UNION BAY CREDIT UNION

FINANCIAL STATEMENTS
December 31, 2019

Index to Financial Statements
Year Ended December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

December 31, 2019

The financial statements of Union Bay Credit Union have been prepared by management who are responsible for their integrity, objectivity and reliability. They have been prepared in accordance with the requirements of the British Columbia Credit Union Incorporation Act and conform in all material respects with International Financial Reporting Standards. These statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and for safeguarding the assets of the organization. The procedures include establishment and communications of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained.

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

Chan Nowosad Boates Inc., Chartered Professional Accountants has been appointed by the Board of Directors, who represent the members at large, as independent external auditors to examine and report on the financial statements. They have had free and full access to the internal staff and other management staff and the Audit Committee of the Board. Their report appears herein.

Mark Jones
Chief Executive Officer
February 19, 2020

INDEPENDENT AUDITORS' REPORT

To the Members of the Union Bay Credit Union

Opinion

We have audited the accompanying financial statements of Union Bay Credit Union (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, the statement of income and comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (hereinafter referred to as the "financial statements").

In our opinion, the Credit Union's financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2019, and of its financial performance and its cash flows for the year then ended. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS).

Basis of 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 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 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 of our opinion.

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

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

In preparing the 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 intends for the Credit Union to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the users taken on the basis of these financial statements.

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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

Chan Nowosad Boates Inc.

Chartered Professional Accountants
Courtenay, BC

February 19, 2020

UNION BAY CREDIT UNION

Statement of Financial Position

December 31, 2019

	2019	2018
	$	$
ASSETS		
Cash (Note 5)	655,992	1,847,834
Investments (Note 6)	10,900,207	9,520,976
Loans to Members (Notes 7 and 8)	86,704,658	78,657,078
Income Taxes Recoverable	12,486	-
Other Assets (Note 9)	182,782	169,554
Property and Equipment (Notes 10 and 11)	1,038,011	805,637
Intangible Assets (Note 12)	774,084	800,958
	100,268,220	91,802,037
LIABILITIES		
Demand Loan (Note 13)	1,000,000	1,000,000
Members' Deposits (Note 14)	89,110,269	80,849,883
Accounts Payable (Note 15)	167,055	143,315
Income Taxes Payable	-	1,505
Lease Liabilities (Note 11)	308,990	-
Deferred Income Tax Liability (Note 16)	47,034	47,034
Dividends Payable	43,951	47,741
Members' Shares (Note 17)	4,137,564	4,727,969
	94,814,863	86,817,447
MEMBERS' EQUITY		
Retained Earnings	5,453,357	4,984,590
	100,268,220	91,802,037

APPROVED ON BEHALF OF THE BOARD:

Director

Director

UNION BAY CREDIT UNION

Statement of Income and Comprehensive Income

Year Ended December 31, 2019	2019	2018
	$	$
Financial Income		
Loan Interest	3,247,229	2,876,950
Investment	231,139	269,544
	3,478,368	3,146,494
Financial Expenses		
Interest on Deposits	1,069,373	704,973
Interest on Borrowed Funds	21,286	16,526
	1,090,659	721,499
Financial Margin - 69% (2018 - 77%)	2,387,709	2,424,995
Other Income (Note 18)	343,947	357,571
Earnings Before Operating Expenses	2,731,656	2,782,566
Operating Expenses		
Depreciation	204,298	200,507
Depreciation on Right-of-Use Assets **(Note 11)**	20,258	-
Operating Expense **(Note 19)**	747,087	883,093
Wages and Benefits **(Note 20)**	1,179,254	1,303,463
	2,150,897	2,387,063
Net Earnings from Operations Before Distributions and Tax	580,759	395,503
Distributions to Members (Note 17)	43,264	35,882
Net Earnings from Operations Before Tax	537,495	359,621
Provision for Income Taxes (Note 16)	58,592	41,180
Net Income and Total Comprehensive Income	478,903	318,441

UNION BAY CREDIT UNION

Statement of Changes in Members' Equity

Year Ended December 31, 2019

	Retained Earnings
	$
Balance at January 1, 2018	4,666,149
Net Income	318,441
Balance on December 31, 2018	4,984,590
Adjustment from the Adoption of IFRS 16 (Note 3)	(10,136)
Net Income	478,903
Balance on December 31, 2019	5,453,357

UNION BAY CREDIT UNION

Statement of Cash Flows

Year Ended December 31, 2019

	2019	2018
	$	$
Cash Flows From Operating Activities:		
Interest Received from Loans and Investments	3,478,368	3,146,494
Interest Paid on Deposits and Borrowed Funds	(1,083,318)	(721,499)
Increase in Members' Deposits and Shares	7,669,981	222,554
Payment of Short-Term Leases and Leases of Low-Value	(1,774)	-
Loans to Members	(8,047,580)	(7,967,880)
Cash Paid to Suppliers and Employees	(1,570,104)	(1,784,929)
Dividends Paid to Members	(47,054)	(41,530)
Interest Paid on Lease Liabilities	(7,341)	-
Income Taxes Paid	(72,583)	(19,783)
	318,595	(7,166,573)
Cash Flows From Financing Activities:		
Repayment of Lease Liabilities	(16,861)	-
Increase in Demand Loan	-	1,000,000
	(16,861)	1,000,000
Cash Flows From Investing Activities:		
Purchase of Equipment and Software	(114,345)	(199,021)
Net (Purchases) Sales of Investments	(1,379,231)	7,098,549
	(1,493,576)	6,899,528
Net Increase (Decrease) in Cash and Cash Equivalents	(1,191,842)	732,955
Cash and Cash Equivalents - Beginning of Year	1,847,834	1,114,879
Cash and Cash Equivalents - End of Year	655,992	1,847,834

Notes to Financial Statements
December 31, 2019

1. Governing Legislation and Operations:

The Union Bay Credit Union (the "Credit Union") was formed pursuant to the Credit Union Incorporation Act of British Columbia on April 21, 1944. The Credit Union is engaged in the loans and deposit taking industry, having three branch locations all in the vicinity of Union Bay, BC. The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. Its head office is located at 313 McLeod Road, Union Bay, BC.

These financial statements have been authorized for issue by the Board of Directors on February 19, 2020.

2. Basis of Presentation:

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

These financial statements were prepared under the historical cost basis, except for available-for-sale financial assets and financial assets and financial liabilities accounted for at fair value through profit or loss, which are measured at fair value.

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

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

3. Significant Accounting Policies:

a) Cash Resources

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

Cash resources are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

b) Investments

Central 1 deposits are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Equity instruments are classified as fair value through other comprehensive income ("FVOCI") and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

3. Significant Accounting Policies (cont...):

b) Investments (cont...)

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

c) Financial Instruments

(i) Recognition and Derecognition:

The Credit Union recognizes financial assets and liabilities when it becomes party to the contractual provisions of the instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the instrument and substantially all the risks and rewards have been transferred. Financial liabilities are derecognized when the liability is extinguished discharged, cancelled, or expires.

(ii) Classification of Financial Assets and Liabilities:

The Credit Union's financial assets are measured at initial recognition at fair value and are subsequently categorized as one of the following: fair value through profit or loss ("FVTPL"), FVOCI or amortized cost. The basis for categorization of the financial instruments is based on the Credit Union's business model and the contractual cash flow characteristics of the instrument. Management determines the categorization of its financial assets and liabilities at initial recognition.

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL:

(a) the asset is held within a business model that is Held-to-Collect ("HTC") as described below, and
(b) the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL:

(a) the asset is held within a business model that is Held-to-Collect-and-Sell ("HTC&S") as described below, and
(b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Credit Union makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

The Credit Unions business models fall into only two categories, which are indicative of the key strategies used to generate returns:

- HTC: The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.
- Other fair value business models: These business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

3. Significant Accounting Policies (cont...):

c) Financial Instruments (cont...)

The Credit Union at December 31, 2019 did not have or participate in a business model of HTC&S which involves both collecting contractual cash flows and sales of those instruments which provide contractual cash flows.

Financial assets and liabilities at FVTPL:
A financial asset or liability is required to be classified as FVTPL if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A financial instrument with a reliably measurable fair value can be designated as FVTPL on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing related gains and losses on a different basis (an accounting mismatch). Gains and losses on assets and liabilities classified as FVTPL are recorded in net earnings from operations. During the years ended December 31, 2019 and 2018, the Credit Union did not designate any financial assets at FVTPL upon initial recognition.

Financial assets and financial liabilities at FVOCI
A financial asset or liability is required to be classified as FVOCI if it is not held for trading purposes. Unrealized gains and losses arising from changes in the fair value of the financial asset or liability is recognized directly in other comprehensive income, until the financial asset or liability is derecognized or impaired. Dividends on AFS equity instruments are recognized in the statement of income and comprehensive income when the Credit Union's right to receive payment is established. At December 31, 2019 and 2018, the Credit Union's AFS assets consist only of equity investments.

Amortized Cost
A financial asset or liability is classified as amortized cost if it does not fall under FVTPL or FVOCI. All loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method which represents the gross carrying amount less an ACL. At December 31, 2019 and 2018, the Credit Union's loans and receivables principally consist of loans and advances to members and other receivables.

Other Financial Liabilities:
Other financial liabilities are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method. At December 31, 2019 and 2018, other financial liabilities consist of accounts payable and accrued liabilities, borrowings, deposits and member shares.

(iii) Fair Value of Financial Instruments:
The best evidence of fair value at initial recognition are prices quoted in an active market. Fair values of financial instruments quoted in active markets are determined by reference to closing bid prices for financial assets and ask prices for financial liabilities at the reporting date. If there is no active market for a financial instrument, the Credit Union establishes fair value using an appropriate valuation technique. These techniques principally include the use of recent arm's length transactions for investments in unquoted securities and other valuation techniques commonly used by market participants.

3. Significant Accounting Policies (cont...):

c) Financial Instruments (cont...)

(iv) Allowance for Credit Losses:

An ACL is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include debt securities, interest-bearing deposits, member loans, and accounts and accrued interest receivable. ACL on loans is presented in the allowance for loan losses detailed in Note 6 and 7 of these audited financial statements and the resulting expense is recorded as a bad debt expense detailed in Note 18 of these financial statements. The Credit Union measures the ACL on each reporting date according to a three-stage expected credit loss impairment model:

Performing financial assets

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. Increases or decreases in the required ACL attributable to purchases and new originations, derecognition's or maturities, and remeasurements due to changes in loss expectations or stage transfers are recorded in the ACL. Write-offs and recoveries of amounts previously written off are recorded against the ACL.

The ACL represents an unbiased estimate of expected credit losses on the Credit Unions financial assets as at the balance sheet date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect our results of operations.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external credit ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default ("PD") and exposure at default ("EAD") discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates projected PD and EAD over a maximum period of 12 months while Stage 2 estimates projected PD and EAD over the remaining lifetime of the instrument.

3. Significant Accounting Policies (cont...):

c) Financial Instruments (cont...)

(iv) Allowance for Credit Losses (cont...):

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward-looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment using knowledge of the area the Credit Union operates in is exercised in determining the final expected credit losses. For loans which lack detailed historical information and/or loss experience, the Credit Union applies simplified measurement approaches that may differ from what is described above. These approaches have been designed to maximize the available information that is reliable and supportable for each portfolio and may be collective in nature. Expected credit losses are discounted to the reporting period date using the effective interest rate.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses the Credit Union expects to incur.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1. For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfil their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment

Use of forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The PD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables that are most closely correlated with credit losses in the relevant portfolio. Macroeconomic variables used in the Credit Unions expected credit loss models include PD based on death and separation. Due to the small region which the Credit Union operates, macroeconomic variables were projected on a historical level based on trends within the region.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Credit Unions internal credit risk management purposes. The Credit Unions definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

3. Significant Accounting Policies (cont...):

c) Financial Instruments (cont...)

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each balance sheet date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the transfer from Stage 3 to Stage 2.

ACL for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans.

Write-off of loans

Loans and the related ACL are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

d) Property and Equipment

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

Buildings	40 years
Building Improvements	25 years
Computer Equipment	5 years
Computer Software	7 years
Office Equipment and Vehicle	10 years
Leasehold Improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. In the year of acquisition only one-half the normal rate is applied.

e) Intangible Assets

Intangible assets include banking software and a banking software user license which is not integral to the computer hardware owned by the Credit Union. Software and the related license is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software and the license are amortized on a straight-line basis over the estimated useful lives of 10 years.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. In the year of acquisition only one-half the normal rate is applied.

3. Significant Accounting Policies (cont...):

f) Income Taxes

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

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

Deferred tax assets and liabilities are recognized when the carrying amount of an asset or liability differs from its tax base. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

g) Interest Income and Expenses

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the statement of income and comprehensive income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expenses presented in the statement of income and comprehensive income include interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis.

h) Other Income

Other income is recognized when services are provided to the members.

i) Retirement Benefits

The Credit Union provides its management with a retirement allowance that is accounted for as a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, and is usually dependent on one or more factors, such as age, years of service and compensation. The liability to be recognized would be the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of any assets set aside for it. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds.

3. Significant Accounting Policies (cont...):

j) Defined Contribution Plan

For the defined contribution plan, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as a wages and benefits expense in the periods during which services are rendered by employees. The defined contributions are made to the employees' self-administered retirement savings plan with the Credit Union having no further involvement in the administration of the contributions.

k) Members' Shares

Members' shares issued by the Credit Union where the shares are redeemable at the option of the member, either on demand or on withdrawal from members are classified as liabilities of the Credit Union.

l) Distribution to Members

Patronage rebates and dividends are accrued as per annual budget and/or when approved by the Board of Directors.

m) Leases

Changes in accounting policies:

As of January 1, 2019 the Credit Union adopted IFRS 16, Leases (IFRS 16). As a result, the Credit Union changed its accounting policies in the areas indicated below.

The adoption of IFRS 16 has resulted in the Credit Union recognising a right-of-use asset and related lease liability in connection with with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application, being January 1, 2019.

The Credit Union has applied IFRS 16 using the modified retrospective approach. Under this approach the cumulative effect of adopting IFRS 16 has been recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Accordingly, prior periods have not been restated and all comparative period information is presented in accordance with previous accounting policies. New or amended disclosures have been provided for the current period, where applicable, and comparative period disclosures are consistent with those made in the prior year.

Impact on the Financial Statements:

On transition to IFRS 16, the Credit Union recognized $162,035 of right-of-use assets and lease liabilities of $172,171, recognizing the difference of $10,136 in retained earnings.

When measuring lease liabilities, the Credit Union discounted lease payments using rates varying from 4.0% to 7.1% based on the underlying leased asset and the specific terms of the lease. The following is a reconciliation of total operating lease commitments at December 31, 2018, disclosed in the prior period financial statements, which have been reclassified to lease liabilities recognised on the Statement of Financial Position as at January 1, 2019.

Operating lease commitment at December 31, 2018	196,529
Discounted Using the Incremental Borrowing Rate at January 1, 2019	172,171

3. Significant Accounting Policies (cont...):

m) Leases (cont...)

Policies applicable beginning January 1, 2019 (IFRS 16):

For any new contracts entered into or after January 1, 2019, the Credit Union assesses at inception whether a contract is or contains a lease. A contract is or contains a lease in the event that a contract, or part of a contract, conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Credit Union assesses whether:

- the contract contains an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then an asset is not identified;
- the Credit Union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Credit Union has the right to direct the use of the asset throughout the period of use. The Credit Union has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Credit Union has the right to direct the use of the asset if either:
    - the Credit Union has the right to operate the asset; or
    - the Credit Union designed the asset in a way that predetermines how and for what purposes it will be used.

<u>Measurement and recognition of leases as a lessee:</u>

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability on the statement of financial position. The Credit Union recognises a right-of-use asset and corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short term leases and leases of low value assets. The right-of-use asset is initially measured at cost, which comprises of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset of the site on which it is located, less any lease incentives received and any residual value assigned to the leased asset.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

3. Significant Accounting Policies (cont...):

m) Leases (cont...)

The lease liability is measured using amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Credit Union's estimate of the amount expected to be payable under a residual value guarantee, or if the Credit Union changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases classified as operating leases under IAS 17:
At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at rates varying form 4.0% to 7.1% based on the rates implicit in the leases and the Credit Union's incremental borrowing rate at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS had been applied since the commencement date, discounted at the date of initial application.

The Credit Union used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- applied a single discount rate to a portfolio of leases with similar characteristics.
- applied the exemption to not recognize right-of-use assets and liabilities for leases for lease terms of less than 12 months from January 1, 2019.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Short-term leases and leases of low-value assets:
The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets. The Credit Union recognises the lease payments associated with these leases as an expense in profit or loss on a straight-line basis over the lease term.

Policies applicable prior to January 1, 2019 (IAS 17):

In the comparative period, as a lessee the Credit Union classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. For the comparative period ending December 31, 2018 the Credit Union did not have any leases classified as finance leases.

Assets held under other leases were classified as operating leases and were not recognised on the Credit Union's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line bases over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

4. Critical Accounting Estimates and Assumptions:

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

4. Critical Accounting Estimates and Assumptions (cont...):

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

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

Member Loan Loss Provision
The Credit Union individually assesses its loans on a monthly basis to assess whether an expected credit loss should be recorded in the statement of comprehensive income. The Credit Union also follows the ACL model described above in Note 3 of the audited financial statements. In particular, judgment by management is required in the estimation of credit risk deterioration since the initial recognition of a financial instrument. Management estimates the impairment to be recognized in a three-stage model for financial instruments with no significant increase in credit risk since initial recognition, significant increase in credit risk since initial recognition and credit impaired. Management considers past events and current conditions, and reasonable and supportable forward-looking information that is available without undue cost or effort when considering the impairment.

The Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The related provision for impairment is charged to the statement of income and comprehensive income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in the provision.

Retirement Benefit
The present value of the retirement benefit obligation depends on various factors that are determined by the Credit Union using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the retirement benefit obligation. The Credit Union does not use an actuary or actuarial method when assessing the benefit due to the limited size of employees to which it applies.

The assumptions used in determining the net cost (income) for the retirement benefit plans include the discount rate and the likelihood that an employee will qualify for the plan. The Credit Union determines the discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation.

Extension, Termination, and Purchase Options for Leases
When the Credit Union has the option to extend or terminate a lease or there is the option to purchase the underlying asset that is being leased, management uses judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including the past practices of the Credit Union to determine the term of the lease specifically for the purposes of IFRS 16.

5. Cash:

The Credit Union's cash and current accounts are held with Central 1 Credit Union ("Central 1"). The average yield on the accounts during the year was 1.58% (2018 - 1.28%).

6. Investments:

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

Central 1 Deposits

	2019	2018
	$	$
Central 1 Investments	10,497,642	9,146,901

The Credit Union must maintain liquidity reserves with Central 1 at 8% of total deposits and borrowings. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and liabilities or upon withdrawal of membership from Central 1. The liquidity reserves are due from one to five years. At maturity, these deposits are reinvested at market rates for various terms.

Equity Instruments

	2019	2018
	$	$
Central 1 Credit Union Shares	376,484	347,994
Credit Union Protection Plan Shares	26,023	26,023
Stabilization Central Credit Union Shares	58	58
	402,565	374,075

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

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. The Credit Union does not intend to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

7. Loans to Members:

2019

	Principal Balance	Accrued Interest	Impaired Loans	Allowance for Impaired Loans	Net Loans
	$	$	$	$	$
Residential Mortgages	81,743,661	116,964	40,758	52,392	81,808,233
Personal Loans	2,160,647	2,342	-	37,793	2,125,196
Commercial Loans	2,768,457	4,301	-	1,530	2,771,228
	86,672,765	123,607	40,758	91,715	86,704,658

7. Loans to Members (cont...):

	2018				
	Principal Balance	Accrued Interest	Impaired Loans	Allowance for Impaired Loans	Net Loans
	$	$	$	$	$
Residential Mortgages	74,091,722	110,903	48,600	83,174	74,119,451
Personal Loans	1,689,808	667	-	428	1,690,047
Commercial Loans	2,844,753	4,289	-	1,463	2,847,579
	78,626,283	115,859	48,600	85,065	78,657,078

Terms and Conditions
Loans to members can have either a variable or fixed rate of interest and mature within five years.

Variable rate loans are based on a Central 1 "prime rate" formula, ranging from prime minus 1.86% to prime plus 15.00%. The rate is determined by the type of security offered and the member's credit worthiness. The average BC Credit Unions prime rate as provided by Central 1 at December 31, 2019 was 3.95%. The Credit Union's prime rate at December 31, 2019 was 3.95%.

Interest rates offered on fixed-rate loans being advanced at December 31, 2019 range from 2.09% to 7.95%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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

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

Average Yields to Maturity
Loans bear interest at both variable and fixed rates with the following average yields:

	2019		2018	
	Principal $	Yield	Principal $	Yield
Variable Rate	11,468,085	5.08%	9,349,859	5.08%
Fixed rate due less than one year	22,456,088	3.71%	17,200,735	3.65%
Fixed rate due beyond one year	52,748,592	3.95%	52,075,689	3.79%
	86,672,765	4.04%	78,626,283	3.91%

7. Loans to Members (cont...):

Credit Quality of Loans
It is not practical to value all collateral as at the Statement of Financial Position date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2019	2018
	$	$
Unsecured loans	592,303	666,693
Loans otherwise secured	1,627,148	1,091,786
Loans secured by real estate	84,453,314	76,867,804
	86,672,765	78,626,283
Accrued interest	123,608	115,860
Allowance for impaired loans	(91,715)	(85,065)
	86,704,658	78,657,078

Fair Value
The fair value of member loans at December 31, 2019 was $85,755,743 (2018 - $77,371,021). The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans are changed to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of Risk
The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows and individual or related groups of members' loans which represent a concentration of credit risk due to being unsecured or secured by an amount less than the loans value are:

	2019	2018
	$	$
Residential mortgages	116,654	129,897
Personal loans	576,555	645,802
Commercial loans	15,748	20,891
	708,957	796,590

Most members' loans are with members located on Vancouver Island.

8. Allowance for Credit Losses:

2019

	Balance at Beginning of Period	Provision (Recovery) for (of) Credit Losses	Balance at End of Period
	$	$	$
Residential mortgages	39,434	12,894	52,328
Personal loans	44,168	(6,348)	37,820
Commercial loans	1,463	104	1,567
	85,065	6,650	91,715

2018

	Balance at Beginning of Period	Provision (Recovery) for (of) Credit Losses	Balance at End of Period
	$	$	$
Residential mortgages	45,000	(5,566)	39,434
Personal loans	-	44,168	44,168
Commercial loans	-	1,463	1,463
	45,000	40,065	85,065

The following tables reconcile the opening and closing allowance for credit losses by stage, for each major product category.

Reconciling items can include the following:

- Model changes, which generally comprise the impact of significant changes to the quantitative models used to estimate expected credit losses, and any staging impacts that may arise.
- Transfers between stages, which are presumed to occur before any corresponding remeasurements of the allowance.
- Remeasurements which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in measurement following a transfer between stages; an unwinding of the time value discount due to the passage of time in Stage 1 and Stage 2.

8. Allowance for Credit Losses (cont...):

Allowance for credit losses - residential mortgages:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	37,817	1,618	-	39,435
Provision for credit losses				
Purchases and originations	12,084	-	-	12,084
Remeasurements	-	809	-	809
Balance, end of year	49,901	2,427	-	52,328

Allowance for credit losses - personal loans:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	428	-	43,740	44,168
Provision for credit losses				
Purchases and originations	710	-	-	710
Remeasurements	-	-	(7,058)	(7,058)
Balance, end of year	1,138	-	36,682	37,820

Allowance for credit losses - commercial loans:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	1,463	-	-	1,463
Provision for credit losses				
Purchases and originations	104	-	-	104
Balance, end of year	1,567	-	-	1,567

8. Allowance for Credit Losses (cont...):

Allowance for credit losses - residential mortgages:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	-	45,000	-	45,000
Provision for credit losses				
Model changes	37,817	-	-	37,817
Transfers in (out) to personal loans	-	(45,000)	-	(45,000)
Remeasurements	-	1,618	-	1,618
Balance, end of year	37,817	1,618	-	39,434

Allowance for credit losses - personal loans:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	-	-	-	-
Provision for credit losses				
Model changes	428	-	-	428
Transfers in (out) to residential mortgages	-	-	45,000	45,000
Remeasurements	-	-	(1,260)	(1,260)
Balance, end of year	428	-	43,740	44,168

Allowance for credit losses - commercial loans:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance, beginning of year	-	-	-	-
Provision for credit losses				
Model changes	1,463	-	-	1,463
Balance, end of year	1,463	-	-	1,463

8. Allowance for Credit Losses (cont...):

Key inputs and assumptions:
The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected credit losses include the following:

- changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal risk ratings and credit scores;
- changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which our models are calibrated, which are those most closely correlated with credit losses in the relevant portfolio;
- changes in scenario design and the weights assigned to each scenario; and
- transfers between stages, which can be triggered by changes to any of the above inputs.

Transfers between stages:
Transfers between Stage 1 and Stage 2 are based on the assessment of significant increases in credit risk relative to initial recognition, as described in Note 3. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses. During the year ended December 31, 2019, there were no transfers between any of the stages.

Credit risk exposure by internal risk rating
The following tables present the gross carrying amount of loans measured at amortized cost, and the full contractual amount of undrawn loan commitments subject to the impairment requirements of IFRS 9. Risk ratings are based on internal ratings as at the reporting date and are determined by management.

Loans outstanding - residential mortgages:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	79,833,651	299,940	-	80,133,591
Medium risk	1,512,266	97,804	-	1,610,070
High risk	-	-	-	-
	81,345,917	397,744	-	81,743,661

	2018			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	72,319,543	308,814	-	72,628,357
Medium risk	1,362,527	100,839	-	1,463,366
High risk	-	-	-	-
	73,682,070	409,653	-	74,091,723

8. Allowance for Credit Losses (cont...):

Loans outstanding - personal loans:

2019

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	1,584,092	-	-	1,584,092
Medium risk	535,797	-	-	535,797
High risk	-	-	40,758	40,758
	2,119,889	-	40,758	2,160,647

2018

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	1,043,648	-	-	1,043,648
Medium risk	597,222	-	-	597,222
High risk	357	-	48,580	48,937
	1,641,227	-	48,580	1,689,807

Loans outstanding - commercial loans:

2019

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	2,258,082	494,628	-	2,752,710
Medium risk	15,748	-	-	15,747
High risk	-	-	-	-
	2,273,830	494,628	-	2,768,457

2018

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	2,304,507	519,355	-	2,823,862
Medium risk	20,891	-	-	20,891
High risk	-	-	-	-
	2,325,398	519,355	-	2,844,753

8. Allowance for Credit Losses (cont...):

Aging Analysis

	December 31, 2019		December 31, 2018	
	Carrying Value	Allowance for Credit Losses	Carrying Value	Specific Provision
	$	$	$	$
Period of delinquency				
Less than 30 days	116,133	66	343,344	1,618
30-90 days	-	-	-	-
Over 90 days	-	-	-	-
Total loans in arrears	116,133	66	343,344	1,618
Total loans not in arrears	86,464,917	91,649	78,197,874	83,447
Accrued interest	123,608	-	115,860	-
Total loans	86,704,658	91,715	78,657,078	85,065

9. Other Assets:

	2019	2018
	$	$
Accounts Receivable	10,076	5,027
Prepaid Expenses	38,770	26,154
Prepaid Broker Mortgage Fees	98,904	126,941
Prepaid Broker Deposit Fees	14,428	3,019
Dividend Receivable	20,604	8,413
	182,782	169,554

10. Property and Equipment:

Property and equipment comprise of owned and leased assets that do not meet the definition of investment property.

	2019	2018
	$	$
Property and equipment owned	742,555	805,637
Right-of-use assets (Note 10)	295,456	-
	1,038,011	805,637

10. Property and Equipment (cont...):

	Land	Buildings	Computer Equipment	Computer Software	Office Equipment and Vehicle	Leasehold Improvements	Total
	$	$	$	$	$	$	$
Cost							
Balance at January 1, 2018	158,908	869,664	253,300	149,682	553,313	244,213	2,229,080
Additions	-	-	841	-	116,400	-	117,241
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2018	158,908	869,664	254,141	149,682	669,713	244,213	2,346,321
Additions	-	-	3,298	-	6,657	5,057	15,012
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2019	158,908	869,664	257,439	149,682	676,370	249,270	2,361,333
Accumulated Depreciation							
Balance at January 1, 2018	-	429,214	231,722	139,325	476,085	185,071	1,461,417
Additions	-	21,740	10,132	3,315	26,641	17,440	79,268
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2018	-	450,954	241,853	142,640	502,726	202,511	1,540,684
Additions	-	21,740	7,242	2,829	32,842	13,441	78,094
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2019	-	472,694	249,095	145,469	535,568	215,952	1,618,778
Net Book Value							
December 31, 2018	158,908	418,710	12,288	7,042	166,987	41,702	805,637
December 31, 2019	158,908	396,970	8,344	4,213	140,802	33,318	742,555

11. Leases:

The Credit Union has leases for both the Lighthouse and Hornby branch locations and a vehicle. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset, included in property and equipment, and a lease liability. Information about leases for which the Credit Union is a lessee is presented below.

Right-of-Use Assets

	Property	Vehicles	Total
	$	$	$
Balance at January 1, 2019	111,183	50,852	162,035
Additions	153,679	-	153,679
Depreciation	(10,798)	(9,460)	(20,258)
Balance at December 31, 2019	254,064	41,392	295,456

11. Leases (cont...):

Lease Liabilities

Maturity Analysis - Contractual Undiscounted Cashflows

	2019 $
Less than one year	49,693
One to five years	181,994
More than five years	113,462
Total Undiscounted Lease Liabilities	345,149
Lease Liabilities Included in the Statement of Financial Position	308,990
Current	38,256
Non-Current	270,734
	308,990

Amounts Recognized in:

Financial Expenses:	
Interest on Lease Liabilities	7,341
Operating Expenses:	
Expenses Relating to Short-Term Leases Recognised in Operating Expenses	874
Expenses Relating to Leases of Low-Value Assets Recognized in Operating Expenses	900

Real Estate Leases
The Credit Union leases land and building space for both the Hornby Island and Lighthouse branch locations. The leases range from 5 years for the Lighthouse Branch and 20 years for the Hornby Island Branch. At expiry of the lease, both locations include a clause stating that tenancy will continue on a month-to-month basis on the same terms as set out in the original lease. As such, future terms have not been factored into the calculations relating to these leases.

Other Leases
The Credit Union leases a 2019 Chevrolet Bolt EV, with a lease term of 4 years. The lease includes a purchase option at the end of the contract term which has been factored into the present value calculation of the lease liability on the assumption that the vehicle will be bought out at its residual value (inclusive of tax) at the end of the term. At December 31, 2019, the Credit Union estimates that the expected amount payable under the residual value guarantee is $15,375.

The Credit Union also leases office equipment with contract terms of 1 to 5 years. These leases are short-term and/or leases of low-value assets. The Credit Union has elected to not recognize right-of-use assets and lease liabilities for these leases.

12. Intangible Assets:

	December 31 2018	Additions	Disposals	December 31 2019
	$	$	$	$
Integrated Online Banking System				
Cost	107,178	-	-	107,178
Accumulated Depreciation	37,513	10,718	-	48,231
	69,665	(10,718)	-	58,947
Banking Software				
Cost	932,101	99,332	-	1,031,433
Accumulated Depreciation	293,541	104,788	-	398,329
	638,560	(5,456)	-	633,104
Software License				
Cost	107,000	-	-	107,000
Accumulated Depreciation	14,267	10,700	-	24,967
	92,733	(10,700)	-	82,033
Intangible Assets - Net Book Value	800,958	(26,874)	-	774,084

13. Demand Loan:

The Demand Loan represents a Demand Loan Facility held with Central 1 Credit Union and bares interest at the Canadian Dollar Offered Rate with a 50 basis point spread and a standby fee varying from 5 to 20 basis point spread. The demand facility represents a Line of Credit with an authorized limit of $2,500,000 available until January 31, 2020 and a reduced limit of $1,000,000 available until June 30, 2020.

14. Members' Deposits:

	2019	2018
	$	$
Demand	38,910,914	37,222,052
Term Deposits	36,531,827	30,195,822
Registered Savings Plans	6,422,226	6,066,415
Registered Retirement Income Funds	2,775,526	2,298,329
Tax Free Savings Accounts	4,190,924	4,880,505
Accrued Interest	278,852	186,760
	89,110,269	80,849,883

Terms and Conditions
Demand deposits are due on demand and bear interest at variable rates up to 1.05% at December 31, 2019. Interest is calculated monthly and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2019 range from 0.15% to 2.50%.

14. Members' Deposits (cont...):

Terms and Conditions (cont...)
The registered savings plans can be fixed or variable rate. The fixed rate plans have terms and rates similar to the term deposit accounts described above. Variable rate plans entered into at December 31, 2019 bear interest at rates up to 0.25%.

Registered retirement income funds (RRIF) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

Included in demand deposits is an amount of $357,873 (2018 - $290,713) denominated in US dollars.

Fair Value
The fair value of members' deposits at December 31, 2019 was $89,110,269 (2017 - $80,849,883).

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

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

	2019		2018	
	Principal $	Yield	Principal $	Yield
Variable Rate	44,796,659	0.36%	43,811,882	0.35%
Fixed rate due less than one year	8,730,770	1.60%	9,865,963	1.47%
Fixed rate due between one and five years	35,582,840	2.34%	27,172,038	1.89%
	89,110,269	1.27%	80,849,883	1.00%

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

All members' deposits are with members located in and around Vancouver Island, British Columbia.

15. Accounts Payable:

	2019 $	2018 $
Trade accounts payable	98,364	112,635
Performance compensation payable	65,700	29,760
RRSP and RRIF withholding tax payable	2,991	920
	167,055	143,315

16. Provision for Income Taxes:

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 38% (2018 - 40%) are as follows:

	2019 $	2018 $
Net income before tax	537,495	359,621
Expected federal taxes based on statutory rate of 38%	204,248	136,656
Expected provincial taxes based on statutory rate of 2%	10,750	7,192
Reduction due to small business deduction 19% (2018 - 18%) and federal abatement (10%)	(155,874)	(100,694)
Other adjustments	(532)	(1,974)
Current income tax expense	58,592	41,180

The deferred tax liability of $47,034 (2018 - $47,034) recognized on the Statement of Financial Position is primarily due to the temporary difference between the tax and accounting treatment of property and equipment. Deferred taxes of the Credit Union that are expected to reverse in the future have been measured using a weighted average effective tax rate of 11% (2018 - 12%).

The year over year variance with the reduction of the small business tax rate in 2019 is not considered to be material to the effective tax rate and its application to the deferred tax liability. The variance in the deferred tax liability as at December 31, 2019 compared to December 31, 2018 is considered to be insignificant and as a result the deferred tax liability has not been further adjusted. The full amount of the deferred tax liability is expected to be settled after more than 12 months.

17. Members' Shares:

	2019		2018	
	Equity $	Liability $	Equity $	Liability $
Membership Shares	-	(332,359)	-	(342,758)
Non-Equity Shares	-	(3,805,205)	-	(4,385,210)
	-	(4,137,564)	-	(4,727,968)

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

17. Members' Shares (cont...):

Terms and Conditions

Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $25 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by CUDIC. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 23), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability.

Non-Equity Shares

Non-equity shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash. They are redeemable subject to the Credit Union maintaining adequate regulatory capital (see Note 23). Where the Credit Union has met its regulatory capital requirements, the non-equity shares are deemed to be a compound instrument and are accounted for in accordance with IAS 32 - Financial Instrument Presentation and IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments.

	2019		2018	
Distribution to Members	Expense $	Equity $	Expense $	Equity $
Membership Shares (2.5%, 2018 - 2.5%)	8,066	-	5,413	-
Non-Equity Shares (1%, 2018 - 1%)	35,198	-	30,469	-
	43,264	-	35,882	-
Actual Dividends Paid	43,951	-	47,741	-
Accrual Differences	(687)	-	(11,859)	-

18. Other Income:

	2019 $	2018 $
Service Charges	171,290	173,675
Mortgage Penalties	60,267	60,635
NSF Fees	6,875	7,270
Miscellaneous	58,405	51,804
Realized Foreign Exchange Gains (Losses)	27,109	41,909
Cumis Premiums Income	20,001	22,278
	343,947	357,571

19. Operating Expenses:

	2019 $	2018 $
Advertising	42,770	60,949
Bad Debt	7,037	40,349
Computer Processing	127,281	101,343
Directors	21,506	21,965
Donations	23,902	16,142
Insurance	20,818	31,999
Janitor and Supplies	21,900	21,900
Licences and Dues	77,894	151,455
Office and Sundry	205,370	199,624
Professional and Consulting Fees	49,112	50,922
Property Taxes	26,072	27,061
Repairs and Maintenance	23,753	46,634
Rent	25,164	39,700
Telephone	10,628	13,994
Training	33,994	28,926
Travel	12,869	11,057
Utilities	17,017	16,114
Vehicle Lease	-	2,959
	747,087	883,093

20. Wages and Benefits:

	2019 $	2018 $
Salaries	973,375	1,083,484
Benefits	139,664	149,826
Staff RRSP Contributions	66,215	70,153
	1,179,254	1,303,463

21. Related Party Transactions:

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

21. Related Party Transactions (cont...):

	2019	2018
	$	$
Compensation		
Salaries and other short-term benefits	409,869	523,120
Loans to key management personnel		
Aggregate value of loans advanced	1,971,113	1,764,146
Interest received on loans advanced	61,591	35,777
Total value of lines of credit advanced	40,073	9,705
Interest received on lines of credit advanced	1,056	714

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions, except for favourable interest rates, which apply to members for each class of loan. When an employee is no longer an employee of the Credit Union, the favourable interest rate will be cancelled and the rate is adjusted to the rate of interest in effect on the loan agreement.

Favourable interest rates for staff and key management are as follows:

- personal loans and lines of credit will be available at rates between the Central 1 prime rate less one-half percent and the Central 1 prime rate less one and one-half percent;
- personal loans for the purpose of computer purchase or upgrade will be available interest free, up to $3,000 for a term not to exceed thirty months; and
- residential mortgages will be available at the Credit Union's posted prime residential mortgage rate less one half percent of the Credit Union Central of BC Weekly Interest Rate Survey, excluding interest or virtual banks rates, whichever is less, for the term selected by the employee.

	2019	2018
	$	$
Deposits from key management personnel		
Aggregate value of term and savings deposits and RRSPs	1,287,183	1,200,637
Total interest paid on term and saving deposits and RRSPs	22,507	10,088

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

Favourable interest rates for staff are as follows:

- employees' RRSP term deposits or investments with the Credit Union will be given the best rate, as per the Credit Union Central of BC Weekly Interest Rate Survey, excluding interest or virtual banks rates, plus one quarter of one percent or the Credit Union's posted rate plus one quarter of one percent, whichever is greater.

22. Risk Management:

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

Credit Risk

Credit risk is defined as the risk of financial loss due to a borrower failing to meet its obligations in accordance with contractual terms and arises from direct lending, trading and investment activities. Granting loans to members is one of the Credit Union’s primary sources of income, and the Credit Union grants credit after thorough consideration of a member’s credit history, character, collateral, and capacity for debt. Members' financial situations are monitored through the life of the loan and all current receivables are expected to be collected. Debt that appears to be in arrears is impaired to the extent that a loss is expected.

To manage credit risk, the Credit Union secures collateral against certain loans. In the event that a member is unwilling or unable to meet their obligations as a borrower, security is liquidated to repay the obligation to the Credit Union. Collateral is taken on each loan funded with regard to the owner’s overall credit worthiness, including credit history, character, capacity for debt, and type of loan granted. Collateral is generally secured for each type of loan as follows:

Loan Type	Nature of collateral obtained
Mortgage Loans	Mortgage loans are secured by real property. The Credit Union members generally have at least a 20% equity interest in the property being mortgaged.
Term Loans and Lines of Credit	Term loans and lines of credit are generally secured by assets. Members generally have at least a 20% equity interest in these assets. Loans and lines of credit can also be unsecured. The risk of these unsecured term loans and lines of credit are reflected in the rate of the loan.

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

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

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

22. Risk Management (cont...):

Fair Value Risk

Investments classified as available for sale represent shares held in Central 1 and CUPP Services Ltd. The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

	Level 1 $	Level 2 $	Level 3 $	Total $
December 31, 2019				
Central 1 Credit Union - Class A&F	-	376,484	-	376,484
Other Equity Investments	-	-	26,081	26,081
	-	376,484	26,081	402,565
December 31, 2018				
Central 1 Credit Union - Class A&F	-	347,994	-	347,994
Other Equity Investments	-	-	26,081	26,081
	-	347,994	26,081	374,075

Liquidity Risk

Liquidity risk is defined as the risk that the Credit Union will be unable to pay obligations when they fall due, become unable to repay depositors when funds are withdrawn, or become unable to meet commitments to lend money. The Credit Union manages liquidity risk by monitoring the maturity profiles of financial assets and liabilities and maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

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

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

Provisions of the Credit Unions Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 12% internally while the BC Financial Services Authority (BCFSA) requires a minimum of 8%. The liquidity ratio at December 31, 2019 was 12.2% (2018 - 12.6%).

22. Risk Management (cont...):

Liquidity Risk (cont...)

As at December 31, 2019, the position of the Credit Union relative to the BCFSA liquidity policy of 8% and the internal policy of 12% is as follows:

	Maximum Exposure BCFSA $	Maximum Exposure Internal Policy $
Qualifying liquid assets on hand		
Cash	655,992	655,992
Liquidity Reserve Deposit	10,900,207	10,900,207
	11,556,199	11,556,199
Total Liquidity Requirement	7,556,613	11,334,920
Excess Liquidity Requirement	3,999,586	221,279

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

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

Market Risk

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

Interest Rate Risk

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

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

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to BCFSA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with BCFSA as required by Credit Union regulations. For the year ended 2019, the Credit Union was in compliance with this policy.

22. Risk Management (cont...):

Market Risk (cont...)

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating interest rates, or due on demand, are classified as maturing within 3 months, regardless of maturity. Amounts that are not interest rate sensitive are grouped together regardless of maturity.

Interest Rate Risk

The table below does not incorporate management's expectation of future events where repricing maturity dates of certain loans and deposits differ significantly from contractual dates.

	Within 3 Months	4 Months to 1 Year	1 Year to 5 Years	Non-Interest Rate Sensitive	Total
	$	$	$	$	$
Assets	15,227,564	18,696,609	63,648,799	2,695,849	100,268,821
Liabilities and Equity	(45,267,342)	(8,260,087)	(35,582,840)	(11,158,552)	(100,268,821)
2019	(30,039,778)	10,436,522	28,065,959	(8,462,703)	
2018	(30,900,917)	3,773,666	34,424,627	(7,297,376)	

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net income of $231,018, while a decrease in interest rates of 1% could result in an increase to net income of $231,018.

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

Currency Risk

Currency risk is the uncertainty as a result of transactions conducted in different currencies. Management has assessed that the Credit Union is not significantly exposed to currency risk.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings. Management has assessed that the Credit Union is not significantly exposed to equity risk.

23. Capital Requirements:

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis.

23. Capital Requirements (cont...):

Capital requirements are regulated by BCFSA. A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained. The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union monitors the ratio for major movements in risk weighted asset levels. At December 31, 2019 the Credit Union has met its minimum regulatory requirements.

24. Commitments and Contractual Obligations:

Member Loans
The Credit Union had the following outstanding commitments not reflected in the Statement of Financial Position at year end:

	2019	2018
	$	$
Letters of credit for members	50,500	63,492
Unadvanced loans and lines of credit	10,207,612	9,389,503
	10,258,112	9,452,995