UNION BAY CREDIT UNION

FINANCIAL STATEMENTS
December 31, 2018

UNION BAY CREDIT UNION

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Year Ended December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

December 31, 2018

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, 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 20, 2019

CHAN NOWOSAD BOATES
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of the Union Bay Credit Union

Report on the Audit of the Financial Statements

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, 2018, and the statements 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.

In our opinion, the Credit Union's financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Credit Union as at December 31, 2018, 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.

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 Auditors' 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statement of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected Credit Loss on Loans to Members

Under IFRS 9 - Financial Instruments, the Credit Union is required to recognize impairment of financial instruments using the expected credit loss model. This impairment calculation was significant to the audit because of the total loans to members of $78,626,283 and the estimated uncertainty that exists around the collection of the balance outstanding. The allowance for impaired loan balance of $85,065 as of December 31, 2018 is also material to the financial statements. Management's assessment process is based on assumptions made as a result of the Credit Union's past experience and managements experience with delinquency and credit losses. The probability of default and qualitative factors that could affect delinquency, such as death or separation cause a degree of estimation uncertainty. Management mitigates this estimation uncertainty by way of applying their knowledge and their experience with borrowers from the Credit Union to the estimate as well applying their understanding of the borrowers personal circumstances when reviewing the estimates.

Our audit procedures included, among others, determining the reasonability of the the methodologies, assumptions and data used by the Credit Union, in particular those assumptions relating to the forecast of future delinquent loans. We focused on the adequacy of the Credit Union's disclosures about those significant assumption to which the outcome of the impairment test is most sensitive, that is, those have the most significant effect on the determination of the recoverable amount of the loans to members and cause the high degree of estimation uncertainty.

The Credit Union's disclosures about the expected credit loss model are included in Note 6 and Note 7 of the audited financial statements. These notes specifically explain the changes in significant assumptions that could give rise to an impairment of the expected credit loss balance in the future.

Key Audit Matters (cont...)

We did not identify any other matters or items that we would consider to be Key Audit Matters and that were of material significance to the audit, the financial statements or notes to the financial statements.

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

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's 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 auditors' 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. 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.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chan Nowosad Boates Inc.

Chartered Professional Accountants
Courtenay, BC

February 20, 2019

UNION BAY CREDIT UNION

Statement of Financial Position

December 31, 2018

	2018	2017
	$	$
ASSETS		
Cash (Note 4)	1,847,834	1,114,879
Investments (Note 5)	9,520,976	16,619,525
Loans to Members (Notes 6 and 7)	78,657,078	70,689,198
Income Taxes Recoverable	-	19,892
Other Assets (Note 8)	169,554	275,470
Property and Equipment (Note 9)	805,637	767,663
Intangible Assets (Note 10)	800,958	840,424
	91,802,037	90,327,051
LIABILITIES		
Demand Loan (Note 11)	1,000,000	-
Members' Deposits (Note 12)	80,849,883	81,078,062
Accounts Payable (Note 13)	143,315	205,181
Income Taxes Payable	1,505	-
Deferred Income Tax Liability (Note 14)	47,034	47,034
Dividends Payable	47,741	53,389
Members' Shares (Note 15)	4,727,969	4,277,236
	86,817,447	85,660,902
MEMBERS' EQUITY		
Retained Earnings	4,984,590	4,666,149
	91,802,037	90,327,051

APPROVED ON BEHALF OF THE BOARD:

Hadden

Director　　　Director

UNION BAY CREDIT UNION

Statement of Income and Comprehensive Income

Year Ended December 31, 2018	2018	2017
	$	$
Financial Income		
Loan Interest	2,876,950	2,584,737
Investment	269,544	260,077
	3,146,494	2,844,814
Financial Expenses		
Interest on Deposits	704,973	756,021
Interest on Borrowed Funds	16,526	6,321
	721,499	762,342
Financial Margin - 77% (2017 - 73%)	2,424,995	2,082,472
Other Income (Note 16)	357,571	328,199
Earnings Before Operating Expenses	2,782,566	2,410,671
Operating Expenses		
Depreciation	200,507	152,693
Operating Expense **(Note 17)**	883,093	818,621
Wages and Benefits **(Note 18)**	1,303,463	1,167,423
	2,387,063	2,138,737
Net Earnings from Operations Before Distributions and Tax	395,503	271,934
Distributions to Members (Note 15)	35,882	50,116
Net Earnings from Operations Before Tax	359,621	221,818
Provision for Income Taxes (Note 14)	41,180	36,615
Net Income and Total Comprehensive Income	318,441	185,203

UNION BAY CREDIT UNION

Statement of Changes in Members' Equity

Year Ended December 31, 2018

	Retained Earnings
	$
Balance at January 1, 2017	4,480,946
Net Income	185,203
Balance on December 31, 2017	4,666,149
Net Income	318,441
Balance on December 31, 2018	4,984,590

Statement of Cash Flows

Year Ended December 31, 2018

	2018	2017
	$	$
Cash Flows From Operating Activities:		
Interest Received from Loans and Investments	3,146,494	2,844,814
Interest Paid on Deposits and Borrowed Funds	(721,499)	(762,342)
Increase in Members' Deposits and Shares	222,554	4,542,810
Loans to Members	(7,967,880)	(3,502,085)
Cash Paid to Suppliers and Employees	(1,784,929)	(1,707,130)
Dividends Paid to Members	(41,530)	(38,799)
Income Taxes (Paid) Recovered	(19,783)	3,001
	(7,166,573)	1,380,269
Cash Flows From Financing Activities:		
Increase in Demand Loan	1,000,000	-
Cash Flows From Investing Activities:		
Purchase of Equipment and Software	(199,021)	(106,240)
Net (Purchases) Sales of Investments	7,098,549	(4,904,480)
	6,899,528	(5,010,720)
Net Increase (Decrease) in Cash and Cash Equivalents	732,955	(3,630,451)
Cash and Cash Equivalents - Beginning of Year	1,114,879	4,745,330
Cash and Cash Equivalents - End of Year	1,847,834	1,114,879

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 20, 2018. The Board of Directors has the authority to amend the financial statements after issue.

2. Significant Accounting Policies:

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 3.

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

Policies applicable beginning January 1, 2018 (IFRS 9):

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 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.

Policies applicable prior to January 1, 2018 (IAS 39):

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.

2. 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

Changes in accounting policies:
As of January 1, 2018, the Credit Union adopted IFRS 9, Financial Instruments (IFRS 9). As a result, the Credit Union changed its accounting policies in the areas indicated below. On transition, there were no material differences identified as of January 1, 2018 between previously applied accounting policies and those in effect at December 31, 2018; accordingly, all comparative period information is presented in accordance with its 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.

IFRS 9 mandatory reclassifications:

	IFRS 9 January 1, 2018		**IAS 39** December 31, 2017	
	Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
		$		$
Financial assets:				
Investments	FVOCI	16,619,525	Available-for-Sale	16,619,525
Loans	Amortized Cost	70,689,198	Loans & Receivables	70,689,198

Policies applicable beginning January 1, 2018 (IFRS 9):

(i) Classification of financial assets:
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"), fair value through other comprehensive income ("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. The Credit Union initially recognizes loans and receivables and deposits on the date that they originated. Any other financial assets are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument

Loans:
Loans are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial asset policies provided below. The majority of the Credit Union's loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

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

c) Financial Instruments (cont...)

Allowance for Credit Losses:
An allowance for credit losses ("ACL") is established for all financial assets, except for financial assets classified or designated as FVTPL and securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, customers' liabilities under acceptances and accounts and accrued interest receivable. ACL on loans is presented in the allowances for loan losses and as a bad debt expense in Note 17 of these financial statements.

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 on the principal amount outstanding (SPPI).

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 Held-to-Collect and Sell (HTC&S), and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

The Credit Union at December 31, 2018 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.

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

c) Financial Instruments (cont...)

SPPI assessment
Instruments held within the HTC business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest (SPPI). SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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 year ended December 31, 2018 and 2017, 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, 2018 and 2017, the Credit Union's AFS assets consist 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 allowance for credit losses. At December 31, 2018 and 2017, the Credit Union's loans and receivables principally consist of loans and advances to members and other receivables.

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

c) Financial Instruments (cont...)

Amortized Cost (cont...)
For loans carried at amortized cost, impairment losses are recognized at each balance sheet date in accordance with the three stage impairment model outlined below under Allowance for Credit Losses - subparagraph (iii) which the Credit Union follows.

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, 2018 and 2017, other financial liabilities consist of accounts payable and accrued liabilities, borrowings, deposits and member shares.

(ii) 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.

(iii) Allowance for Credit Losses:
An allowance for credit losses (“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 17 of these financial statements.

The Credit Union measures the ACL on each balance sheet 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.

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

c) Financial Instruments (cont...)

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, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage transfers are recorded in ACL. Write-offs and recoveries of amounts previously written off are recorded against 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.

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.

Expected life
For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the Credit Union has the contractual ability to demand repayment and cancel the undrawn commitment; and (c) the Credit Unions exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which the Credit Union's exposure to credit losses is not mitigated by the Credit Unions normal credit risk management actions. This period varies by product and risk category and is estimated based on the Credit Unions historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include overdraft balances and certain revolving lines of credit. Judgment is required in determining the instruments in scope for this exemption and estimating the appropriate remaining life based on the Credit Unions historical experience and credit risk mitigation practices.

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

c) Financial Instruments (cont...)

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 fulfill 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.

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.

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

c) Financial Instruments (cont...)

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.

Individually assessed loans (Stage 3)
When individually significant loans are identified as impaired, the Credit Union reduces the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest.

Individually-assessed allowances are established in consideration of a range of possible outcomes, which may include macroeconomic or non-macroeconomic scenarios, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgment is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on PCL and may result in a change in the ACL.

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.

(iv) Derecognition of Financial Instruments
Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Policies applicable prior to January 1, 2018 (IAS 39):

(i) Categorization, Measurement and Recognition:
Management determines the categorization of its financial assets and liabilities at initial recognition. The Credit Union initially recognizes loans and receivables and deposits on the date that they originated. Any other financial assets are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union's financial assets may be categorized as one of the following: fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") and loans and receivables. Financial liabilities are categorized as either FVTPL or as other financial liabilities.

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

c) Financial Instruments (cont...)

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. Gains and losses on assets and liabilities classified as FVTPL are recorded in net earnings from operations. During the year ended December 31, 2017, the Credit Union did not designate any financial assets at FVTPL upon initial recognition.

Loans to Members and Receivables:
All loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses. At December 31, 2017, the Credit Union's loans and receivables principally consist of loans and advances to members and other receivables.

Available-for-Sale:
Available-for-Sale ("AFS") assets are those non-derivative financial assets that are designated as AFS, are not classified or designated as FVTPL, or do not qualify as loans and receivables. AFS assets are recorded at fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset 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, 2017, the Credit Union's AFS assets consist of equity investments.

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, 2017, other financial liabilities consist of accounts payable and accrued liabilities, borrowings, deposits and member shares.

(ii) 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.

(iii) Impairment of Financial Assets
The Credit Union assesses, at each statement of financial position date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

c) Financial Instruments (cont...)

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets.

Financial Assets Classified as Loans and Receivables:
For the purposes of an individual evaluation of impairment, the amount of the impairment loss on a fixed rate financial instrument is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all necessary procedures have been completed and the amount of the loss is determined. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account.

Assets Classified as Available-for-Sale:
At each statement of financial position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS equity security below its cost is considered objective evidence in determining whether the asset is impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in net earnings, is reclassified from members' equity and recognized in the statement of income and comprehensive income. Impairment losses recognized in the statement of income and comprehensive income on equity instruments are not reversed.

(iv) Derecognition of Financial Instruments
Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

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

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.

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.

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

g) Interest Income and Expenses (cont...)

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.

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 are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

l) Distribution to Members

Patronage rebates and dividends are recorded as a distribution to members when declared in the statement of income and comprehensive income.

m) Changes to accounting standards not described above

IFRS 15:

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". IFRS 15 has replaced IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations to provide additional revenue recognition guidance. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

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

m) Changes to accounting standards not described above (cont...)

IFRS 15 was adopted and applied by the Credit Union as of January 1, 2018. The adoption of this standard did not have any impact on the amounts recognized in prior periods or the current period and will not affect future periods as the majority of the Credit Union's revenues are comprised of interest and investment income, which is out of the scope of IFRS 15 and is covered in IFRS 9. The principal areas of impact for the Credit Union under IFRS 15 would be the timing of banking fees, which are already reported and disclosed as required under the standard.

n) Standards, Amendments and Interpretations Not Yet Effective

At December 31, 2018, one standard and interpretation, and amendment thereto, had been issued by the IASB, that relates to the Credit Union and which was not effective for these financial statements. It is set out below:

IFRS 16 - Leases was introduced by the IASB in January 2016 to provide refined guidance over lease accounting and replace the current standard, IAS 17. The core principal of IFRS 16 is that all leases unless under $5,000 in value or 1 year in length will now be considered finance leases and will be presented on the Statement of Financial Position as an asset with an offsetting liability. The standard is tentatively effective for annual periods beginning on or after January 1, 2019. The Credit Union is in the process of evaluating the impact of the new standard but does not anticipate it to have a material impact on its financial statements as the Credit Union owns the land and building on which its corporate office and main branch operate from.

3. 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.

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 2 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.

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

Member Loan Loss Provision (cont...)
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 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.

4. Cash Resources:

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 1.28% (2017 - 0.68%).

5. Investments:

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

Central 1 Deposits

	2018 $	2017 $
Central 1 Investments	9,146,901	16,281,609

5. Investments (cont...):

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 assets upon withdrawal of membership from Central 1. The liquidity reserves are due within five years. At maturity, these deposits are reinvested at market rates for various terms.

Equity Instruments

	2018	2017
	$	$
Central 1 Credit Union Shares	347,994	313,412
Credit Union Protection Plan Shares	26,023	24,446
Stabilization Central Credit Union Shares	58	58
	374,075	337,916

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.

6. Loans to Members:

IFRS 9

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

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

IAS 39

2017

	Principal Balance	Accrued Interest	Impaired Loans	Allowance for Impaired Loans	Net Loans
	$	$	$	$	$
Residential Mortgages	60,135,639	92,249	73,900	45,000	60,182,888
Personal Loans	7,169,250	1,139	-	-	7,170,389
Commercial Loans	3,329,441	6,480	-	-	3,335,921
	70,634,330	99,868	73,900	45,000	70,689,198

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

Variable rate loans are based on a Central 1 "prime rate" formula, ranging from prime minus 0.50% to prime plus 13.80%. 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, 2018 was 3.95%. The Credit Union's prime rate at December 31, 2018 was 3.95%.

Interest rates offered on fixed rate loans being advanced at December 31, 2018 range from 1.79% to 7.00%. 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:

	IFRS 9		IAS 39	
	Principal	2018 Yield	Principal	2017 Yield
	$		$	
Variable Rate	9,349,859	5.08%	9,816,900	4.32%
Fixed rate due less than one year	17,200,735	3.65%	15,364,662	3.82%
Fixed rate due beyond one year	52,075,689	3.79%	45,452,768	3.61%
	78,626,283	3.91%	70,634,330	3.76%

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:

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

	IFRS 9 2018 $	IAS 39 2017 $
Unsecured loans	666,693	635,294
Loans otherwise secured	1,091,786	872,661
Loans secured by real estate	76,867,804	69,126,376
	78,626,283	70,634,331
Accrued interest	115,860	99,867
Allowance for impaired loans	(85,065)	(45,000)
	78,657,078	70,689,198

Fair Value
The fair value of member loans at December 31, 2018 was $77,371,021 (December 31, 2017 - $85,853,794). 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:

	IFRS 9 2018 $	IAS 39 2017 $
Residential mortgages	129,897	640,524
Personal loans	645,802	602,609
Commercial loans	20,891	32,684
	796,590	1,275,817

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

Insured vs. Uninsured Loans and Lines of Credit (IFRS 9)
The Credit Union has limited their exposure to risk by having a small portion of the total balance of loans and lines of credit insured so that there is no risk of loss. The insured balances are as follows:

	Insured $	Uninsured $	Total $
Residential mortgages	7,029,938	67,061,785	74,091,723
Personal loans	160,005	1,529,803	1,689,808
Commercial loans	-	2,844,753	2,844,753
	7,189,943	71,436,340	78,626,283
Accrued interest			115,860
Allowance for impaired loans			(85,065)
			78,657,078

7. Allowance for Credit Losses:

Allowance for credit losses (IFRS 9)

	2018		
	Balance at Beginning of Period	Provision for 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 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.

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 Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Transfers in (out) to personal loans	-	(45,000)	-	(45,000)
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	-	1,618	-	1,618
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance, end of year	37,817	1,618	-	39,434

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

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 Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Transfers in (out) to residential mortgages	-	-	45,000	45,000
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	-	-	(1,260)	(1,260)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
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
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Transfers in (out) to personal loans	-	-	-	-
Purchases and originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Remeasurements	-	-	-	-
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance, end of year	1,463	-	-	1,463

7. 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 2. 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, 2018, there were no transfers between any of the stages.

Movement in individual specific provision for impairment (IAS 39)

	2017			
	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
	$	$	$	$
Balance, beginning of year	-	40,000	-	40,000
Collection of accounts	-	-	-	-
Accounts written off	-	(18,402)	-	(18,402)
Provision for impaired loans	23,402	-	-	23,402
Balance, end of year	23,402	21,598	-	45,000
Gross principal balance of individually impaired loans	73,900	-	-	73,900

Credit risk exposure by internal risk rating (IFRS 9)
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.

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

Loans outstanding - residential mortgages:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Low risk	72,319,543	308,814	-	72,628,356
Medium risk	1,362,527	100,839	-	1,463,366
High risk	-	-	-	-
	73,682,070	409,653	-	74,091,723

Loans outstanding - personal loans:

	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
	1,641,226	-	-	1,689,808

Loans outstanding - commercial loans:

	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	-	-	-	-
	2,325,397	519,355	-	2,844,753

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

Aging Analysis

	IFRS 9 December 31, 2018		IAS 39 December 31, 2017	
	Carrying Value	Allowance for Credit Losses	Carrying Value	Specific Provision
	$	$	$	$
Period of delinquency				
Less than 30 days	343,344	1,618	681,857	-
30-90 days	-	-	-	-
Over 90 days	-	-	53,093	-
Total loans in arrears	343,344	1,618	734,950	-
Total loans not in arrears	78,197,874	83,447	69,854,381	45,000
Accrued interest	115,860	-	99,867	-
Total loans	78,657,078	85,065	70,689,198	45,000

8. Other Assets:

	2018	2017
	$	$
Accounts Receivable	5,027	112,800
Prepaid Expenses	26,154	33,977
Prepaid Broker Mortgage Fees	126,941	114,391
Prepaid Broker Deposit Fees	3,019	774
Dividend Receivable	8,413	13,528
	169,554	275,470

9. Property and Equipment:

	Land	Buildings	Computer Equipment	Computer Software	Office Equipment and Vehicle	Leasehold Improvements	Total
	$	$	$	$	$	$	$
Cost							
Balance at January 1, 2017	158,908	869,664	247,642	149,682	533,589	244,213	2,203,698
Additions	-	-	5,658	-	19,724	-	25,382
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2017	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
Accumulated Depreciation							
Balance at January 1, 2017	-	407,474	214,565	135,959	456,005	168,405	1,382,408
Additions	-	21,740	17,157	3,366	20,080	16,666	79,009
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2017	-	429,214	231,722	139,325	476,085	185,071	1,461,417
Additions	-	21,740	10,131	3,315	26,641	17,440	79,267
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2018	-	450,954	241,853	142,640	502,726	202,511	1,540,684
Net Book Value							
December 31, 2017	158,908	440,450	21,578	10,357	77,228	59,142	767,663
December 31, 2018	158,908	418,710	12,288	7,042	166,987	41,702	805,637

10. Intangible Assets:

	December 31 2017	Additions	Disposals	December 31 2018
	$	$	$	$
Integrated Online Banking System				
Cost	107,178	-	-	107,178
Accumulated Depreciation	26,795	10,718	-	37,513
	80,383	(10,718)	-	69,665
Banking Software				
Cost	850,322	81,779	-	932,101
Accumulated Depreciation	193,714	99,827	-	293,541
	656,608	(18,048)	-	638,560
Software License				
Cost	107,000	-	-	107,000
Accumulated Depreciation	3,567	10,700	-	14,267
	103,433	(10,700)	-	92,733
Intangible Assets - Net Book Value	840,424	(39,466)	-	800,958

11. 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 of 5 bps. The demand facility was repaid on January 7, 2019, subsequent to year-end.

12. Members' Deposits:

	2018 $	2017 $
Demand	37,222,052	37,936,247
Term Deposits	30,195,822	28,853,555
Registered Savings Plans	6,066,415	6,653,530
Registered Retirement Income Funds	2,298,329	1,938,234
Tax Free Savings Accounts	4,880,505	5,423,767
Accrued Interest	186,760	272,729
	80,849,883	81,078,062

Terms and Conditions

Demand deposits are due on demand and bear interest at variable rates up to 1.05% at December 31, 2018. 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, 2018 range from 0.15% to 2.50%.

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, 2018 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 $290,713 (2017 - $175,010) denominated in US dollars.

Fair Value

The fair value of members' deposits at December 31, 2018 was $80,849,883 (2017 - $81,078,062).

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:

	Principal $	2018 Yield	Principal $	2017 Yield
Variable Rate	43,811,882	0.35%	45,259,811	0.32%
Fixed rate due less than one year	9,865,963	1.47%	20,266,095	1.55%
Fixed rate due between one and five years	27,172,038	1.89%	15,552,156	1.77%
	80,849,883	1.00%	81,078,062	0.86%

12. Member Deposits (cont...):

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.

13. Accounts Payable:

	2018 $	2017 $
Trade accounts payable	112,635	179,808
Performance compensation payable	29,760	23,600
RRSP and RRIF withholding tax payable	920	1,773
	143,315	205,181

14. Provision for Income Taxes:

	2018 $	2017 $
Current tax expense	41,180	3,108
Deferred tax expense	-	33,507
	41,180	36,615

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 40% (2017 - 40.12%) are as follows:

	2018 $	2017 $
Net income before tax	359,621	221,818
Expected federal taxes based on statutory rate of 38%	136,656	84,291
Expected provincial taxes based on statutory rate of 2% (2017 - 2.12%)	7,192	4,703
Reduction due to small business deduction (18%; 2017 - 17.5%) and federal abatement (10%)	(100,694)	(61,000)
Other adjustments	(1,974)	8,621
Income tax expense	41,180	36,615

The deferred tax liability of $47,034 (2017 - $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 12% (2017 - 13%). The year over year variance with the reduction of the small business tax rate in 2018 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, 2018 compared to December 31, 2017 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.

15. Members' Shares:

	2018		2017	
	Equity	Liability	Equity	Liability
	$	$	$	$
Membership Shares	-	(342,759)	-	(344,619)
Non-Equity Shares	-	(4,385,210)	-	(3,932,617)
	-	(4,727,969)	-	(4,277,236)

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.

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 22), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

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 22). 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.

	2018		2017	
Distribution to Members	Expense	Equity	Expense	Equity
	$	$	$	$
Membership Shares (2.5%, 2017 - 2.5%)	5,413	-	10,890	-
Non-Equity Shares (1%, 2017 - 1%)	30,469	-	39,226	-
	35,882	-	50,116	-
Actual Dividends Paid	47,741	-	41,530	-
Accrual Differences	(11,859)	-	8,586	-

During the year ended December 31, 2018, the Credit Union reversed a cumulative prior period over-accrual of distributions to members payable and distributions to members expense which totaled $11,859. The reversal of this over-accrual resulted in the reduction of the amount shown as to be distributed to members during the year ending December 31, 2018, which was $47,741, while the expense shows only $35,882.

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

The Credit Union determined that the above noted over-accrual was not material to the financial statements and did not require a prior period adjustment.

During the year ended December 31, 2017, the Credit Union paid out $41,530 in distributions to members. The amount shown as an expense, however, was $50,116.

The Credit Union determined that the above noted over-accrual was not material to the financial statements and did not require a prior period adjustment.

16. Other Income:

	2018 $	2017 $
Service Charges	173,675	174,282
Mortgage Penalties	60,635	53,725
NSF Fees	7,270	13,735
Miscellaneous	51,804	31,988
Realized Foreign Exchange Gains (Losses)	41,909	32,693
Cumis Premiums Income	22,278	21,776
	357,571	328,199

17. Operating Expenses:

	2018 $	2017 $
Advertising	60,949	49,487
Bad Debt	40,349	29,026
Computer Processing	101,343	106,541
Directors	21,965	17,639
Donations	16,142	15,878
Insurance	31,999	32,342
Janitor and Supplies	21,900	22,039
Licences and Dues	151,455	94,139
Office and Sundry	199,624	214,407
Professional and Consulting Fees	50,922	83,462
Property Taxes	27,061	24,681
Repairs and Maintenance	46,634	37,669
Rent	39,700	39,355
Telephone	13,994	14,124
Training	28,926	13,255
Travel	11,057	7,595
Utilities	16,114	16,982
Vehicle Lease	2,959	-
	883,093	818,621

18. Wages and Benefits:

	2018	2017
	$	$
Salaries	1,083,484	952,306
Benefits	149,826	153,237
Staff RRSP Contributions	70,153	61,880
	1,303,463	1,167,423

19. 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.

	2018	2017
	$	$
Compensation		
Salaries and other short-term benefits	523,120	389,561
Loans to key management personnel		
Aggregate value of loans advanced	1,764,146	1,455,315
Interest received on loans advanced	35,777	52,305
Total value of lines of credit advanced	9,705	50,763
Interest received on lines of credit advanced	714	1,626

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
- 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

	2018	2017
	$	$
Deposits from key management personnel		
Aggregate value of term and savings deposits and RRSPs	1,200,637	1,574,461
Total interest paid on term and saving deposits and RRSPs	10,088	32,231

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

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.

20. Financial Instrument Classification and Fair Value:

The following table represents the carrying amount by classification:

	Fair Value through OCI	Fair Value through Profit or Loss	Amortized Cost	Other Financial Liabilities
	$	$	$	$
December 31, 2018 (IFRS 9)				
Cash Resources	-	-	1,847,834	-
Investments	374,075	-	9,146,901	-
Loans to Members	-	-	78,657,078	-
Members' Deposits	-	-	-	80,849,883
Members' Shares	-	-	-	4,727,969
Other Liabilities	-	-	-	1,191,050
	374,075	-	89,651,813	86,768,902

	Available -for-Sale	Fair Value through Profit or Loss	Loans and Receivables	Other Financial Liabilities
	$	$	$	$
December 31, 2017 (IAS 39)				
Cash Resources	-	-	1,114,879	-
Investments	337,916	-	16,281,609	-
Loans to Members	-	-	70,689,195	-
Members' Deposits	-	-	-	81,078,062
Members' Shares	-	-	-	4,277,236
Other Liabilities	-	-	-	258,570
	337,916	-	88,085,683	85,613,868

20. Financial Instrument Classification and Fair Value (cont...):

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, 2018				
Central 1 Credit Union - Class A	-	347,994	-	347,994
Other Equity Investments	-	-	26,081	26,081
	-	347,994	26,081	374,075
December 31, 2017				
Central 1 Credit Union - Class A	-	313,412	-	313,412
Other Equity Investments	-	-	24,504	24,504
	-	313,412	24,504	337,916

21. 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.

21. Risk Management (cont...):

Credit Risk (cont...)

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.

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.

21. Risk Management (cont...):

Liquidity Risk (cont...)

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 Financial Institutions Commission of BC (FICOM) requires a minimum of 8%. The liquidity ratio at December 31, 2018 was 12.6% (2017 - 20.2%).

As at December 31, 2018, the position of the Credit Union relative to the FICOM liquidity policy of 8% and the internal policy of 12% is as follows:

	Maximum Exposure FICOM	Maximum Exposure Internal Policy
	$	$
Qualifying liquid assets on hand		
Cash	1,847,834	1,847,834
Liquidity Reserve Deposit	9,520,976	9,520,976
	11,368,810	11,368,810
Total Liquidity Requirement	6,850,047	10,275,071
Excess Liquidity Requirement	4,518,763	1,093,739

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.

21. Risk Management (cont...):

Market Risk (cont...)

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to 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.

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.

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	13,330,920	13,219,674	61,596,665	3,654,778	91,802,037
Liabilities and Equity	(44,231,837)	(9,446,008)	(27,172,038)	(10,952,154)	(91,802,037)
2018	(30,900,917)	3,773,666	34,424,627	(7,297,376)	
2017	(39,235,717)	(1,108,627)	46,520,137	(6,175,793)	

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 $301,778, while a decrease in interest rates of 1% could result in an increase to net income of $301,778.

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.

22. 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.

Capital requirements are regulated by FICOM. 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, 2018 the Credit Union has met its minimum regulatory requirements.

23. 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:

	2018	2017
	$	$
Letters of credit for members	63,492	82,500
Unadvanced loans and lines of credit	9,389,503	8,765,646
	9,452,995	8,848,146

Contractual Obligations
The Credit Union leases its Bowser branch premises for $2,081 per month under a 5 year lease expiring in November 2019.

The Credit Union also leases its Hornby branch premises for $1,000 per month. The lease is a 20 year lease expiring in October 2031. The lease allows for a change in the base rent amount every 5 years, with the next change on October 15, 2021.

The Credit Union leases a 2019 Chevrolet Bolt EV for $774 per month. The lease term is 4 years, expiring on September 30, 2022.

The Credit Union also leases a Canon IR Adv C256iF printer/scanner for office use purposes for $225 per quarter. The lease term is 5 years and expires on November 4, 2023.