for the year	**-**	**-**	**1,050,820**	**1,050,820**
Redemption of shares	**(1,553,023)**	**-**	**-**	**(1,553,023)**
Issuance of shares	**35,500**	**-**	**-**	**35,500**
Dividends on equity shares *(Note 17)*	**-**	**-**	**(41,463)**	**(41,463)**
Deferred income tax	**-**	**(5,435)**	**-**	**(5,435)**
Amortization transfer of contributed surplus	**-**	**(7,257)**	**7,257**	**-**
Balance December 31, 2017	**2,914,290**	**1,585,803**	**27,378,164**	**31,878,257**
Comprehensive income for the year	**-**	**-**	**558,898**	**558,898**
Redemption of shares	**(508,686)**	**-**	**-**	**(508,686)**
Issuance of shares	**35,638**	**-**	**-**	**35,638**
Dividends on equity shares *(Note 17)*	**-**	**-**	**(47,369)**	**(47,369)**
Deferred income tax	**-**	**17,051**	**-**	**17,051**
Amortization transfer of contributed surplus	**-**	**(7,258)**	**7,258**	**-**
Balance December 31, 2018	**2,441,242**	**1,595,596**	**27,896,951**	**31,933,789**

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2018

	2018	*2017*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	**12,238,727**	10,367,624
Interest received from investments and derivatives	**720,887**	445,747
Cash received on other income	**3,092,702**	3,529,639
Cash paid to suppliers and employees	**(7,115,594)**	(8,082,771)
Interest paid of members' deposits	**(3,801,430)**	(3,144,232)
Interest paid on borrowings	**(651,995)**	(323,898)
Patronage distributions to members	**(466,692)**	(410,266)
Income taxes paid	**(284,187)**	(294,414)
	3,732,418	2,087,429
Financing activities		
Proceeds from borrowings	**7,675,206**	10,495,388
Repayment of obligations under finance lease	**(4,311)**	(6,121)
Increase in member deposits	**48,542,993**	12,759,008
Reduction of equity shares	**(473,051)**	(1,517,523)
Advances from (to) associate	**108,727**	(94,294)
Dividends on equity shares	**47,369**	41,464
	55,896,933	21,677,922
Investing activities		
Increase in member loans	**(50,870,871)**	(37,737,970)
Purchase of plant, equipment and intangibles	**(447,561)**	(732,939)
Proceeds on sale of investments	**-**	39,100
Purchase of investments	**(1,081,891)**	(4,059,411)
	(52,400,323)	(42,491,220)
Increase (decrease) in cash and interest-bearing deposits	**7,229,028**	(18,725,869)
Cash and interest-bearing deposits, beginning of year	**30,418,515**	49,144,384
Cash and interest-bearing deposits, end of year	**37,647,543**	30,418,515

1. Reporting entity information

Entity information

First Credit Union (the “Credit Union”) is incorporated under the laws of British Columbia, is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members in the Sunshine Coast region and provides financial services through 4 branches, telephone and on-line banking. The address of the Credit Union's registered office is 4448 A Marine Avenue, Powell River, British Coumbia.

Basis of presentation

These consolidated financial statements include the accounts of First Wealth Management Ltd. ("FWM") and First Group of Companies Realty Holdings Ltd. ("FCGRH") which are wholly-owned subsidiaries of First Credit Union. All inter-entity balances and transactions are eliminated on consolidation.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2018.

These financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on March 19, 2019.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted the following new and/or revised standards, effective January 1, 2018. As indicated, adoption of the following new and/or revised standards, had a significant impact on the Credit Union’s consolidated financial statements.

IFRS 9 Financial instruments

Effective January 1, 2018 (hereafter referred to as the “initial date of application”), the Credit Union adopted IFRS 9 as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 *Financial instruments: recognition and measurement*. The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

The key changes to the Credit Union’s accounting policies resulting from adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39. However, under IAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, the amount of change in fair value attributable to the Credit Union's own credit risk is generally required to be presented in other comprehensive income.

Impairment of financial assets

IFRS 9 replaces the methodology under IAS 39 and IAS 37 *Provisions, contingent liabilities and contingent assets* of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

Transition

In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings and reserves as at January 1, 2018. Additional transitional provisions applied are described below.

Classification and measurement

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

Impairment

The credit risk at the date that a financial asset was initially recognized has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

For the purposes of this assessment, the Credit Union has assumed that for low credit risk financial assets, credit risk has not increased significantly since initial recognition.

Notwithstanding the above, the Credit Union has applied the rebuttable presumption that there has been a significant increase in credit risk if contractual payments on a financial asset are more than 30 days past due.

Initial application of IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Cash on hand and on deposit		FVTPL (designated)	FVTPL (mandatory)	**22,016,613**	**22,016,613**
Cash equivalents		Loans and receivables	Amortized cost	**12,401,902**	**12,401,902**
Investments - equity shares	1	Available-for-sale	FVTPL (mandatory)	**1,517,348**	**1,517,348**
Members' loans receivable	2	Loans and receivables	Amortized cost	**332,875,915**	**332,875,915**
Other assets		Loans and receivables	Amortized cost	**1,023,673**	**1,023,673**
Derivative assets held for for risk management		FVTPL (mandatory)	FVTPL (mandatory)	**680,842**	**680,842**
Total financial assets				**370,516,293**	**370,516,293**
Financial liabilities					
Member deposits and accrued interest		Amortized cost	Amortized cost	**320,240,096**	**320,240,096**
Trade payables and accrued liabilities		Amortized cost	Amortized cost	**1,419,279**	**1,417,279**
Securitization debt		Amortized cost	Amortized cost	**31,648,415**	**31,648,415**
Finance lease payable		Amortized cost	Amortized cost	**4,311**	**4,311**
Total financial liabilities				**353,312,101**	**353,310,101**

Application of the accounting policies adopted on the date of initial application of IFRS 9 resulted in the reclassifications as set out in the table above and explained below:

Sub-note 1 - Investments in equity investments that do not have a quoted market price in an active market, including Central 1 shares, classified as available-for-sale and therefore measured at FVOCI under IAS 39, were reclassified as FVTPL. Reclassification did not result in any changes in measurement of the carrying amounts.

Sub-note 2 – Members' loans receivable and accrued interest were classified at amortized cost under IAS 39 prior to the date of initial application, and remain at amortized cost beginning on the date of initial application of IFRS 9. The original carrying amount did not change. The provision for loan impairment, as measured under the impairment requirements of IAS 39, attributable to financial assets previously categorized as loans and receivables and not measured at amortized cost as at December 31, 2017 was $534,652. This loss allowance remained at $534,652 upon transition to the impairment requirements of IFRS 9 on the date of initial application.

Any reclassification did not result in any change in measurement of their carrying amounts.

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 15 *Revenue from contracts with customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. The comparative information contained within these consolidated financial statements has not been restated and continues to be reported under previous revenue standards.

The application of the standard has resulted in a change in the Credit Union's accounting policy for revenue recognition.

Initial application of IFRS 15

There was no impact on the financial statements from the retrospective application of IFRS 15 *Revenue from contracts with customers.*

3. Significant accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discuss below.

Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date

- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Vacancy rates

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income tax

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 asset or 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; however, the final outcome may result in a materially different outcome than the amount included in the tax assets or liabilities.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union’s financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

4. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union’s interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash and interest-bearing deposits

Cash on hand and on deposit and interest-bearing deposits are with original maturities of one year or less from the date of acquisition, and are subject to an insignificant risk of changes in their fair value.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Years
Buildings	5 - 40
Automated teller machines	5
Automotive	10
Computer equipment	3 - 5
Equipment	5 - 10
Furniture and fixtures	5 - 20
Leasehold improvements	Term of lease

The useful lives of items of property, plant and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets

Depreciation of limited life intangible assets is charged to earnings on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives for intangibles with finite lives are as follows:

Customer list	5 years
Computer software	3 - 5 years

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. The amortization period and amortization method for an intangible asset with a finite useful life reflects the pattern in which the asset's future economic benefits are expected to be consumed. Where the pattern cannot be reliably determined, the straight-line method is used. The amortization period and method is reviewed at least at each financial year end.

Investments in associates

The Credit Union's investment in its associate, CU Agencies Alliance Ltd. ("CUAAL"), is accounted for using the equity method. An assoicate is an entity in which the Credit Union has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Credit Union's share of net assets of the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Credit Union recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Credit Union and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Credit Union determines whether it is necessary to recognize an additional impairment loss on the Credit Union's investment in its associate. The Credit Union determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Credit Union calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in earnings.

Upon loss of significant influence over the associate, the Credit Union measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in earnings.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Trade payables and accrued liabilities

Trade payables and accrued liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Member deposits

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Securitization

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

The Credit Union's securitization activity primarily involves purchases of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's Consolidated Statement of Financial Position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's Consolidated Statement of Financial Position as secured borrowing.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Pensions and post retirement benefits

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services. The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

Income taxes

Current tax and deferred tax are recognized in earnings except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, members' loans receivable and accrued interest, Central 1 interest-bearing deposits and term deposits, and other receivables.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash on hand and on deposit and derivative assets held for risk management.

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Where the Credit Union uses a credit derivative with a matching referenced name and seniority to manage all or part of a credit exposure, it may, at any time, designate that financial instrument to be measured at fair value through profit or loss to the proportional extent that it is so managed. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are shares in Central 1 and CUPP Services Ltd.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and the significance and frequency of sales in prior period.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For members' loans receivable and accrued interest the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 24 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

The Credit Union engages in securitization transactions, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss. Such transactions include the sale of loan pools, referred to above in the securitization policy.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities and securitization debt.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Derivatives

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

Revenue recognition

The following describes the Credit Union’s principal activities from which it generates revenue.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Consideration is typically due when when the service has been rendered to the customer. The amount of revenue recognized on these transactions is based on the price specified in the contract.

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfil a contract with a customer as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2018 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

5. Cash and interest-bearing deposits

	2018	*2017*
Cash on hand and on deposit	**12,197,543**	18,016,613
Interest-bearing deposits	**25,450,000**	12,401,902
	37,647,543	30,418,515

6. Investments

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value disclosed in Note 24.

	2018	*2017*
Investments		
Measured at amortized cost		
Central 1 term deposits	**5,000,000**	4,000,000
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**1,726,095**	1,328,164
CUPP Services Ltd. shares	**142,787**	142,787
Other equity investments	**41,399**	46,397
	1,910,281	1,517,348
	6,910,281	5,517,348

7. Members' loans receivable and accrued interest

Principal and allowance by loan type:

					2017
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Residential mortgages	266,866,888	216,338	-	164,513	266,918,713
Commercial loans	33,361,338	-	-	235,706	33,125,632
Consumer loans	28,779,114	65,729	57,840	76,593	28,710,410
	329,007,340	282,067	57,840	476,812	328,754,755
Accrued interest	340,070	-	-	-	340,070
Total	329,347,410	282,067	57,840	476,812	**329,094,825**

The allowance for loan impairment changed as follows:

	2017
Balance, beginning of year	560,798
Provision for credit losses	116,221
Subtotal	677,019
Less: accounts written off, net of recoveries	142,367
Balance, end of year	534,652

For current year information on members' loans receivable and accrued interest and loan allowance see Note 24.

8. Property, plant and equipment

	Land	*Buildings*	*Leasehold improvements*	*Computer equipment*	*Equipment*	*Furniture and fixtures*	*Automotive*	*Automated teller machines*	*Total*
Cost									
Balance at December 31, 2016	**1,068,037**	**5,004,413**	**145,022**	**777,255**	**175,890**	**935,892**	**103,563**	**149,947**	**8,360,019**
Additions	**3,093**	**120,563**	**7,390**	**255,793**	**4,991**	**48,760**	**8,887**	**7,860**	**457,337**
Balance at December 31, 2017	**1,071,130**	**5,124,976**	**152,412**	**1,033,048**	**180,881**	**984,652**	**112,450**	**157,807**	**8,817,356**
Additions	**-**	**87,266**	**22,349**	**36,012**	**-**	**29,197**	**-**	**-**	**174,824**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2018	**1,071,130**	**5,212,242**	**174,761**	**1,069,060**	**180,881**	**1,013,849**	**112,450**	**157,807**	**8,992,180**
Depreciation									
Balance at December 31, 2016	**-**	**1,994,121**	**33,741**	**538,908**	**109,361**	**747,201**	**34,264**	**124,316**	**3,581,912**
Depreciation	**-**	**184,070**	**14,871**	**150,205**	**19,805**	**36,297**	**7,739**	**19,635**	**432,622**
Balance at December 31, 2017	**-**	**2,178,191**	**48,612**	**689,113**	**129,166**	**783,498**	**42,003**	**143,951**	**4,014,534**
Depreciation	**-**	**202,318**	**18,294**	**185,722**	**16,676**	**33,944**	**16,366**	**4,285**	**477,605**
Balance at December 31, 2018	**-**	**2,380,509**	**66,906**	**874,835**	**145,842**	**817,442**	**58,369**	**148,236**	**4,492,139**
Net book value									
At December 31, 2017	1,071,130	2,946,785	103,800	343,935	51,715	201,154	70,447	13,856	4,802,822
At December 31, 2018	**1,071,130**	**2,831,733**	**107,855**	**194,225**	**35,039**	**196,407**	**54,081**	**9,571**	**4,500,041**

9. Intangible assets

	Customer list	Computer software	Total
Cost			
Balance at December 31, 2016	**70,101**	**1,192,466**	**1,262,567**
Additions	**-**	**275,603**	**275,603**
Balance at December 31, 2017	**70,101**	**1,468,069**	**1,538,170**
Additions	**-**	**272,736**	**272,736**
Balance at December 31, 2018	**70,101**	**1,740,805**	**1,810,906**
Amortization and impairment losses			
Balance at December 31, 2016	**17,525**	**839,878**	**857,403**
Amortization	**17,525**	**144,509**	**162,034**
Balance at December 31, 2017	**35,050**	**984,387**	**1,019,437**
Amortization	**17,526**	**165,629**	**183,155**
Balance at December 31, 2018	**52,576**	**1,150,016**	**1,202,592**
Net book value			
At December 31, 2017	35,051	483,682	518,733
At December 31, 2018	**17,525**	**590,789**	**608,314**

10. Other assets

	2018	2017
Commission and other receivables	**5,045,441**	4,757,925
Prepaid expenses and deposits	**543,397**	596,147
Interest and dividends receivable	**126,456**	46,838
	5,715,294	5,400,910

11. Derivative financial instruments and hedging activities

The Credit Union enters into derivative financial instruments for risk management purposes. Derivative financial instruments used by the Credit Union are interest rate swaps, which are used to hedge the Credit Union's exposure to interest rate risk.

The notional amounts of these derivative financial instruments are not recorded in the financial statements. Derivatives are recorded at fair value on the statement of financial position. The fair value of the derivative financial instrument assets at December 31, 2018 was $535,045 (2017 - 680,842).

Derivative financial information:

		Notional amounts			***Fair values***	
	Within 1 year	**1- 5 years**	**2018**	2017	**2018**	2017
Interest rate swaps	-	**22,000,000**	**22,000,000**	22,000,000	**535,045**	680,842

12. Investment in associates

Material associates

The Credit Union has an interest in the following material associate:

Name	**Ownership interest**	
	2018	*2017*
CU Agencies Alliance Ltd.	**47.12%**	48.76%

The Credit Union holds an interest representing 47.12% (2017 - 48.76%) in CU Agencies Alliance Ltd.(CUAAL), an entity established for the purpose of finding, buying and holding shares in insurance brokerage companies on a wholly owned basis. The end of the reporting period of the entity is December 31.

The entity was established on October 1, 2016, the day after the Credit Union sold its 100% holdings of Westview Agencies Ltd. and First Insurance Agencies Ltd. to another wholly owned subsidiary, CUAAL, followed by a sale of 50% of CUAAL to the Credit Union's co-participant. On May 31, 2017, a new shareholder agreement was signed in which another investor was added upon their contribution of assets, in the form of their 100% investment in 1061350 BC Ltd (operating as Aldergrove Insurance Services). As a result of this addition, the Credit Union's holdings in the entity decreased by 1.24%. Subsequent to this transaction the Credit Union did not have joint control of the entity, but significant influence. In December 2018, the other investors in CUAAL injected $700,000 into the entity through the purchase of common shares. As a result of this cash injection, the Credit Unions holdings in the entity decreased by 1.64%.

These entities' shares are not traded on the stock exchange. Therefore, they have no official quoted price. The Credit Union has not earned any dividends from this entity.

Summarized financial information for this associate is included in the associate's ASPE financial statements is as follows:

Balance Sheet:

	CUAAL	
	2018	*2017*
Current assets	**4,455,000**	2,140,000
Non-current assets	**21,296,000**	22,346,000
Current liabilities	**(4,392,000)**	(1,681,000)
Non-current liabilities	**(4,409,000)**	(4,897,000)
Total net assets	**16,950,000**	17,908,000

Statement of income:

	CUAAL	
	2018	*2017*
Revenue	**4,600,000**	4,497,000
Depreciation and amortization	**(1,986,000)**	(1,956,000)
Operating expenses	**(4,849,000)**	(4,613,000)
Future income tax recovery	**577,000**	581,000
Net loss	**(1,658,000)**	(1,491,000)

13. Member deposits

	2018	*2017*
Demand deposits	**202,044,987**	171,819,724
Term deposits	**96,769,433**	83,907,823
Registered plans	**68,970,558**	63,613,184
Accrued interest	**1,255,311**	899,365
	369,040,289	320,240,096

14. Credit facility

The Credit Union has authorized lines of credit with Central 1 totaling $15,000,000, plus $100,000 in USD. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. As at December 31, 2018 this facility was not drawn upon (2017 - $nil).

15. Secured borrowings

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of mortgages into Canada Mortgage and Housing Corporation-sponsored programs which issue bonds to third party investors at specified interest rates.

The Credit Union also securitizes insured residential mortgages by participating in the National Housing Act ("NHA") Mortgage-backed Securities ("MBS") program. Through the program, the Credit Union issues securities backed by mortgages that are insured against borrower's default.

The following table summarizes securitization activity included in the Consolidated Statement of Financial Position:

	2018	*2017*
Amount securitized	**12,628,861**	17,880,525
Outstanding balance of securitized loans	**39,323,621**	31,648,415

The following table summarizes securitization activities that are not recorded on the Consolidated Statement of Financial Position:

	2018	*2017*
Amount securitized	**37,931,354**	81,316,706
Outstanding balance of securitized loans	**308,372,931**	279,721,403

The following table summarizes total securitization activities employed by the Credit Union:

	2018	*2017*
Amount securitized	**50,560,215**	99,197,231
Outstanding balance of securitized loans	**347,696,552**	311,369,818

16. Income tax

The total provision for income taxes in the consolidated statement of income is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

		2018		*2017*
	Amount	***% of Pre-tax income***	*Amount*	*% of Pre-tax income*
Combined federal and provincial statutory income tax rates	**215,859**	**27.0 %**	353,725	26.0 %
Credit Union and other reductions	**(211,135)**	**(26.4)%**	(178,223)	(13.1)%
Non-deductible and other items	**514,326**	**66.2 %**	106,717	7.8 %
Prior year reassessments	**(19,238)**	**(2.4)%**	-	- %
	499,812	**64.4 %**	282,219	20.7 %

The tax effects of temporary differences which give rise to the deferred tax asset and liability reported on the statement of financial position is from differences between amounts deducted for accounting and income tax purposes.

Net deferred income tax is comprised of the following:

	2018	*2017*
Deferred tax asset		
Equity pickup from associates	**243,742**	-
CCA on amalgamation costs	**5,772**	6,206
Accounting reserves not deducted for tax purposes	**106,744**	-
	356,258	6,206
Deferred tax liability		
Property, plant and equipment	**(27,906)**	(58,800)
Intangible assets	**(77,251)**	(54,837)
Allowance for impaired loans	**(99,300)**	-
Fair value differentials on Cumberland building and land	**(28,654)**	(45,704)
	(233,111)	(159,341)
Net deferred tax asset (liability)	**123,147**	(153,135)

17. Member shares

Authorized:

Unlimited number of Member shares, at an issue price of $1
Unlimited number of Investment shares, at an issue price of $1

Member shares issued:

	2018	*2017*
Member shares classified as equity		
546,913 Member shares (2017 - 547,101)	**546,916**	547,101
1,894,326 Investment shares (2017 - 2,367,189)	**1,894,326**	2,367,189
	2,441,242	2,914,290

Membership shares

As a condition of membership, each member is required to own at least $25 of membership equity shares. Members under the age of 18 are only required to have $5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

Investment shares

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount is classified as equity

During the year, the Credit Union issued 35,638 and redeemed 508,686 Member shares.

Distributions to members

	2018	**2017**
Patronage distributions	**385,453**	321,392
Dividends on members' shares	**47,369**	41,463
	432,822	362,855

18. Commitments and contingencies

Commitments

The Credit Union has entered in various agreements for operating leases with estimated minimum annual payments as follows:

2019	49,344
2020	49,344
2021	52,428
2022	52,428
2023	52,428

Contingencies

From time to time, various claims and legal proceedings may arise against the Credit Union. The Credit Union vigorously defends itself where appropriate and in instances where it considers it more likely than not to prevail, no provision is recorded in the consolidated financial statements.

19. Contributed surplus

Contributed surplus was created upon the amalgamation of Cumberland & District Credit Union (CDCU) with First Credit Union in September 2012 and represents the retained earnings of CDCU that were assumed $1,423,824 (2017 - $1,423,824) as well as the fair value increments (including deductions for deferred income taxes) on land and buildings held by CDCU $171,772 (2017 - $161,979). The fair value increments on the land and building are amortized directly into retained earnings at the same rate and method as the underlying assets.

20. Other income

	2018	*2017*
Commissions	**1,369,144**	1,460,369
Service charges	**864,034**	872,041
Other income	**523,466**	780,755
Loan fees and penalties	**539,655**	365,755
Rental income	**117,500**	116,458
Credit card discounts and fees	**3,569**	3,667
Management fees from associate	**-**	119,250
Securitization fee amortization	**(123,573)**	(28,706)
	3,293,795	3,689,589

21. Pension plan and other employee benefits

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The defined benefit plan is a contributory, multi-employer, multi-divisional pension plan governed by a 12-member Board of Trustees, which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Division of the Plan. At December 31, 2018, this Division covered about 3,500 active employees and approximately 1,000 retired plan members, and had assets of approximately $732.8 million.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability in the 1.75% Division of $25.1 million and a solvency deficiency of $83.9 million. As this is a multi-employer plan, the assets and liabilities are pooled and assets are not tracked separately by participating employer. Although the actuaries may be able to determine a breakdown of the current liabilities based on each employer's individual demographic profile and allocate a proportionate share of the assets based on the solvency ratio of the entire Plan, the Plan does not track accumulated contributions and investment earnings for each employer. The deficiency is targeted to be financed over time through increased contributions.

The amount contributed to the plan in 2018 was $239,572 (2017 - $211,513). The contributions were made for current service and have been recognized in earnings.

Defined contribution plan

The Credit Union also makes contributions to the Pension Plan for the Employees of First Credit Union, a plan administered by Mackenzie Financial, on behalf of some members of its staff. The plan is a defined contributions plan, which requires contributions from the Credit Union based on the length of service and rates of pay, with no further liability assumed by the Credit Union for plan performance.

The amount contributed to the plan for 2018 was $209,163 (2017 - $141,657). The contributions were made for current service and have been recognized in earnings.

22. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by *IAS 24 Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including the Board of Directors, executives and senior management.

	2018	*2017*
Salaries and short-term benefits	**1,076,920**	898,970
Post-employment benefits	**93,281**	54,720
Total remuneration	**1,170,201**	953,690

Transactions with key management personnel

Loans made to Directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. There are no loans that are impaired in relation to loan balances with Directors and KMP.

There are no benefits or concessional terms and conditions applicable to the family members of Directors and KMP. There are no loans that are impaired in relation to the loan balances with family members of Directors and KMP.

	2018	2017
Aggregate of loans to Directors and KMP	**3,221,051**	1,138,886
Total value of revolving credit facilities to Directors and KMP	**734,608**	223,618
	3,955,659	1,362,504

	2018	2017
During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Loans	**952,724**	1,072,787
Lines of Credit	**-**	98,934
	952,724	1,171,721

	2018	2017
Interest and other revenue earned on loans to Directors and KMP	**77,117**	52,188
The total value of member deposits from the Directors and KMP as at the year-end:		
Chequing and demand deposits	**2,632,767**	2,360,484
Term deposits	**536,579**	636,410
Total value of member deposits due to Directors and KMP	**3,169,346**	2,996,894

Directors' fees and expenses

As approved by the Credit Union membership, aggregate payments paid during the year to Directors in their capacity as Directors, including stipend, amounted to $46,527 (2017 - $43,028). During the year, expense reimbursements related to meeting, training and conference costs amounted to $63,917 (2017 - $57,257).

23. Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is assessed to be significant to that fair value measurement. This assessment requires the use of judgment in considering factors specific to an asset or a liability and may affect the placement of the fair value measurement within the hierarchy.

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and discounted cash flow models and comparison with quoted or observable prices for similar instrument. The Credit Union uses assumptions and estimates for risk-free interest rates, interest rate yield curves, and correlations between inputs.

Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

			2018 (IFRS 9)
	Fair Value	***Level 1***	***Level 2***
Assets			
Cash on hand and on deposit	**12,197,543**	**12,197,543**	**-**
Investments - equity shares	**1,910,281**	**-**	**1,910,281**
Derivative assets held for risk management	**535,045**	**-**	**535,045**
Total	**14,642,869**	**12,197,543**	**2,445,326**
Liabilities			
Total liabilities	**-**	**-**	**-**

			2017 (IAS 39)
	Fair Value	*Level 1*	*Level 2*
Assets			
Cash on hand and on deposit	22,016,613	22,016,613	-
Investments - equity shares	1,517,348	-	1,517,348
Derivative assets held for risk management	680,842	-	680,842
Total	24,214,803	22,016,613	2,198,190
Liabilities			
Total liabilities	-	-	-

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

2018 (IFRS 9)

	Carrying amount	***Fair Value***	***Level 1***	***Level 2***
Financial assets				
Cash equivalents	**24,450,000**	**24,807,855**	**-**	**24,807,855**
Members' loans receivable and accrued interest	**382,072,932**	**383,035,123**	**-**	**383,035,123**
Investments - Central 1 term deposits	**5,000,000**	**4,873,842**	**-**	**4,873,842**
Other assets	**1,195,861**	**1,195,861**	**-**	**1,195,861**
Total financial assets	**412,718,793**	**413,912,681**	**-**	**413,912,681**
Financial liabilities				
Member deposits and accrued interest	**369,040,289**	**366,396,202**	**-**	**366,396,202**
Trade payables and accrued liabilities	**1,525,380**	**1,525,380**	**-**	**1,525,380**
Secured borrowings	**39,323,621**	**38,718,164**	**-**	**38,718,164**
Patronage dividend payable	**360,000**	**360,000**	**-**	**360,000**
Total financial liabilities	**410,249,290**	**406,999,746**	**-**	**406,999,746**

2017 (IAS 39)

	Carrying amount	*Fair Value*	*Level 1*	*Level 2*
Financial assets				
Cash equivalents	12,401,902	12,401,902	-	12,401,902
Members' loans receivable and accrued interest	332,875,915	331,975,735	-	331,975,735
Other assets	1,023,673	1,023,673	-	1,023,673
Total financial assets	346,301,490	345,401,310	-	345,401,310
Financial liabilities				
Member deposits and accrued interest	320,240,096	319,667,133	-	319,667,133
Trade payables and accrued liabilities	1,419,279	1,419,279	-	1,419,279
Secured borrowings	31,648,415	31,648,415	-	31,648,415
Finance lease payable	4,311	4,311	-	4,311
Patronage dividends payable	393,870	393,870	-	393,870
Total financial liabilities	353,705,971	353,133,008	-	353,133,008

24. Financial instrument risk management

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union’s financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the profit or loss may increase or decrease in response to changes in market interest rates.

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

The Credit Union's major source of income is financial margin - the difference between interest earned on investments and members' loans and interest paid on members' 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, in concert with external consultant Tuff Risk, and reported to the Financial Institution Commission ("FICOM") in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FICOM as required by credit union regulations. For the year ended 2018, the Credit Union was in compliance with this policy.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $417,952 (2017 - $247,280) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rate would decrease net interest income by $284,214 (2017 - $83,940) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristic; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to Board of Directors.

Interest rate sensitivity

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of financial instruments are presented in the periods in which they next re-price to market rates or mature and are summed to show the net interest rate sensitivity gap.

	Variable rate	*Within one year*	*One to five years*	*Non-Interest Sensitive*	***2018*** ***Total***	*2017* *Total*
Financial assets						
Cash and interest-bearing deposits	9,245,537	26,479,971	-	1,922,035	**37,647,543**	30,418,515
Average yield %	*1.98*	*1.93*	-	-	-	-
Investments	5,000,000	-	-	1,910,281	**6,910,281**	5,517,348
Average yield %	*2.27*	-	-	-	-	-
Members' loans receivable	57,086,627	49,956,039	271,054,228	-	**378,096,897**	329,094,825
Average yield %	*5.46*	*3.18*	*3.35*	-	-	-
Other assets	-	-	-	5,171,897	**5,171,897**	4,084,763
	71,332,164	**76,436,010**	**271,054,228**	**9,004,213**	**427,826,618**	369,115,451
Financial liabilities						
Member deposits	192,012,086	76,630,917	59,836,527	40,560,759	**369,040,289**	320,240,096
Average yield %	*0.85*	*2.37*	*2.25*	-	-	-
Secured borrowings	-	2,663,216	36,660,405	-	**39,323,621**	31,648,415
Average yield %	-	*1.40*	*2.03*	-	-	-
Trade payables and accrued liabilities	-	-	-	1,525,380	**1,525,380**	1,419,279
Finance lease payable	-	-	-	-	**-**	4,311
Patronage dividends payable	-	-	-	360,000	**360,000**	393,870
	192,012,086	**79,294,133**	**96,496,932**	**42,446,139**	**410,249,290**	353,701,660
On balance sheet mismatch	**(120,679,922)**	**(2,858,123)**	**174,557,296**	**(33,441,926)**	**17,577,328**	15,413,791
Off balance sheet	-	-	-	-	-	-
Net sensitivity	**(120,679,922)**	**(2,858,123)**	**174,557,296**	**(33,441,926)**	**17,577,328**	15,413,791

Liquidity risk

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Credit Union Incorporation Act of British Columbia require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The regulated minimum liquidity ratio is 8%. The Credit Union has set an internal liquidity target of 9 - 11%. At year-end, the Credit Union’s liquidity exceeded the required regulatory minimum.

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 weekly.

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 level of restricted cash resources required is based on total deposits and other debt liabilities. Included in cash resources are restricted cash resources of $nil (2017 – $nil). The Credit Union’s own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset liability maturity management techniques. Management monitors rolling forecasts of the Credit Union’s liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains total borrowing facilities with Central 1 of $15,000,000, plus $100,000 in USD, as an integral part of its liquidity management strategy.

Foreign currency risk

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period. Based on current differences between foreign currency financial assets and financial liabilities as at year-end, the Credit Union estimates that a positive/adverse change in the US – Canadian foreign currency exchange rate of 1% would result in a change in the post tax income of $nil (2017 - $nil) principally as a result of the retranslation of foreign currency denominated cash resources.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members’ loans receivable and accrued interest.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors is responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- 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 liquidity ratio weekly

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.
As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2018	*2017*
Unadvanced lines of credit	**42,275,681**	36,023,893
Guarantees and standby letters of credit	**618,644**	1,108,863
Commitments to extend credit	**26,553,166**	13,694,518
	69,447,491	50,827,274

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when:

- Contractual payments have exceeded 30 days past due;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments and derivative financial instruments. .

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by the borrower’s payment performance compared to the modified contractual terms and whether such modifications increase the borrower’s ability to meet its contractual obligations.

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower’s initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when the borrower has demonstrated consistently good payment behaviour for 2 – 3 months against the modified contractual terms. Subsequently, management monitors these assets by tracking payment behaviours and relapse rates to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held.

When measuring 12-month and lifetime expected credit losses, the Credit Union consider items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional unemployment rate forecasts, changes to prime rate, changes to the consumer price index, changes in real GDP, average home prices and changes to the home price index.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

		2018		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Insured retail mortgages and accrued interest				
Low risk	**68,621,178**	**-**	**-**	**68,621,178**
Medium risk	**-**	**12,215,320**	**-**	**12,215,320**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**68,621,178**	**12,215,320**	**-**	**80,836,498**
Less: loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**68,621,178**	**12,215,320**	**-**	**80,836,498**
Uninsured retail mortgages and acrued interest				
Low risk	**190,696,023**	**-**	**-**	**190,696,023**
Medium risk	**-**	**33,654,459**	**-**	**33,654,459**
Default	**-**	**-**	**215,017**	**215,017**
Gross carrying amount	**190,696,023**	**33,654,459**	**215,017**	**224,565,499**
Less: loss allowance	**91,720**	**152,773**	**-**	**244,493**
Carrying amount	**190,604,303**	**33,501,686**	**215,017**	**224,321,006**
Unsecured personal lines of credit and accrued interest				
Low risk	**5,804,942**	**-**	**-**	**5,804,942**
Medium risk	**-**	**1,029,815**	**-**	**1,029,815**
Default	**-**	**-**	**19,020**	**19,020**
Gross carrying amount	**5,804,942**	**1,029,815**	**19,020**	**6,853,777**
Less: loss allowance	**30,354**	**19,755**	**19,020**	**69,129**
Carrying amount	**5,774,588**	**1,010,060**	**-**	**6,784,648**
Secured personal lines of credit and accrued interest				
Low risk	**18,036,248**	**-**	**-**	**18,036,248**
Medium risk	**-**	**3,182,867**	**-**	**3,182,867**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**18,036,248**	**3,182,867**	**-**	**21,219,115**
Less: loss allowance	**41,631**	**45,761**	**-**	**87,392**
Carrying amount	**17,994,617**	**3,137,106**	**-**	**21,131,723**

		2018		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Secured commercial mortgages and accrued interest				
Low risk	**31,577,294**	**-**	**-**	**31,577,294**
Medum risk	**-**	**7,343,541**	**-**	**7,343,541**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**31,577,294**	**7,343,541**	**-**	**38,920,835**
Less: loss allowance	**27,119**	**89,917**	**-**	**117,036**
Carrying amount	**31,550,175**	**7,253,624**	**-**	**38,803,799**
Unsecured commercial lines of credit and accrued interest				
Low risk	**2,138,354**	**-**	**-**	**2,138,354**
Medium risk	**-**	**377,357**	**-**	**377,357**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**2,138,354**	**377,357**	**-**	**2,515,711**
Less: loss allowance	**68,213**	**13,058**	**-**	**81,271**
Carrying amount	**2,070,141**	**364,299**	**-**	**2,434,440**
Secured commercial lines of credit and accrued interest				
Low risk	**3,082,782**	**-**	**-**	**3,082,782**
Medium risk	**-**	**693,915**	**-**	**693,915**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**3,082,782**	**693,915**	**-**	**3,776,697**
Less: loss allowance	**871**	**1,043**	**-**	**1,914**
Carrying amount	**3,081,911**	**692,872**	**-**	**3,774,783**
Total members' loans receivable and accrued interest				
Total gross carrying amount	**319,956,821**	**58,497,274**	**234,037**	**378,688,132**
Less: loss allowance	**259,908**	**322,307**	**19,020**	**601,235**
Total carrying amount	**319,696,913**	**58,174,967**	**215,017**	**378,086,897**

As at December 31, 2018, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is $448,445,622 (2017 – $380,456,750). The Credit Union holds senior-ranking general security claims and property backed personal financial guarantees with respect to members' loan receivable.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*IAS 39 Comparatives*	*Total*
Members' loans receivable					
Balance at January 1, 2017	-	-	-	560,798	560,798
Provision for credit losses	-	-	-	116,221	116,221
Write-offs	-	-	-	(142,367)	(142,367)
Balance at December 31, 2017	-	-	-	534,652	534,652
Balance at January 1, 2018	-	-	-	534,652	534,652
Transfer to 12-month ECL	154,505	-	-	(154,505)	-
Transfer to lifetime ECL (not credit impaired)	-	322,307	-	(322,307)	-
Transfer to lifetime ECL (credit impaired)	-	-	57,840	(57,840)	-
Provision for credit losses	41,321	-	38,820	-	80,141
Write-offs	64,082	-	(77,640)	-	(13,558)
Balance at December 31, 2018	259,908	322,307	19,020	-	601,235

25. Capital management

The Financial Institutions Act requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk-weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. Management considers capital to be comprised of the net assets of the Credit Union and all components of members' equity on the same risk weighted basis as is prescribed by the Financial Institutions Act and which amounts to $176,766,053 as at December 31, 2018 (2017 - $135,547,998).

The Financial Institutions Act regulations prescribe that the minimum required capital base ratio is 8%. As at December 31, 2018, the Credit Union has a capital base of 18% (2017- 23%).

	2018	*2017*
Primary capital		
Member shares	**2,441,242**	2,914,290
Retained earnings - consolidated	**28,168,158**	27,378,164
Contributed surplus	**1,595,596**	1,585,803
Deferred income tax	**(187,995)**	153,135
Dividends and patronage	**360,000**	393,870
	32,377,001	32,425,262
Secondary capital		
Share of system retained earnings	**4,569,848**	2,883,000
Deductions from capital	**(4,845,195)**	(3,714,714)
	32,101,654	31,593,548

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

26. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.