Consolidated Financial Statements of

BLUESHORE FINANCIAL CREDIT UNION

Year ended December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the Financial Institutions Act of British Columbia and International Financial Reporting Standards and include amounts based on informed judgments and estimates of the expected effects of events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel, the application of accounting and administrative policies and procedures necessary to ensure adequate internal control transactions, assets and records, as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and those assets are safeguarded against unauthorized use or disposition.

The Board of Directors has appointed an Audit Committee, comprised of at least three Directors of the Credit Union. The committee meets regularly with management, the internal auditors and the external auditors to review accounting, reporting, auditing, internal control and financial risk matters. The external and internal auditors may access this committee, without management present, to discuss the results of their work if required.

KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements and their report follows. They have had full and free access to the records of the Credit Union, the internal auditors and the Audit Committee of the Board.

Chris Catliff
President and Chief Executive Officer

Richard Butterworth
Chief Financial Officer

February 13, 2019

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of BlueShore Financial Credit Union

Opinion

We have audited the consolidated financial statements of BlueShore Financial Credit Union ("BlueShore"), which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of BlueShore 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 for our opinion.

Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 4 to the financial statements which indicates that BlueShore has changed its accounting policies for accounting for financial instruments in 2018 due to the adoption of IFRS 9 – Financial Instruments.

Our opinion is not modified in respect of this matter.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent
Member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 BlueShore's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate BlueShore or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BlueShore'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 users taken on the basis of the 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 BlueShore'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 BlueShore'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 BlueShore to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 13, 2019

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

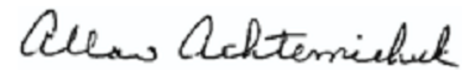
December 31, 2018, with comparative information for 2017

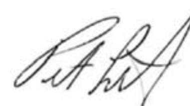
	Notes	2018	2017
Assets			
Cash and cash equivalents	24	$ 127,924	$ 63,815
Interest-bearing deposits with financial institutions		412,002	341,879
Other financial assets	7	19,903	59,135
Derivative financial instruments	8	11,309	11,258
Loans and advances to members	9	3,825,120	3,454,912
Premises and equipment	11	54,968	54,422
Intangible assets	11	6,824	6,549
Other assets	12	3,963	8,031
Income taxes receivable		-	2,566
Deferred income tax	23	1,605	1,605
		$ 4,463,618	$ 4,004,172
Liabilities			
Members' deposits	13	$ 3,967,449	$ 3,483,473
Derivative financial instruments	8	11,293	17,530
Borrowings	14	15,055	85,080
Securitized borrowings	15	233,542	202,361
Accounts payable and accrued liabilities		15,665	16,205
Retirement benefit obligation	16	3,204	3,058
Income taxes payable		2,118	-
Deferred income tax	23	639	1,516
Membership and preferred equity shares	17	1,306	1,274
		4,250,271	3,810,497
Members' Equity			
Equity shares	17	39,812	38,867
Retained earnings		179,164	161,158
Accumulated other comprehensive loss		(5,629)	(6,350)
		213,347	193,675
		$ 4,463,618	$ 4,004,172

Commitments and contingencies 24

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board on February 13, 2019:


Director


Director

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Interest income	18	$ 151,710	$ 122,508
Interest expense	18	74,686	52,068
Net interest income		77,024	70,440
Loan impairment expense	9	2,158	2,685
Fee and commission income	19	14,785	13,168
Other income	19	1,616	2,381
Gain on sale of assets	20	2,213	5,312
Net interest and other income		93,480	88,616
Non-interest expenses:			
Salary and employee benefits	21	40,442	37,646
Building and occupancy	22	7,777	7,574
General and administrative	22	23,257	19,562
		71,476	64,782
Net operating income		22,004	23,834
Community investment		220	238
Income before income taxes		21,784	23,596
Provision for income taxes:	23		
Current		4,388	3,639
Deferred		(877)	(896)
		3,511	2,743
Net income		$ 18,273	$ 20,853

The accompanying notes form an integral part of these consolidated financial statements.

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Net income	$ 18,273	$ 20,853
Other comprehensive income (loss) - net of tax:		
Net change in unrealized losses on cash flow hedges	3,801	(11,365)
Net amount transferred to net income on cash flow hedges	(1,254)	(1,254)
Changes in the fair value of available-for-sale financial assets	-	1,617
Remeasurement of retirement benefit obligations	(51)	(397)
Income tax relating to these items	(433)	1,885
	2,063	(9,514)
Comprehensive income	$ 20,336	$ 11,339

The accompanying notes form an integral part of these consolidated financial statements.

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Equity shares, beginning of year	$ 38,867	$ 33,883
Shares issued, net of redemptions	945	4,984
Equity shares, end of year	39,812	38,867
Retained earnings, beginning of year	161,158	141,793
Prior period adjustment, IFRS 9 adoption	1,342	-
Net income	18,273	20,853
Dividends on equity shares, net of tax	(1,609)	(1,488)
Retained earnings, end of year	179,164	161,158
Accumulated other comprehensive (loss) income, beginning of year	(6,350)	3,164
Prior period adjustment, IFRS 9 adoption	(1,342)	-
	(7,692)	3,164
Net change in unrealized gains (losses) on cash flow hedges	3,801	(11,365)
Net amount transferred to net income on cash flow hedges	(1,254)	(1,254)
Changes in the fair value of available-for-sale financial assets	-	1,617
Remeasurement of retirement benefit obligations	(51)	(397)
Income tax relating to these items	(433)	1,885
Accumulated other comprehensive loss, end of year	(5,629)	(6,350)
Total members' equity	$ 213,347	$ 193,675

The accompanying notes form an integral part of these consolidated financial statements.

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Net income for the year	$ 18,273	$ 20,853
Adjustments for non-cash items:		
Amortization	5,289	5,382
Gain on sale of assets	(2,213)	(5,556)
Loan impairment	2,158	2,685
Deferred income tax	(877)	(896)
Provision for income taxes	4,388	3,639
Interest income	(151,710)	(122,508)
Interest expense	74,686	52,068
	(50,006)	(44,333)
Changes in operating assets and liabilities:		
Interest paid	(61,634)	(49,434)
Interest received	150,273	121,596
Interest-bearing deposits with financial institutions	(70,123)	(44,309)
Loans and advances to members	(370,929)	(403,135)
Other financial assets	38,678	(17,187)
Derivative financial instruments	(5,567)	(1,405)
Other assets	3,014	823
Taxes paid	296	(7,030)
Members' deposits	470,858	409,556
Property held for resale	227	1,202
Other liabilities	(394)	(1,100)
	104,693	(34,756)
Investments:		
Proceeds from sale of assets	3,041	7,600
Purchase of property and equipment	(4,364)	(3,986)
Purchase of intangible assets	(1,747)	(360)
Income received on other financial assets	1,896	1,095
	(1,174)	4,349
Financing:		
Repayment of borrowings	(69,959)	48,251
Receipts from securitized borrowings	31,181	5,732
Dividends paid on equity shares	(1,609)	(1,488)
Net membership and investment share issuance	945	4,984
Preferred equity shares issuance	32	21
	(39,410)	57,500
Increase in cash and cash equivalents	64,109	27,093
Cash and cash equivalents, beginning of year	63,815	36,722
Cash and cash equivalents, end of year	$ 127,924	$ 63,815

The accompanying notes form an integral part of these financial statements.

1. General information:

BlueShore Financial Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia ("the Act"). The Credit Union serves members principally in the Lower Mainland and the Sea to Sky Corridor of British Columbia. The Credit Union is an integrated financial institution that provides a wide range of financial products and services including consumer and commercial lending, deposit taking and wealth management services.

The Credit Union is domiciled in British Columbia and its registered office is located at 1250 Lonsdale Avenue, North Vancouver, BC, V7M 2H6.

The consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on February 13, 2019.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The significant accounting policies applied in the preparation of the consolidated financial statements are set out in note 3. The consolidated financial statements comply with the requirements of IFRS. These requirements have been applied consistently for the years ended December 31, 2018 and 2017, with the exception of changes in accounting policies disclosed in note 4.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets held at fair value through other comprehensive income, financial assets and financial liabilities held at fair value through profit or loss and all derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of judgments and estimates:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2. Basis of presentation (continued):

(d) Use of judgments and estimates (continued):

Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 5.

(e) Comparative information:

Some of the prior year's information has been restated for comparative purposes and to conform to current year presentation.

3. Significant accounting policies:

(a) Consolidation of subsidiaries:

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and its wholly owned active subsidiaries:

- BlueShore Capital Corporation
- BlueShore Leasing Ltd.
- BlueShore Strata Finance Ltd.
- BlueShore Transport Finance Ltd.
- BlueShore Wealth Ltd.
- Morningside Properties Ltd.
- 0977916 B.C. Ltd.

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies across all subsidiaries.

The Credit Union has a 50% stake in a joint venture with Capital West Mortgage Inc., which manages Pacifica Mortgage Investment Corporation, and the Credit Union holds 50% of the shares of BlueShore Pacifica Alternative Mortgage Centre Inc.

The primary purpose of the joint venture is to provide management and mortgage services to Pacifica Mortgage Investment Corporation, a British Columbia based company making loans to borrowers on the security of mortgages on real property situated in British Columbia. BlueShore Pacifica Alternative Mortgage Centre Inc. sources mortgages for both Pacifica Mortgage Investment Corporation and BlueShore Financial Credit Union.

BlueShore does not control Capital West Mortgage Inc. and accordingly, it is not consolidated in the financial statements of the Credit Union.

3. Significant accounting policies (continued):

(a) Consolidation of subsidiaries (continued):

Intercompany balances, and income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Intercompany losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

(b) Foreign currency translation:

Transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition. Non-monetary items denominated in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognized immediately in the consolidated statement of income. Such gains and losses are presented net, and are included in fee and commission income.

When a valuation gain or loss is recognized in net income, any related foreign exchange gain or loss is recognized in net income. When a valuation gain or loss is recognized in other comprehensive income (loss), any related foreign exchange gain and loss component is recognized in net income. For non-monetary available-for-sale financial assets, foreign exchange gain and loss related to valuation gain or loss is presented in other comprehensive loss, and is included in the available-for-sale fair value reserve in members' equity.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with less than three months maturity from the original date of issuance, including cash on hand, cheques and other items in transit with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables.

3. Significant accounting policies (continued):

(d) Financial assets - policy applicable before January 1, 2018:

For the financial instruments accounting policy effective from January 1, 2018, please refer to note 4(a).

Management determines the categorization of financial assets at initial recognition. The Credit Union initially recognizes loans and receivables on the date that they are acquired or originated. All other financial assets, including assets designated at fair value through profit or loss ("FVTPL"), 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 are categorized as one of the following: financial assets at FVTPL, loans and receivables, and financial assets available-for-sale ("AFS").

(*i*) Financial assets at FVTPL:

This category comprises financial assets classified as FVTPL and financial assets designated by the Credit Union at FVTPL upon initial recognition.

A financial asset is required to be classified as FVTPL if it is acquired principally for the purpose of being sold in the near term or if it is a 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. Derivative financial instruments are also categorized as FVTPL unless they are designated and are effective as hedging instruments in a hedge accounting relationship. Gains and losses on assets classified as FVTPL are recorded in net income.

The Credit Union's financial assets classified as FVTPL consist of derivative financial instruments that are used for economic hedging, but do not qualify for hedge accounting treatment.

(*ii*) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Credit Union intends to sell immediately or in the short term, which are classified as FVTPL, and those that the Credit Union designates as FVTPL upon initial recognition; (b) those that the Credit Union designates as AFS upon initial recognition; or (c) those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

3. Significant accounting policies (continued):

(d) Financial assets - policy applicable before January 1, 2018 (continued):

(*ii*) Loans and receivables (continued):

The Credit Union's loans and receivables principally consist of loans and advances to members, interest-bearing deposits with financial institutions and accounts receivable.

Leases for which the Credit Union assumes or relinquishes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(*iii*) Financial assets available-for-sale:

AFS assets are those non-derivative financial assets that are designated as AFS or are not classified as FVTPL, not designated as FVTPL or do not qualify as loans and receivables. AFS assets include shares in Central 1 Credit Union ("Central 1") and other shares along with units in a managed fund. AFS assets are recorded at fair value other than the Credit Union's investment in certain shares whose fair value cannot be reliably measured and are therefore carried at cost. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized as accumulated other comprehensive income, until the financial asset is derecognized or impaired, except for foreign currency translation differences on monetary AFS assets which are recognized immediately in the consolidated statement of income. As a result of the derecognition or impairment of an AFS investment, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income.

Interest income on monetary AFS assets is calculated using the effective interest method and is recognized in the consolidated statement of income. Dividends and distributions on AFS equity instruments are recognized in the consolidated statement of income when the Credit Union's right to receive payment is established.

(e) Financial liabilities - policy applicable before January 1, 2018:

Management determines the categorization of its financial liabilities at initial recognition. The Credit Union initially recognizes financial liabilities (including liabilities designated at FVTPL) on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. Financial liabilities are categorized as either FVTPL or financial liabilities at amortized cost or hedging derivatives. Financial liabilities are derecognized when extinguished.

3. Significant accounting policies (continued):

(e) Financial liabilities - policy applicable before January 1, 2018 (continued):

(*i*) Financial liabilities at FVTPL:

Financial liabilities are designated by the Credit Union as FVTPL upon initial recognition.

A financial liability is required to be classified as FVTPL if it is incurred principally for the purpose of redeeming it in the near term or if it is part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as FVTPL unless they are designated and are effective hedging instruments in a hedge accounting relationship. Gains and losses on financial liabilities are recorded in net income.

The Credit Union's financial liabilities classified as FVTPL consist of derivative financial instruments that are used for economic hedging, but do not qualify for hedge accounting treatment.

(*ii*) Financial liabilities at amortized cost:

Financial liabilities that are not classified as FVTPL fall into this category and are measured at amortized cost. Financial liabilities consist of amounts drawn on lines of credit, accounts payable and accrued liabilities, members' deposits, secured borrowings, mortgage-backed security debt liability and certain membership shares. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

(f) Determination of fair value:

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations wherever possible. This includes listed equity securities and quoted debt instruments. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For all other financial instruments, fair value is determined using valuation techniques. Fair values are estimated using models to estimate the present value of expected future cash flows, or by using other valuation techniques.

In some cases, some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net income from financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in note 6(g).

3. Significant accounting policies (continued):

(f) Determination of fair value (continued):

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to Credit Union's financial instruments. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairment.

(g) Impairment of financial assets - policy applicable before January 1, 2018:

(*i*) Loans and receivables:

At each reporting date, the Credit Union assesses whether there is objective evidence that a loan or receivable is impaired. The asset (or group of assets) is considered impaired and impairment losses are incurred 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 that loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated.

The criteria that the Credit Union uses to determine that there is objective evidence of an impairment loss include:

- Notice or other indications of bankruptcy of the borrower.
- Default, payment delinquency and other deterioration in the relationship with the borrower.
- Significant decline in the fair market value of the security for the loan or lease receivable.

The Credit Union first assesses whether objective evidence of impairment exists individually for assets that are individually significant.

For a loan or receivable with a fixed interest rate, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

If the loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Credit Union may measure impairment on the basis of an instrument's fair value using third party published rates or other sources.

The calculation of the present value of the estimated future cash flows of a loan or receivable reflects the cash flows that may result from repossession or foreclosure, less costs for obtaining and selling the collateral, whether or not repossession or foreclosure is probable.

3. Significant accounting policies (continued):

(g) Impairment of financial assets - policy applicable before January 1, 2018 (continued):

(*i*) Loans and receivables (continued):

If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan or lease receivable, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses the group for impairment. Loans or receivable that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The Credit Union adjusts the inputs to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, real estate prices, geography, payment status, or other factors indicative of changes in the probability and magnitude of losses by the Credit Union).

The methodology and assumptions used by the Credit Union for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For impaired loans and receivables, the carrying amount of the assets is reduced through the use of an allowance account and the amount of the estimated loss is recognized in the consolidated statement of income. When such an asset is uncollectible, it is written off against the related allowance.

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. The amount of the reversal is recognized in the consolidated statement of income.

Impairment losses and subsequent reversals are classified in impairment losses on loans and receivables in the consolidated statement of income.

3. Significant accounting policies (continued):

(g) Impairment of financial assets - policy applicable before January 1, 2018 (continued):

(*i*) Loans and receivables (continued):

For collateralized financial assets deemed uncollectable and where collateral has been seized, the seized asset is classified in accordance with its nature, and any subsequent impairment to that asset is charged to the consolidated statement of income under impairment losses on other assets.

(*ii*) Assets classified as available-for-sale:

At each consolidated financial reporting date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a 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. An AFS debt instrument may be identified as impaired due to circumstances which can include actual delinquency in contractual payment of principal or interest and/or significant events which indicate there is doubt as to the collectability of the principal or contractual interest. 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 as profit or loss, is reclassified from equity and recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed.

(h) Foreclosed property:

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

These repossessed assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member’s other creditors. The sale of repossessed assets may involve the use of realtors and auctioneers.

3. Significant accounting policies (continued):

(i) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts have no initial net investment, or a net investment which would be smaller than a non-derivative contract, and are settled at a future date.

Derivatives are initially recognized at fair value on the date at which a derivative contract is entered into. They are subsequently re-measured at fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when i) their economic characteristics and risks are not closely related to those of the host contract ii) a separate instrument with the same terms would meet the definition of a derivative instrument and iii) the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

The Credit Union designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. The Credit Union periodically uses derivatives for economic hedging purposes to mitigate an identified financial instrument risk.

Certain derivatives embedded in other financial instruments, such as the embedded option in a market linked term deposit product, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

(j) Cash flow hedges:

The Credit Union uses hedge accounting for derivatives designated as cash flow hedges provided that certain criteria are met. The Credit Union documents, at the inception of the relationship, the relationship between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the cash flows of the hedged items that are attributable to the risk being hedged.

3. Significant accounting policies (continued):

(j) Cash flow hedges (continued):

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in other comprehensive income (loss) ("OCI"). The gain or loss relating to the ineffective portion is recognized immediately in interest income or expense as appropriate. Amounts accumulated in OCI are reclassified to the consolidated statement of income in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in OCI at that time remains in OCI and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. However, when a forecast transaction is no longer expected to occur, or when the hedged item expires or is sold, the cumulative gain or loss that was deferred in OCI is recognized immediately in the consolidated statement of income.

(k) Fair value hedges:

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated statement of income over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of the hedged item security is included in the consolidated statement of income when the hedged item is disposed of as part of the gain or loss on the sale.

(l) Securitization and derecognition of financial instruments:

In the normal course of its operations, the Credit Union securitizes financial assets, specifically residential mortgages, as a source of liquidity. Asset securitization programs provide the Credit Union an immediate cash payment in exchange for the future payment stream from the securitized assets.

After a securitization transaction, the Credit Union assesses the extent to which it has retained the risks and rewards of ownership of the transferred assets. If substantially all the risks and rewards have been retained, the assets remain on the consolidated statement of financial position. If substantially all the risks and rewards have been transferred, the assets are derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the credit union assesses whether or not it has retained control of the assets. If it has not retained control, the assets are derecognized.

3. Significant accounting policies (continued):

(l) Securitization and derecognition of financial instruments (continued):

When the assets remain on the consolidated statement of financial position, the Credit Union recognizes the consideration received as a financial liability, classified as a securitized borrowings debt liability on the consolidated statement of financial position. The difference between the yield on the underlying securitized assets and the interest cost paid to the investor is recorded as interest income as it is earned.

When the assets are derecognized, they are removed from the consolidated statement of financial position, the securitization is accounted for as a sale and the Credit Union records a gain or loss based on the present value of the net benefit derived from the transaction. The Credit Union has disclosed further information relating to securitization transactions in note 15.

(m) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(n) Interest income and interest expense:

Interest income and interest expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method.

The effective interest method is a method of calculating the amortized amount of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Credit Union estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, all fees paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (continued):

(o) Fee and commission income:

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest method. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as fee and commission income over the expected term of the loan using the effective interest method. Commitment fees are recorded over the expected term of the loan, unless the loan commitment will not be used. Loan discharge and administration fees are recorded directly to income when the loan transaction is complete.

(p) Non-financial assets:

(*i*) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation. Land is recognized at cost and is not depreciated.

Depreciation is calculated using the straight-line method to allocate cost to residual values over estimated useful lives, as follows:

Buildings	Up to 40 years
Leasehold improvements	Term of the lease period
Furniture fixtures and other assets	3 to 20 years

Premises and equipment are reviewed annually for impairment, or more frequently where events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use.

Premises and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3. Significant accounting policies (continued):

(p) Non-financial assets (continued):

(*ii*) Intangible assets:

The banking system and other computer software is capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 15 years. Depreciation expense is recognized in the consolidated statement of income as part of non-interest expenses.

(q) Income tax:

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

(*i*) Current income tax:

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(*ii*) Deferred income tax:

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(r) Employee benefits:

The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit plan:

A defined benefit plan is a pension or other post-employment plan that defines an amount of benefit that an employee will receive on retirement, dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the Credit Union's consolidated statement of financial position in respect of its defined benefit plan is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using investments and indices denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the consolidated statement of comprehensive loss. Past-service costs are recognized immediately in the consolidated statement of income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(*ii*) Participation in multi-employer defined benefit plan:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by a third-party specialist. The current funding requirement for employers participating under this plan is based on the assessment of the pooled assets and liabilities and which is predicated on the collective membership profile of the plan. For this reason the assets and liabilities have not been tracked and administered separately by the Credit Union. Although the actuaries may be able to determine a breakdown of the benefit obligations based on each employer's individual demographic profile, there is insufficient information to determine the accumulated assets of each employer group. Accordingly, the Credit Union's participation in the multi-employer plan is accounted for as a defined contribution plan with contributions recognized in salary and benefits expense in the consolidated income statement.

3. Significant accounting policies (continued):

(r) Employee benefits (continued):

(*iii*) Defined contribution plan:

The Credit Union provides defined contribution ("DC") pension arrangements to certain employees. Contributions to the plan are recognized as an expense in the consolidated statement of income. The Credit Union bears no further liability to employees beyond the initial contributions. The Credit Union has two DC plans, one of which has been grandfathered and no new employees are eligible to join. Contribution rates to the grandfathered plan vary from 5% to 7% depending on the employee's age. The open DC plan has a contribution rate of 4% plus 50% of employee's contribution up to a maximum of 6%.

(s) Equity and non-equity shares:

The capital of the Credit Union is divided into several classes of shares designated as equity and one class designated as non-equity. Equity shares are entitled to the residual interest in the equity of the Credit Union. With certain exceptions, all members of the Credit Union are required to own a minimum of 25 Class A membership equity shares. Equity shares are redeemable upon the occurrence of certain events and are transferable between members at the discretion of the Board. The Credit Union redeems, transfers or purchases equity shares, at a par value of one dollar, together with any dividends declared but unpaid. The directors limit the number of equity shares redeemed in any one year to 10% of the total outstanding, and redemptions would be restricted if they would reduce the Credit Union's capital below required levels.

Dividends on equity shares presented as members' equity are recorded in the consolidated statement of changes in members' equity, net of tax when approved. Dividends on equity shares presented as liabilities are recorded on the statement of financial position when approved by the Board.

(t) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with the contract.

3. Significant accounting policies (continued):

(u) Standards and interpretations issued but not yet effective:

A number of standards and interpretations, and amendments thereto, have been issued by the IASB, which are not effective for these consolidated financial statements. Those which are expected to have an effect on the Credit Union's consolidated financial statements are discussed below:

(*i*) IFRS 16, *Leases*:

IFRS 16, *Leases*, was released in January 2016 and replaces current guidance in IAS 17. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors the accounting is similar to IAS 17. The standard is effective for accounting periods beginning on or after January 1, 2019. The estimated impact of adopting IFRS 16 on January 1, 2019 will be the addition of a "right-of-use asset" and "lease obligation" of $9,075 on the consolidated statement of financial position.

(*ii*) Conceptual Framework for Financial Reporting:

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework) which describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to assist preparers of financial statements to develop consistent accounting policies when no IFRS Standard (Standard) applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy. The Conceptual Framework, which is effective January 1, 2020, is not a Standard and does not override any Standard or any requirement in a Standard. The Credit Union is in the process of assessing the impact of adoption.

4. Changes in accounting policies:

IFRS 9, *Financial instruments:*

The Credit Union has adopted IFRS 9 with a date of initial application of January 1, 2018. As permitted under IFRS 9, the credit union has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening retained earnings and accumulated other comprehensive income (loss) on January 1, 2018. Accordingly, the comparative financial information presented for 2017 does not reflect the requirements of IFRS 9.

(a) Financial instruments - policy applicable from January 1, 2018:

(*i*) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through OCI ("FVOCI"), or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(a) Financial instruments - policy applicable from January 1, 2018 (continued):

(*i*) Recognition, classification and measurement (continued):

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or for financial assets for which an irrevocable election has been made to present subsequent changes in fair value in OCI, changes in fair value are recognized in the consolidated statement of comprehensive income (loss). For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(a) Financial instruments - policy applicable from January 1, 2018 (continued):

(*i*) Recognition, classification and measurement (continued):

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(*ii*) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets. There were no changes to any of the Credit Union's business models for the year ended December 31, 2018.

(*iii*) Impairment:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The new ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and credit impaired assets (Stage 3).

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(a) Financial instruments - policy applicable from January 1, 2018 (continued):

(*iii*) Impairment (continued):

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and monitoring, and management judgment. The importance and relevance of each specific macroeconomic factor depends on the loan portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement any gap.

For certain instruments with low credit risk 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 short and long term, including periods of adverse changes in the economic or business environment.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(a) Financial instruments - policy applicable from January 1, 2018 (continued):

(*iii*) Impairment (continued):

Credit-impaired and restructured financial assets

At each reporting date, the Credit Union assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities measured at FVOCI, the loss allowance is recognized in other comprehensive income (loss).

Write-off

Loan and debt securities are written off (either partially or in full) when there is no probable prospect of recovery.

(*iv*) Derecognition of financial instruments:

IFRS 9 retains, largely unchanged, the requirements of IAS 39 relating to the derecognition of financial instruments.

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(b) Use of estimates and judgments - Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by loan product and risk segment, which requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of the ECL, the Credit Union must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the ECL allowance.

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(c) Hedge accounting:

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align hedge accounting more closely with an entity's risk management activities, and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and eligible risks. IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until an amended standard is effective. The Credit Union has elected to continue applying hedge accounting under IAS 39.

(d) Transition impact from adopting IFRS 9:

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and accumulated other comprehensive income (loss) as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(d) Transition impact from adopting IFRS 9 (continued):

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- the determination of the business model in which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and financial liabilities at FVTPL; and
- the designation of certain equity instruments not held for trading at FVOCI.

Classification of financial instruments on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the credit union's financial assets and liabilities as at January 1, 2018:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount December 31, 2017	Measurement category	Carrying amount January 1, 2018
Financial assets				
Cash and cash equivalents	Loans and receivable	$ 26,185	Amortized cost	$ 26,185
Cash and cash equivalents (with original maturity up to 3 months)	FVTPL	37,630	FVTPL	37,630
Interest-bearing deposits with	Loans and receivable	326,908	Amortized cost	326,908
financial institutions	AFS	14,971	FVOCI	14,971
Other financial assets	AFS	59,135	FVTPL	59,135
Derivative financial instruments	FVTPL	11,258	FVTPL	11,258
Loans and advances to members	Loans and receivable	3,454,912	Amortized cost	3,454,912
Other assets	Loans and receivable	12,202	Amortized cost	12,202
Total financial assets		$ 3,943,201		$ 3,943,201
Financial liabilities				
Members' deposits	Amortized cost	$ 3,483,473	Amortized cost	$ 3,483,473
Derivative financial instruments	FVTPL	17,530	FVTPL	17,530
Borrowings	Amortized cost	85,080	Amortized cost	85,080
Securitized borrowings	Amortized cost	202,361	Amortized cost	202,361
Accounts payable and accrued liabilities (including retirement benefit obligation and current income taxes)	Amortized cost	20,779	Amortized cost	20,779
Membership and preferred equity shares	Amortized cost	1,274	Amortized cost	1,274
Total financial liabilities		$ 3,810,497		$ 3,810,497

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

(d) Transition impact from adopting IFRS 9 (continued):

Reconciliation of carrying amounts under IAS 39 to the carrying amounts under IFRS 9

	IAS 39 balance December 31, 2017	Adjustment for reclassification	Adjustment for remeasurement	Adjustment for impairment	Adjustment for tax	IFRS 9 balance January 1, 2018
Financial assets						
Cash and cash equivalents	$ 63,815	$ -	$ -	$ -	$ -	$ 63,815
Interest-bearing deposits with financial institutions	341,879	-	-	-	-	341,879
Other financial assets [(1)]	59,135	-	-	-	-	59,135
Derivative financial instruments	11,258	-	-	-	-	11,258
Loans and advances to members	3,454,912	-	-	-	-	3,454,912
Other assets	12,202	-	-	-	-	12,202
Total financial assets	$ 3,943,201	$ -	$ -	$ -	$ -	$ 3,943,201
Financial liabilities						
Members' deposits	$ 3,483,473	$ -	$ -	$ -	$ -	$ 3,483,473
Derivative financial instruments	17,530	-	-	-	-	17,530
Borrowings	85,080	-	-	-	-	85,080
Securitized borrowings	202,361	-	-	-	-	202,361
Accounts payable and accrued liabilities (including retirement benefit obligation and current income taxes)	20,779	-	-	-	-	20,779
Membership and preferred equity shares	1,274	-	-	-	-	1,274
Total financial liabilities	$ 3,810,497	$ -	$ -	$ -	$ -	$ 3,810,497
Retained earnings[(1)]	$ 161,158	$ 1,617	$ -	$ -	$ (275)	$ 162,500
Accumulated other comprehensive income[(1)]	(6,350)	(1,617)	-	-	275	(7,692)

[(1)] Certain equity investments previously classified as AFS under IAS 39 have been reclassified to FVTPL under IFRS 9

Reconciliation of closing allowance under IAS 39 to the opening ECL allowance under IFRS 9

	IAS 39 Impairment allowance December 31, 2017	Adjustment for remeasurement or reclassification	IFRS 9 ECL January 1, 2018	Stage 1	Stage 2	Stage 3
Loans and advances to members	$ 6,990	$ -	$ 6,990	$ 3,446	$ 1,232	$ 2,312
Total	$ 6,990	$ -	$ 6,990	$ 3,446	$ 1,232	$ 2,312

4. Changes in accounting policies (continued):

IFRS 15, *Revenue from contracts with customers:*

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. The standard replaces IAS 18, *Revenue*, IAS 11, *Contracts,* and related interpretations. The Credit Union has adopted IFRS 15 with a date of initial application of January 1, 2018. There was no quantitative impact on the consolidated financial statement from the adoption of IFRS 15.

5. Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a material impact on the financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Impairment losses on loans and advances -applicable before January 1, 2018:

For estimates and judgments applicable from January 1, 2018, see note 4(b).

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Refer to note 9.

(b) Fair value of financial instruments:

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only market observable data. Where fair value cannot be reliably measured, these investments are recorded at cost. Refer to note 6(g).

5. Use of estimates and judgments (continued):

(c) Securitizations and derecognition of transferred financial instruments:

Depending on the contractual arrangements, the Credit Union may not derecognize securitized residential mortgages and may instead recognize a secured borrowing; recognize only a portion of the assets up to the Credit Union's remaining involvement in those assets; or may derecognize the assets and recognize, as separate assets or liabilities, any rights and obligations constituted or retained in the transfer. In assessing the derecognition criteria, management is often required to make judgments as to the extent to which cash flows are transferred and any continuing exposure to risks and rewards of the transferred receivables exist. The Credit Union has disclosed further information relating to securitization transactions in note 15.

(d) Retirement benefits:

The present value of retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the benefit obligation.

The assumptions used in determining the net cost for the retirement benefit plan includes the discount rate. The Credit Union determines the appropriate 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 benefit obligations. In determining the appropriate discount rate, the Credit Union considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related benefit liability. Other key assumptions for benefit obligations are based in part on current market conditions. Refer to note 16.

(e) Income taxes:

The Credit Union computes an income tax provision which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until, in general, retained earnings reach five percent of amounts owing to members, including deposits and shares.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income.

The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year.

6. Financial risk management:

(a) Credit risk:

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities. The Credit Union is also exposed to other credit risks arising from derivatives and settlement balances with market counterparties.

Credit risk is the single largest risk for the Credit Union's business. Management therefore carefully manages and controls its exposure to credit risk, and regularly reports to the Investment & Loan Committee ("ILC").

The estimation of credit exposure is complex and requires the use of financial models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The Credit Union has developed financial models to support the quantification of the credit risk, which are used for all key credit portfolios and form the basis for measuring default risk.

Credit risk valuation adjustments ("CVA") are applied to cover over-the-counter derivatives and other debt based financial instruments, where the initial valuation discounts expected cash flows using a risk-free interest rate curve. As not all counterparties have the same credit risk as that implied by the risk-free curve, a CVA is necessary in order to incorporate the Credit Union's view of both counterparty credit risk and the Credit Union's own credit risk in the valuation of derivatives with a positive and negative fair value, respectively.

The Credit Union's CVA calculation incorporates collateral and any master netting arrangements that the Credit Union considers to be enforceable as inputs into the CVA calculation. The Credit Union's entity level credit risk is measured using an appropriate market proxy. The CVA is calculated based upon the current market risk exposure to a counterparty or entity for financial assets and liabilities measured or disclosed at fair value and is calculated as an adjustment to the fair values of the respective financial instruments as at the reporting date.

As a result of the geographical nature of the Credit Union's activities, the Credit Union has a concentration of credit risk as its principal lending activities are carried out within the Lower Mainland and Sea-to-Sky Corridor of British Columbia. The Credit Union's loan and lease portfolio has a geographic concentration of 99.43% (2017 - 99.75%) in British Columbia.

6. **Financial risk management (continued):**

(a) Credit risk (continued):

The Credit Union manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through the ILC, places limits on the amount of credit risk accepted in relation to one member and/or sector. Overall risks are subject to periodic review where considered necessary. Limits on the Credit Union's overall credit risk tolerance are reviewed by the Board and ILC at least annually.

The Board has delegated responsibility for the governance of credit risk to the ILC to oversee credit risk through the following:

- Formulating and recommending credit policies in consultation with business units. These policies provide guidance over collateral requirements, credit assessment, risk ratings assessments for commercial mortgages and business lending as well as a framework for reporting, and ensuring that appropriate legal documentation is completed. The policies ensure that the lending processes are compliant with regulatory and statutory requirements. These policies are reviewed at least annually.
- Establishing authorization limits for the approval and renewal of credit facilities. Authorization limits are assigned to business and retail unit credit officers for commercial mortgages, business and retail lending. Large credit facilities require the approval or review by the Management Credit Committee ("MCC") or the ILC or the Board as directed by policy.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits prior to approving the facilities. Renewals and reviews of facilities are subject to a similar process for commercial mortgages and business lending.
- Establishing limits on the exposure to counterparties for derivatives and securities, concentration in certain geographic areas and industries (for loan advances), as well as limits by issuer, credit rating band, and term to maturity (for securities). The Credit Union has collateral for many of its loans, which may include mortgages over residential properties, charges over business assets, and charges over financial instruments such as debt securities and equities. Longer term finance and lending to corporate entities or residential mortgages are generally secured forms of lending. Revolving credit facilities are both real estate and non-real estate secured.
- Ensuring that the Credit Union has master netting agreements in place with derivative counterparties with which it has a significant number of transactions. Master netting arrangements may result in a reduction of credit risk, as in the event of a default, all amounts with the counterparty may be terminated and settled on a net basis.

6. Financial risk management (continued):

(a) Credit risk (continued):

- Ensuring the Credit Union's risk rating process is developed and maintained appropriately in order to categorize risk according to the degree of financial loss faced and to focus management on these risks. The risk rating system is used in determining where impairment provisions may be required for the commercial loan portfolio. The current risk rating framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are aligned with Financial Institutions Commission of British Columbia ("FICOM") requirements.
- The credit department is required to implement credit policies and procedures, with credit approval authorities delegated from the ILC. The credit department reports on all credit related matters to management and the MCC for monitoring and controlling all credit risks in its portfolios.
- Regular audits of business units and the credit department processes are undertaken by Internal Audit.
- Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or letters of credit. With respect to credit risk on commitments to extend credit, the Credit Union is potentially exposed to loss in an equal amount to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are conditional on the member satisfying specific financial covenants or are otherwise conditional in nature, for example, of limited duration or may be canceled without notice.

6. Financial risk management (continued):

(b) Credit risk exposure:

At December 31, 2018, the maximum credit risk exposure of the Credit Union approximates the carrying value of all assets except for undrawn lines of credit. The classes of financial instruments for which the Credit Union has credit risk exposure are as follows:

	2018	2017
Exposure on the statement of financial position:		
Cash and cash equivalents	$ 127,924	$ 63,815
Interest-bearing deposits with financial institutions	412,002	341,879
Financial assets:		
FVOCI (2017: AFS)	19,903	59,135
Derivative financial instruments	11,309	11,258
Loans:		
Residential mortgages	2,415,797	2,218,557
Commercial loans	1,393,590	1,217,939
Consumer loans	15,955	18,520
Accrued interest	6,160	4,723
Accounts receivable	468	3,590
	4,403,108	3,939,416
Exposure off the statement of financial position:		
Credit instruments:		
Commitments to extend credit		
Term to maturity less than one year	101,900	114,640
Term to maturity more than one year	72,222	63,987
Unconditionally cancellable commitments to extend credit relating to lines of credit	378,010	348,209
	552,132	526,836
	$ 4,955,240	$ 4,466,252

For exposures on the statement of financial position, the amounts reported are based on the net carrying amounts in the consolidated statement of financial position.

Management has categorized the portfolio with respect to net potential credit risk exposure as follows:

- Residential mortgages, which represent the largest potential credit exposure, are mitigated by secured collateral.
- 98.77% (2017 - 97.97%) of the commercial loans are categorized in the top three grades of the Credit Union's internal rating system and are secured against collateral.

6. Financial risk management (continued):

(b) Credit risk exposure (continued):

Cash, cash equivalents and interest-bearing deposits with financial institutions have a low credit risk exposure as the majority of these assets are high quality investments with low risk counterparties. For the retail loan portfolio (residential and consumer loans), the Credit Union's underwriting methodologies and risk modeling is member based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on the collateral, although the collateral is an important mitigant when assessing credit risk. Decisions on consumer loans are based on an overall assessment of credit risk utilizing a scoring model that takes into account factors such as credit beacon scores and total-debt-service levels relative to income.

The non-retail portfolio (business and commercial loans) utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's experience, current and projected financial results, industry statistics, and economic trends that cumulate into a risk rating. This risk rating categorizes risk according to the degree of potential financial loss required. The current risk rating grades are aligned with FICOM requirements, where RR1 is the characteristic of a fully secured loan and RR5 is the characteristic of a loan with poor risk rating. The leasing portfolio has been assessed, at origination to have a RR3 risk rating.

The credit quality of the Credit Union's business and commercial portfolio, expressed in terms of the internal risk ratings discussed above, is shown in the table below:

Risk ratings	2018	2017
RR1	$ 32	$ 56
RR2	169	184
RR3	1,376,243	1,192,971
RR4	15,504	23,780
RR5	1,642	948
	$ 1,393,590	$ 1,217,939

No RR4 or RR5 loans are underwritten by the Credit Union and any balance is a result of a subsequent downgrade of a loan.

6. Financial risk management (continued):

(b) Credit risk exposure (continued):

The following table sets out information about the credit risk level of the Credit Union's business and commercial portfolio by category of loss allowance at December 31, 2018.

Risk level	Stage 1	Stage 2	Stage 3	2018	2017
Very low	$ 128,671	$ -	$ -	$ 128,671	$ 104,857
Low	1,124,743	-	-	1,124,743	960,488
Medium	119,992	-	-	119,992	121,668
High	-	15,310	-	15,310	26,263
Very high	-	-	4,874	4,874	4,663
	$ 1,373,406	15,310	4,874	$ 1,393,590	$ 1,217,939

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

Accordingly, the Credit Union has policies and procedures in place to manage its liquidity position to comply with both regulatory requirements and sound business practices.

(*i*) Management of liquidity risk:

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits established by the Board through the ILC, and appropriate management committee. On an annual basis, the Board, through the ILC, reviews the liquidity operating plan presented by management to ensure adherence to regulatory requirements. The Asset Liability Committee ("ALCO") oversees the operational adherence to the liquidity operating plan. The ALCO approves liquidity management processes and strategies presented by the treasury department in addition to overseeing adherence to minimum liquidity limits, funding diversification, deposit concentration and diversification limits. Liquidity ratios based on Basel III and FICOM requirements and regular stress testing results are reported monthly to ALCO.

6. Financial risk management (continued):

(c) Liquidity risk (continued):

(*i*) Management of liquidity risk (continued):

The daily management of the Credit Union's liquidity is the responsibility of the treasury department under the direction of the Vice President, Treasurer and Chief Financial Officer. The Vice President, Treasurer reports on a monthly basis to the ALCO. The treasury department manages liquidity by monitoring expected daily cash inflows and outflows versus actual inflows and outflows, projecting long-term cash requirements on a monthly basis and by developing channels to diversify funding risk. The Credit Union's primary sources of funding are retail and wholesale deposits, securitization and wholesale borrowings.

Contingency plans exist for liquidity to satisfy funding requirements in the case of a general market disruption or adverse economic conditions. Proper execution of the contingency plan is the responsibility of the treasury department and ALCO. The liquidity contingency plan outlines the appropriate steps to follow and the stakeholders to notify.

(*ii*) Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to members' deposits and borrowings. For this purpose, liquid assets may comprise the total value of cash and cash equivalents, interest-bearing deposits held at financial institutions, financial assets at FVTPL and financial assets at FVOCI, Central 1 shares and other investments.

		2018		2017
Cash and cash equivalents	$	127,924	$	63,815
Interest-bearing deposits held at financial institutions		412,002		341,879
Other financial assets		19,903		59,135
	$	559,829	$	464,829

The Credit Union is required to maintain a minimum of 8% (2017 - 8%) liquidity at all times, based on total members' deposits and borrowings. The Credit Union's liquidity was greater than 8% at all times in 2018 and 2017.

6. Financial risk management (continued):

(c) Liquidity risk (continued):

(ii) Exposure to liquidity risk (continued):

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total 2018
Members' deposits	$ 3,127,404	$ 588,664	$ 251,108	$ 273	$ 3,967,449
Borrowings	55	-	-	15,000	15,055
Securitized borrowings	26,732	193,562	13,248	-	233,542
Membership and preferred equity shares	-	-	-	1,306	1,306
Other liabilities	32,919	-	-	-	32,919
	$ 3,187,110	$ 782,226	$ 264,356	$ 16,579	$ 4,250,271

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total 2017
Members' deposits	$ 2,810,880	$ 603,852	$ 68,368	$ 373	$ 3,483,473
Borrowings	70,080	-	-	15,000	85,080
Securitized borrowings	17,925	126,635	57,801	-	202,361
Membership and preferred equity shares	-	-	-	1,274	1,274
Other liabilities	38,309	-	-	-	38,309
	$ 2,937,194	$ 730,487	$ 126,169	$ 16,647	$ 3,810,497

(d) Market risk:

In the normal course of its operations, the Credit Union engages in transactions that give rise to market risk. Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the risk based return.

Management of market risks

The Board, through the ILC, sets risk tolerance levels for the Credit Union. Within these boundaries, the ALCO measures, monitors and manages the Credit Union's market risk profile. The policies for market risk management are reviewed annually by the ILC, and approved by the Board.

6. Financial risk management (continued):

(d) Market risk (continued):

The Credit Union has various policy and procedure statements that specify roles and responsibilities for senior management, treasury, and finance. Many of these policies fall under the responsibility of the ILC.

(*i*) Interest rate risk:

Interest rate risk, inclusive of credit spread risk, is the risk of loss to the Credit Union due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; the maturity profile of assets and liabilities; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. For the Credit Union, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and re-price in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the Credit Union to enhance profitability.

Interest rate risk policies and processes:

The Credit Union meets its objectives for interest rate risk management by structuring the balance sheet to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

The treasury department, under the direction of the ALCO, is responsible for managing interest rate risk. The ALCO monitors the Credit Union's compliance with policy through monthly meetings by reviewing the interest rate risk profile of the Credit Union and by reviewing and approving strategies recommended by the treasury department.

Interest rate risk measurement techniques:

The Credit Union uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, the Credit Union will alter the product mix through the marketing of particular products, pricing initiatives, and the use of derivative instruments. Decisions on determining the appropriate mix of assets, liabilities and derivative instruments, including interest rate swaps and forward rate agreements, are based on economic conditions, member behavior, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

Note 8 discloses details of derivatives used for asset/liability management.

6. Financial risk management (continued):

(d) Market risk (continued):

(*i*) Interest rate risk (continued):

The Credit Union also uses several comprehensive analytical techniques to measure interest rate risk. Interest rate risk is measured primarily by simulation models that employ both current interest income and interest expense, and use market values to incorporate an economic perspective. Static gap, duration analysis, and rate shock analyses are also used as supplementary measurement, control and management tools.

Simulation models:

Simulation models enable the Credit Union to analyze interest rate risk in a dynamic environment. The models incorporate assumptions about pricing strategies, growth, volume and mix of new business, changes in the level, slope and curvature of the yield curve, interest rates and other related factors. The assumptions used in the model are monitored monthly and updated as required to reflect changing market conditions.

Simulation models can also be run to measure the impact on net interest income and market values of potential asset and liability management strategies in different economic environments to analyze risk and return tradeoffs.

Simulation models are also used to measure the potential impact of interest rate movements. The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming that no further loan portfolio hedging is undertaken. It further assumes that the prime rate cannot go below zero. These measures are based upon assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	Net interest income 2018	Net interest income 2017
1% increase in interest rates	$ (1,498)	$ 2
1% decrease in interest rates	1,059	(530)

The market value risk technique gauges the impact on the market value of both financial assets and financial liabilities as well as off balance sheet instruments from a movement in interest rates. Market value risk is the present value of potential change in the financial margin over all future periods. It is an economic measure of a leading indicator of the potential impact on future income of an adverse movement in interest rates.

6. Financial risk management (continued):

(d) Market risk (continued):

(*i*) Interest rate risk (continued):

Interest rate risk analysis:

Gap analysis is a technique used by the Credit Union for asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then assessing whether the cash flows in each of the periods net to zero. The repricing periods are time horizons, based on either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities. Note 6(e) discloses the Credit Union's gap position.

Duration analysis is a measure of interest rate exposure and provides an indication of when, on average, the present value of any financial instrument will be received. The Credit Union uses duration analysis to measure the sensitivity of asset and liability market values to a change in interest rates and provides an indication of long-term interest rate exposure.

Earnings at Risk analysis measures the volatility of the forecasted net interest income over the following 12 month period. The Credit Union uses Earnings at Risk to measure the variability of the financial margin based upon changes in the level, slope and curvature of the yield curve and the impact it may have on the book value of capital.

(e) Interest rate sensitivity:

Interest rate sensitivity is a measure of how sensitive the Credit Union's financial position is to movements in interest rates. To manage interest rate risk, the Credit Union uses swaps and other derivative instruments. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change materially in subsequent periods based on member behaviour and the application of the Credit Union's asset and liability management policies.

6. Financial risk management (continued):

(e) Interest rate sensitivity (continued):

The assumptions for the years ended December 31, 2018 and 2017 were as follows:

(*i*) Assets:

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Variable rate assets that are related to the Credit Union's prime rate or other short term market rates are reported in the three months category.

Fixed rate and non-interest bearing assets are reported based on expected account balance behaviour.

(*ii*) Liabilities:

Fixed rate liabilities, such as term deposits, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest-bearing deposits on which the member interest rate changes with prime or other short term market rates are reported within the three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon expected account balance behaviour.

	Up to 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-interest sensitive	Total 2018
Assets:								
Cash and cash equivalents	$ 119,828	$ -	$ -	$ -	$ -	$ -	$ 8,096	$ 127,924
Loans and advances to members	1,388,072	472,399	569,417	469,706	509,952	382,048	33,526	3,825,120
Other assets and investments	57,378	70,941	101,003	48,456	52,300	72,771	107,725	510,574
Total assets	$ 1,565,278	$ 543,340	$ 670,420	$ 518,162	$ 562,252	$ 454,819	$ 149,347	$ 4,463,618
Liabilities and Members' equity								
Members' deposits	$ 682,731	$ 1,776,406	$ 521,097	$ 67,567	$ 20,587	$ 230,794	$ 668,267	$ 3,967,449
Other liabilities	18,499	7,807	130,032	63,530	7,530	5,718	33,345	266,461
Borrowings	-	-	-	-	-	15,000	55	15,055
Preferred equity shares	-	-	-	-	-	-	1,306	1,306
Members' equity	-	-	-	-	-	-	213,347	213,347
Total liabilities and members' equity	$ 701,230	$ 1,784,213	$ 651,129	$ 131,097	$ 28,117	$ 251,512	$ 916,320	$ 4,463,618
On-balance sheet gap	$ 864,048	$ (1,240,873)	$ 19,291	$ 387,065	$ 534,135	$ 203,307	$ (766,973)	$ -
Derivatives	(525,000)	-	(5,000)	225,000	225,000	80,000	-	-
Total interest rate sensitivity gap	$ 339,048	$ (1,240,873)	$ 14,291	$ 612,065	$ 759,135	$ 283,307	$ (766,973)	$ -
Cumulative gap	$ 339,048	$ (901,825)	$ (887,534)	$ (275,469)	$ 483,666	$ 766,973	$ -	$ -

6. Financial risk management (continued):

(e) Interest rate sensitivity (continued):

	Up to 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-interest sensitive	Total 2017
Assets:								
Cash and cash equivalents	$ 52,516	$ -	$ -	$ -	$ -	$ -	$ 11,299	$ 63,815
Loans and advances to members	1,400,144	421,932	366,935	398,285	374,891	494,992	(2,267)	3,454,912
Other assets and investments	56,570	65,296	40,641	100,451	48,130	64,878	109,479	485,445
Total assets	$ 1,509,230	$ 487,228	$ 407,576	$ 498,736	$ 423,021	$ 559,870	$ 118,511	$ 4,004,172
Liabilities and Members' equity								
Members' deposits	$ 570,940	$ 1,654,702	$ 531,009	$ 72,842	$ 48,411	$ 20,330	$ 585,239	$ 3,483,473
Other liabilities	15,050	2,423	2,727	123,908	57,801	-	38,761	240,670
Borrowings	69,866	-	-	-	-	15,000	214	85,080
Preferred equity shares	-	-	-	-	-	-	1,274	1,274
Members' equity	-	-	-	-	-	-	193,675	193,675
Total liabilities and members' equity	$ 655,856	$ 1,657,125	$ 533,736	$ 196,750	$ 106,212	$ 35,330	$ 819,163	$ 4,004,172
On-balance sheet gap	$ 853,374	$ (1,169,897)	$ (126,160)	$ 301,986	$ 316,809	$ 524,540	$ (700,652)	$ -
Derivatives	(395,000)	25,000	(75,000)	70,000	175,000	200,000	-	-
Total interest rate sensitivity gap	$ 458,374	$ (1,144,897)	$ (201,160)	$ 371,986	$ 491,809	$ 724,540	$ (700,652)	$ -
Cumulative gap	$ 458,374	$ (686,523)	$ (887,683)	$ (515,697)	$ (23,888)	$ 700,652	$ -	$ -

(f) Foreign currency risk:

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial position of the Credit Union. Foreign currency risk arises in the ordinary course of business as the Credit Union meets member demands for foreign currency banking activities.

The Credit Union is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. The Credit Union holds a foreign currency position that is exposed to the risk of exchange rate movements in the spot market. This exposure has the potential of having a positive or negative effect on income. The Credit Union is exposed to this risk unless the foreign currency position is economically hedged, either naturally or synthetically. The impact of foreign currency risk will be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

6. Financial risk management (continued):

(f) Foreign currency risk (continued):

Foreign currency risk policies and procedures:

Foreign currency risk is managed daily by the treasury department. The treasury department develops and implements management policies and processes to comply with the approved ILP. The Credit Union buys foreign currency to hedge foreign currency risk of significant future foreign currency denominated payables. The Credit Union's foreign currency risk is insignificant.

(g) Fair value of financial instruments:

The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of the fair value of the Credit Union's cash and cash equivalents, demand deposits, and certain other financial assets and liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

(*i*) Loans:

In determining the fair value of loans, the Credit Union incorporates the following assumptions:

(A) For fixed rate and floating rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.

(B) The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of the Credit Union's loan portfolio.

(*ii*) Financial assets:

The fair value of financial assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates they believe to be reasonable.

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

(*iii*) Derivative instruments:

The fair value of derivative instruments is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data.

(*iv*) Deposits:

In determining the fair value of deposits, the Credit Union incorporates the following assumptions:

(A) For fixed rate, fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.

(B) For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits re-price to market frequently. On that basis, fair value is assumed to equal carrying value.

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

The table below sets out the fair values of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments.

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets carried at fair value:				
Cash and cash equivalents	$ 30,200	$ 30,200	$ 26,185	$ 26,185
Financial assets*	19,903	19,903	59,135	59,135
Derivative financial instruments	11,309	11,309	11,258	11,258
Assets carried at amortized cost:				
Cash and cash equivalents (with original maturity up to 3 months)	97,724	97,724	37,630	37,630
Loans and advances to members (net of allowance)	3,825,120	3,845,725	3,454,912	3,458,598
Interest-bearing deposits with financial institutions**	412,002	409,072	341,879	337,865
Other assets	5,568	5,568	12,203	12,203
	$ 4,401,826	$ 4,419,501	$ 3,943,202	$ 3,942,874
Liabilities carried at fair value:				
Derivative financial instruments	$ 11,293	$ 11,293	$ 17,530	$ 17,530
Liabilities carried at amortized cost:				
Members' deposits	3,967,449	3,964,540	3,483,473	3,491,234
Borrowings	15,055	15,055	85,080	85,082
Securitized borrowings	233,542	238,537	202,361	195,594
Accounts payable and accrued liabilities (including retirement benefit obligation and current income taxes)	21,626	21,626	20,779	20,779
Membership and preferred equity shares	1,306	1,306	1,274	1,274
	$ 4,250,271	$ 4,252,357	$ 3,810,497	$ 3,811,493

* Includes certain investments in Central 1 shares and other investments in the amount of $19,615 (2017 - $15,661) which fair value cannot be reliably measured, therefore recorded at cost (note 7).

** Current portion	$ 128,319	$ 128,204	$ 82,299	$ 82,345

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

The following tables summarize the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value in the Credit Union's consolidated statement of financial position. Fair value measurements are analyzed according to a fair value hierarchy of three levels, as outlined below. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on the Credit Union's own internal assumptions.

Level 1: Unadjusted quoted market prices in active markets for identical financial assets and financial liabilities.

Level 2: Inputs, other than quoted prices included within Level 1, are observable for the financial asset or financial liability either directly or indirectly.

Level 3: Entity level inputs which are not based upon market observable data.

The level in the fair value hierarchy within which the fair value is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1, Level 2 and Level 3.

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy:

December 31, 2018	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	$ -	$ 41,797	$ 19,615
Fair value through OCI	14,906	-	-
Amortized cost	-	4,343,183	-
	$ 14,906	$ 4,384,980	$ 19,615
Financial liabilities:			
Fair value through profit or loss	$ -	$ 11,293	$ -
Amortized cost	-	4,241,064	-
	$ -	$ 4,252,357	$ -

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

December 31, 2017	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	$ -	$ 37,444	$ -
Available-for-sale	-	43,474	15,661
Fair value through OCI	14,676	-	-
Amortized cost	-	3,831,619	-
	$ 14,676	$ 3,912,537	$ 15,661
Financial liabilities:			
Fair value through profit or loss	$ -	$ 17,530	$ -
Amortized cost	-	3,793,963	-
	$ -	$ 3,811,493	$ -

The following table reconciles the Credit Union's Level 3 fair value instruments:

	2018	2017
Balance at beginning of year	$ 15,661	$ 13,492
Purchases	3,955	553
Revaluation	-	1,616
Balance at end of year	$ 19,616	$ 15,661

A 10% change in the value of Level 3 financial instruments would result in a $1,962 (2017 - $1,566) impact.

(h) Regulatory and capital management:

Capital is managed within the framework, policies and limits established by the Board through the ILC, and appropriate management committees. As an integral part of the Credit Union's strategy is to maintain a strong capital base, all elements of capital are monitored throughout the year. Capital plans are updated on an annual basis as a part of the Credit Union's normal budgeting cycle and are forecast over a three to five-year period to ensure an appropriate level of capital is maintained to sustain operations. Capital levels of the Credit Union are reviewed monthly and reported to the Board. The Credit Union makes quarterly and annual dividend payments on eligible shares at the discretion of the Board of Directors, within the context of its overall capital management plan.

6. Financial risk management (continued):

(h) Regulatory and capital management (continued):

The Financial Institutions Act ("FIA") requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to its business. Capital levels for credit unions in British Columbia are regulated pursuant to capital regulations stated by FICOM. Minimum capital standards are based on a total capital base to risk weighted assets ("RWA") ratio of 8%, along with a requirement that at least 35% of the capital base consists of a credit union's retained earnings.

The Internal Capital Target guideline issued by FICOM sets a supervisory level of 10% for credit unions' internal capital targets.

Regulatory capital is allocated to two tiers: Primary ("Tier 1") and Secondary ("Tier 2"). Tier 1 comprises the more permanent components of capital and consists primarily of share capital and retained earnings adjusted for deferred income taxes. Tier 2 capital consists of preferred equity shares, subordinated debt and 50% of the Credit Union's portion of retained earnings in the Credit Union Deposit Insurance Corporation ("CUDIC"), Central 1, and Stabilization Central Credit Union ("SCCU"). The capital base is defined as the total of Tier 1 and Tier 2 capital, less deductions, as prescribed by FICOM.

The capital ratio is calculated by dividing the capital base by RWA, which are the Credit Union's assets weighted according to relative risk (0% to 200%) as determined by FICOM's prescribed rules relating to on-balance sheet and off-balance sheet exposures.

The Credit Union's capital ratio and capital base were greater than both the minimum regulatory and supervisory requirements at all times in 2018 and 2017.

	2018	2017
Capital:		
Tier 1 capital:		
Equity shares	$ 39,812	$ 38,867
Preferred equity shares	1,306	1,274
Retained earnings	179,164	161,158
Net deferred income tax	(966)	(89)
Total Tier 1 capital	219,316	201,210
Tier 2 capital:		
50% of proportion of retained earnings in CUDIC, Central 1, and SCCU	45,931	29,757
Subordinated debt and accrued interest	15,055	15,109
Total Tier 2 capital	60,986	44,866
Total capital	280,302	246,076
Deductions from capital	(5,273)	(6,300)
Capital base	$ 275,029	$ 239,776

7. Other financial assets:

An analysis of FVTPL (2017 - AFS) assets by remaining term to maturity is as follows:

December 31, 2018 (IFRS 9)	Effective yield	Within 1 year	1 to 5 years	Over 5 years	2018
Financial assets fair value through profit or loss:					
Central 1 shares	2.94%	$ -	$ -	$ 18,360	$ 18,360
Other financial assets	0.27%	287	-	807	1,094
Accrued interest and dividends		-	-	449	449
		$ 287	$ -	$ 19,616	$ 19,903

December 31, 2017 (IAS 39)	Effective yield	Within 1 year	1 to 5 years	Over 5 years	2017
Available-for-sale:					
Central 1 shares	3.75%	$ -	$ -	$ 14,501	$ 14,501
Other financial assets	0.73%	42,996	-	1,097	44,093
Accrued interest and dividends		478	-	63	541
		$ 43,474	$ -	$ 15,661	$ 59,135

On March 29, 2018, Central 1 Credit Union (“Central 1”) issued 14,045,399 Class F shares with a price of $1 per share and redeemed 11,377,989 Class A shares with a redemption value of $1 per share. As part of this transaction, Central 1 also redeemed 16,167 Class E shares. These shares had a carrying value of $100 per share and were redeemed at $100 per share. No gains or losses were recognized during the year ended December 31, 2018 as Central 1 announced the redemption effective December 31, 2017, when the gain of $1,617 was recognized in OCI.

All remaining Central 1 Class E shares are recorded at their cost of $0.01 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Included in the above FVTPL (2017 - AFS) investments are reinvestment assets relating to the Canada Mortgage Bonds (“CMB”) program of $287 (2017 - $42,996). These assets form part of the security for the mortgage-backed security debt liability of $233,542 (2017 - $202,361) as described in note 15.

8. Derivative financial instruments:

December 31, 2018	Notional amounts			Fair value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ 50,000	$ 875,000	$ 925,000	$ 1,793	$ 7,817
Other:					
Market linked options	23,005	48,107	71,112	3,516	-
Embedded derivatives on market linked term deposits	22,617	47,928	70,545	-	3,476
Derivative contracts	95,622	971,035	1,066,657	5,309	11,293
Counterparty margin requirements	-	-	-	6,000	-
Total derivative contracts	$ 95,622	$ 971,035	$1,066,657	$ 11,309	$ 11,293

December 31, 2017	Notional amounts			Fair value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ 50,000	$ 745,000	$ 795,000	$ 100	$ 10,305
Other:					
Market linked options	19,116	57,072	76,188	7,258	-
Embedded derivatives on market linked term deposits	19,007	56,870	75,877	-	7,225
Derivative contracts	88,123	858,942	947,065	7,358	17,530
Counterparty margin requirements	-	-	-	3,900	-
Total derivative contracts	$ 88,123	$ 858,942	$ 947,065	$ 11,258	$ 17,530

The above table includes accrued interest on derivative financial instruments.

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They do not represent credit or market risk exposure.

Fair values based on quoted market prices are not available for the Credit Union's derivative instruments. Consequently, fair values are derived using net present value and other valuation techniques and may not be indicative of the net realizable values.

The following is a summary of the nature of derivative instruments utilized:

Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period, based on agreed fixed and floating rates. Notional amounts are not exchanged.

8. Derivative financial instruments (continued):

The Credit Union hedges a portion of the interest rate risk that arises on variable interest cash flows on prime rate mortgages through interest rate derivatives. Interest income and expense reported in the consolidated statement of income include the reclassification of the effective portion of interest rate derivatives designated as hedging items in cash flow hedges from accumulated other comprehensive income (loss) in order to match the timing of the hedged interest cash flows recognized in the consolidated statement of income. Any ineffectiveness in the hedging relationship is recorded directly in the consolidated statement of income.

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over the counter derivative contracts in a gain position, without factoring in the impact of master netting agreements, totaled $5,309 as at December 31, 2018 (2017 - $7,358). The Credit Union manages this credit risk by only dealing with counterparties that meet or exceed a minimum credit rating. As at December 31, 2018, the Credit Union has master netting agreements in place with its derivative counterparties.

The Credit Union is subject to enforceable master netting arrangements in the form of International Swap and Derivatives Association (ISDA) agreements with derivative counterparties. Under the terms of these agreements, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreements. As at December 31, 2018, if all set-off rights were exercised, the net impact on the Credit Union's consolidated statement of financial position would be to decrease derivative financial instrument assets by $5,133 (2017 - $4,000) and to decrease derivative financial liabilities by $5,133 (2017 - $4,000).

Interest income and expense include the release from accumulated other comprehensive income (loss) of gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges either (i) as the hedged item is recorded in interest income (expense) or (ii) the forecasted cash flows of the hedged item are no longer probable. The amount released is reported as a reclassification from accumulated other comprehensive income (loss).

From time to time, the Credit Union enters into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. During the year ended December 31, 2018, the Credit Union recognized $36 in unrealized gains from changes in the fair value of these derivatives inclusive of hedge ineffectiveness described in the paragraph above (2017 - unrealized losses $5). In addition, the Credit Union realized $52 of net losses (2017 - realized gains $12) on derivatives.

8. Derivative financial instruments (continued):

The Credit Union has $70,545 (2017 - $75,877) of market linked term deposit products outstanding to its members. These term deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of baskets of securities. The Credit Union has purchased market linked options with a derivative counterparty to offset the exposure to the securities associated with these products. The Credit Union pays a fixed rate based on the notional amount at the inception of the market linked option contract. At the end of the term the Credit Union receives from the derivative counterparty payments equal to the amount that will be paid to the depositors based on the performance of the respective securities.

The purpose of the market linked options is to provide an economic hedge against market fluctuations and have fair values that vary based on changes in the values of the underlying baskets of securities. The fair value of these contracts amounted to $3,516 as at December 31, 2018 (2017 - $7,258) and is included as part of derivative financial instruments. The fair value of the embedded written option in the market linked term deposits amounted to $3,476 at December 31, 2018 (2017 - $7,225) and is included as part of derivative financial instruments. Although hedge accounting is not applied, these agreements continue to be effective as economic hedges. Gains/losses from interest rate and market linked derivative instruments are included in profit or loss as part of interest income (note 18).

9. Loans and advances to members:

(a) Loan maturities and rate sensitivities:

	Maturity term				Rate sensitivity		
December 31, 2018	Under 1 year	1 to 5 Years	Over 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$ 1,116,289	$ 1,299,432	$ 76	$ 2,415,797	$ 823,492	$ 1,592,305	$ 2,415,797
Commercial loans and finance leases receivable	762,643	609,054	21,893	1,393,590	417,600	975,990	1,393,590
Consumer loans	15,290	663	2	15,955	13,756	2,199	15,955
Accrued interest	6,160	-	-	6,160	6,160	-	6,160
Total loans	1,900,382	1,909,149	21,971	3,831,502	1,261,008	2,570,494	3,831,502
Allowance for credit losses				(8,390)			(8,390)
Deferred broker expenses				5,565			5,565
Deferred mortgage commitment fees				(3,557)			(3,557)
Total loans - net of allowance for credit losses				$ 3,825,120			$ 3,825,120

	Maturity term				Rate sensitivity		
December 31, 2017	Under 1 year	1 to 5 Years	Over 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$ 1,153,098	$ 1,065,283	$ 176	$ 2,218,557	$ 822,606	$ 1,395,951	$ 2,218,557
Commercial loans and finance leases receivable	649,210	545,723	23,006	1,217,939	349,978	867,961	1,217,939
Consumer loans	17,605	909	6	18,520	16,767	1,753	18,520
Accrued interest	4,723	-	-	4,723	4,723	-	4,723
Total loans	1,824,636	1,611,915	23,188	3,459,739	1,194,074	2,265,665	3,459,739
Allowance for credit losses				(6,990)			(6,990)
Deferred broker expenses				5,468			5,468
Deferred mortgage commitment fees				(3,305)			(3,305)
Total loans - net of allowance for credit losses				$ 3,454,912			$ 3,454,912

9. Loans and advances to members (continued):

(b) Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, January 1, 2018	$ 1,634	$ 652	$ -	$ 2,286
Provisions for credit losses:				
Transfers to Stage 1	381	(381)	-	-
Transfers to Stage 2	(212)	212	-	-
Transfers to Stage 3	(3)	(5)	8	-
Originations	803	-	-	803
Maturities	(184)	(77)	-	(261)
Remeasurements	(313)	365	77	129
Net write-offs	-	-	-	-
Balance, December 31, 2018	2,106	766	85	2,957
Commercial loans and finance leases receivable				
Balance, January 1, 2018	1,717	513	2,135	4,365
Provisions for credit losses:				
Transfers to Stage 1	656	(24)	(632)	-
Transfers to Stage 2	(53)	96	(43)	-
Transfers to Stage 3	(138)	-	138	-
Originations	1,152	-	-	1,152
Maturities	(211)	(311)	(548)	(1,070)
Remeasurements	(393)	446	1,333	1,386
Net write-offs	-	-	(658)	(658)
Balance, December 31, 2018	2,730	720	1,725	5,175
Consumer loans				
Balance, January 1, 2018	95	67	177	339
Provisions for credit losses:				
Transfers to Stage 1	39	(39)	-	-
Transfers to Stage 2	(7)	8	(1)	-
Transfers to Stage 3	-	-	-	-
Originations	20	-	-	20
Maturities	(13)	(8)	(2)	(23)
Remeasurements	(31)	21	34	24
Net write-offs	-	-	(102)	(102)
Balance, December 31, 2018	103	49	106	258
Total loans and advances to members				
Balance, January 1, 2018	3,446	1,232	2,312	6,990
Provisions for credit losses:				
Transfers to Stage 1	1,076	(444)	(632)	-
Transfers to Stage 2	(272)	316	(44)	-
Transfers to Stage 3	(141)	(5)	146	-
Originations	1,975	-	-	1,975
Maturities	(408)	(396)	(550)	(1,354)
Remeasurements	(737)	832	1,444	1,539
Net write-offs	-	-	(760)	(760)
Balance, December 31, 2018	$ 4,939	$ 1,535	$ 1,916	$ 8,390

9. Loans and advances to members (continued):

(c) Loans past due but not impaired:

A loan is considered past due when a payment has not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (*i*) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (*ii*) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at December 31, 2018 and 2017 are as follows:

December 31, 2018	30 to 59 days	60 to 89 days	90 days	Total
Residential mortgages	$ 484	$ 1,549	$ -	$ 2,033
Commercial loans and leases receivable	184	86	-	270
Consumer loans	18	-	-	18
	$ 686	$ 1,635	$ -	$ 2,321

December 31, 2017	30 to 59 days	60 to 89 days	90 days	Total
Residential mortgages	$ -	$ 391	$ -	$ 391
Commercial loans and leases receivable	-	-	-	-
Consumer loans	8	-	-	8
	$ 8	$ 391	$ -	$ 399

9. Loans and advances to members (continued):

(d) Leases receivable:

The investment in leases receivable and the present value of minimum lease payments receivable at the end of the reporting period are detailed below.

	2018	2017
Gross investment in leases receivable:		
Less than 1 year	$ 4,465	$ 3,541
Between 1 year and 5 years	79,560	76,084
Later than 5 years	7,823	8,323
	91,848	87,948
Unearned finance income on finance leases	(8,205)	(7,477)
Present value of minimum lease payments receivable	$ 83,643	$ 80,471
Present value of minimum lease payments receivable:		
Less than 1 year	$ 4,385	$ 3,486
Between 1 year and 5 years	72,729	70,100
Later than 5 years	6,529	6,885
	$ 83,643	$ 80,471

10. Assets pledged as collateral:

In the normal course of business, the Credit Union pledges mortgage assets and readily marketable securities to secure credit and clearing facilities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative and other financing activities. Standard risk management controls are applied with respect to asset pledging.

10. Assets pledged as collateral (continued):

Assets which are pledged as collateral are related to proceeds from securitizations and other borrowings. The nature and carrying amounts of the assets pledged as collateral are as follows:

	2018	2017
Securitized loans	$ 233,542	$ 202,361
Mortgages	53,318	53,118
Assets with a general charge	200,182	175,000
Total assets pledged	$ 487,042	$ 430,479
Assets pledged to, or charged against by:		
Central 1 Credit Union	$ 200,182	$ 175,000
Other financial institutions	53,318	53,118
Securitized borrowings	233,542	202,361
Total	$ 487,042	$ 430,479

11. Premises and equipment and intangible assets:

(a) Premises and equipment:

	Land	Buildings	Leasehold improvements	Furniture fixtures and other assets	Total
Cost:					
Balance at January 1, 2018	$ 9,585	$ 44,197	$ 3,539	$ 11,559	$ 68,880
Acquisitions	-	1,023	1,598	1,743	4,364
Disposals	-	-	-	(1,443)	(1,443)
Balance at December 31, 2018	$ 9,585	$ 45,220	$ 5,137	$ 11,859	$ 71,801
Accumulated depreciation:					
Balance at January 1, 2018	$ -	$ 7,550	$ 1,301	$ 5,608	$ 14,459
Disposals	-	-	-	(1,443)	(1,443)
Depreciation	-	1,551	358	1,908	3,817
Balance at December 31, 2018	$ -	$ 9,101	$ 1,659	$ 6,073	$ 16,833

11. Premises and equipment and intangible assets (continued):

(a) Premises and equipment (continued):

	Land	Buildings	Leasehold improvements	Furniture fixtures and other assets	Total
Cost:					
Balance at January 1, 2017	$ 10,320	$ 46,165	$ 2,736	$ 11,170	$ 70,391
Acquisitions	-	726	803	2,457	3,986
Disposals	(735)	(2,694)	-	(2,068)	(5,497)
Balance at December 31, 2017	$ 9,585	$ 44,197	$ 3,539	$ 11,559	$ 68,880
Accumulated depreciation:					
Balance at January 1, 2017	$ -	$ 7,390	$ 1,004	$ 5,855	$ 14,249
Disposals	-	(1,385)	-	(2,068)	(3,453)
Depreciation	-	1,545	297	1,821	3,663
Balance at December 31, 2017	$ -	$ 7,550	$ 1,301	$ 5,608	$ 14,459
Carrying amounts:					
Balance at December 31, 2017	$ 9,585	$ 36,647	$ 2,238	$ 5,951	$ 54,421
Balance at December 31, 2018	9,585	36,119	3,478	5,786	54,968

(b) Intangible assets:

	Banking system	Other software	Total
Cost:			
Balance at January 1, 2018	$ 8,710	$ 5,076	$ 13,786
Acquisitions	1,003	744	1,747
Disposals	(422)	(692)	(1,114)
Balance at December 31, 2018	$ 9,291	$ 5,128	$ 14,419
Accumulated depreciation:			
Balance at January 1, 2018	$ 4,549	$ 2,688	$ 7,237
Disposals	(422)	(692)	(1,114)
Depreciation	521	951	1,472
Balance at December 31, 2018	$ 4,648	$ 2,947	$ 7,595

11. Premises and equipment and intangible assets (continued):

(b) Intangible assets (continued):

		Banking system		Other software		Total
Cost:						
Balance at January 1, 2017	$	8,159	$	5,231	$	13,390
Acquisitions		551		360		911
Disposals		-		(515)		(515)
Balance at December 31, 2017	$	8,710	$	5,076	$	13,786
Accumulated depreciation:						
Balance at January 1, 2017	$	3,899	$	2,134	$	6,033
Disposals		-		(515)		(515)
Depreciation		650		1,069		1,719
Balance at December 31, 2017	$	4,549	$	2,688	$	7,237
Carrying amounts:						
Balance at December 31, 2017	$	4,162	$	2,388	$	6,549
Balance at December 31, 2018		4,643		2,181		6,824

12. Other assets:

		2018		2017
Assets held for sale	$	-	$	827
Prepaid expenses and deposits		3,495		3,614
Accounts receivable		468		3,590
		3,963		8,031
Current		3,217		6,395
Non-current		746		1,636
	$	3,963	$	8,031

The assets held for sale consist of foreclosed property and land for sale, measured at the lower of carrying value and fair value less costs to sell.

13. Members' deposits:

	2018	2017
Demand deposits	$ 678,100	$ 695,454
Term deposits	2,848,747	2,428,691
Registered deposits	404,804	336,649
Accrued interest and dividends payable	35,798	22,679
	3,967,449	3,483,473
Current	3,127,404	2,810,881
Non-current	840,045	672,592
	$ 3,967,449	$ 3,483,473

Term deposits include equity market linked deposits, which contain embedded derivatives as described in note 8.

14. Borrowings:

	2018	2017
Subordinated debt	$ 15,000	$ 15,000
Central 1	-	45,000
Other financial institutions	-	24,959
Accrued interest payable	55	121
	15,055	85,080
Current	55	70,080
Non-current	15,000	15,000
	$ 15,055	$ 85,080

The Credit Union has granted a general security interest in its present and after acquired personal property as security for the revolving line of credit facility with Central 1 of $200,182 (2017 - $175,000). The Credit Union has revolving credit facilities with counterparties of $100,000 (2017 - $100,000) for which a specific assignment of mortgage loans has been pledged as security. Subordinated debt was renewed during the period and has an original term to maturity of 10 years maturing on December 13, 2028 with a right to repay after 5 years at the Credit Union's option. The subordinated debt qualifies as Tier 2 secondary capital for regulatory capital purposes and at December 31, 2018 bears an interest rate of 6.13% (2017 - 6.19%).

15. Securitized borrowings:

The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which may include securitization of residential mortgages.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The table below sets out the carrying amounts of financial assets for CMB and mortgage-backed security debt liabilities.

	2018	2017
Mortgages receivable, including principal and interest reinvestment accounts	$ 230,863	$ 206,527
CMB & MBS program obligations	$ 233,283	$ 202,268
Accrued interest	259	93
	$ 233,542	$ 202,361

The Credit Union has $230,575 (2017 - $163,053) of residential mortgages categorized as loans held as security for the secured borrowing. As a result of the transaction, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The exposure to variability of future interest income and expense has been incorporated into the Credit Union's interest rate sensitivity calculations in notes 6(d) and 6(e).

16. Retirement benefit obligations:

The Credit Union provides pension and other post-retirement benefits to employees through defined benefit, defined contribution and multi-employer defined benefit plans.

The Credit Union funds the multi-employer defined benefit plan based on actuarially prescribed amounts. The defined benefit and defined contribution plans are paid directly by the Credit Union at the time of entitlement.

16. Retirement benefit obligations (continued):

(a) Defined benefit plans:

The accrued benefit obligation was actuarially measured for accounting purposes as of December 31, 2018.

(*i*) Retirement benefit liability:

	2018	2017	2016	2015	2014
Unfunded benefit obligation	$ 3,294	$ 2,670	$ 2,614	$ 2,248	$ 1,907
Actuarial adjustment	(90)	388	(162)	(51)	24
Retirement benefit obligation recognized	$ 3,204	$ 3,058	$ 2,452	$ 2,197	$ 1,931

The movement in the unfunded benefit obligation is as follows:

	2018	2017
Unfunded benefit obligation at January 1	$ 3,058	$ 2,452
Current service cost	138	102
Interest cost	138	125
Benefit payments	(40)	(9)
Actuarial (loss) gain	(90)	388
Unfunded benefit obligation at December 31	$ 3,204	$ 3,058

The amounts recognized in the consolidated statement of income were as follows:

	2018	2017
Current service cost	$ 138	$ 102
Interest cost	138	125
Other	-	31
Total included in employee benefits expense (note 21)	$ 276	$ 258

16. Retirement benefit obligations (continued):

(a) Defined benefit plans (continued):

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	4.00%	3.50%
Inflation rate	2.00%	2.00%
Future salary increases	3.00%	3.00%
Future pension increases	1.00%	1.00%

Risks associated with the Defined benefit plans:

The different plans expose the Credit Union to different risks such as:

(*i*) Interest rate risk:

A variation in bond rates will affect the value of the plan liabilities.

(*ii*) Longevity risk:

A greater increase in life expectancy than the one predicted by the mortality table used will increase the plan liabilities.

(*iii*) Inflation risk:

The defined benefit obligation is calculated taking into account an increase in level of salary and future cost of living adjustments. If actual inflation is greater than expected, it will result in an increase in the defined benefit obligation.

(b) Multi-employer pension plan:

The Credit Union is one of several employers that participate in the BC Credit Union Employees' Pension Plan (The Plan). The Plan is a multi-employer contributory defined benefit pension plan governed by a Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits.

16. Retirement benefit obligations (continued):

(b) Multi-employer pension plan (continued):

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability of $25 million and a solvency deficiency of $123 million. The deficit is targeted to be financed over time through increased contributions, collectively, from participating employers. As approved by the regulator the Plan's solvency deficiency is expected to be funded by the year 2027. The Credit Union paid $2,873 for employer contributions to the plan in fiscal year 2018 (2017 - $2,859). The Plan, as at December 31, 2015, had approximately 3,200 active employees and 760 retired plan members. Total plan assets at December 31, 2015 were estimated at $561 million.

The next actuarial valuation is scheduled as at December 31, 2018, with results expected in mid-2019.

17. Shares:

The Credit Union has authorized an unlimited number of equity shares, each with a par value of one dollar. Outstanding shares consist of Class A membership shares, Class E Life Insurance Savings Non-equity shares, Class B Transaction Equity shares, Class C Investment Equity shares, Class E Equity shares and Class G to Q Preferred Equity shares.

		2018		2017
Membership and preferred equity shares	$	1,306	$	1,274
Transaction shares	$	980	$	1,032
Investment and Class E shares		38,832		37,835
Equity shares	$	39,812	$	38,867

Members are required to purchase membership shares and are permitted to purchase investment shares if certain conditions are met. Membership shares are redeemable at par only when a membership is withdrawn. Preferred equity shares are redeemable at fixed dates. In previous years, certain members were required to purchase transaction shares related to a loan transaction. Investment shares are specifically structured to provide an opportunity for members to invest in the capital structure of the Credit Union. Dividends on all shares are declared at the discretion of the Board.

18. Net interest income:

	2018	2017
Interest income:		
Interest from loans and advances to members	$ 141,230	$ 112,879
Interest on interest-bearing deposits with financial institutions	7,301	5,485
Central 1 investments	926	399
Net interest income and gains on derivative financial instruments	492	2,897
Mortgage commitment fees	4,035	3,149
Mortgage broker fees	(2,274)	(2,301)
	151,710	122,508
Interest expense:		
Interest on members' deposits	67,949	46,659
Interest on borrowed funds	6,125	5,104
Deposit agent commissions	612	305
	74,686	52,068
Net interest income	$ 77,024	$ 70,440

19. Fee and commission income and other income:

	2018	2017
Fee and commission income:		
Account services fees	$ 1,752	$ 1,704
Commission	9,554	8,115
Lending fees	3,479	3,349
	$ 14,785	$ 13,168
Other income:		
Other member income	$ 1,487	$ 1,665
Miscellaneous income	129	716
	$ 1,616	$ 2,381

20. Gain on sale of assets:

In 2018 the Credit Union made two transactions resulting in a gain on sale.

(a) The Credit Union sold one of its subsidiaries 0982257 BC Ltd. 0982257 BC Ltd. held two assets, consisting of residential strata units in the same building. The strata units became property held for sale as a result of a previous foreclosure. The sale of 0982257 BC Ltd. resulted in a gain of $580.

20. Gain on sale of assets (continued):

(b) The Credit Union sold a land parcel and recognized a gain of $1,633.

In 2017 the Credit Union sold one property located at 1080 Marine Drive North Vancouver, BC.

All transactions were conducted at arms-length, fair value with all the risks and rewards transferred to the purchasers.

21. Salary and employee benefits:

	2018	2017
Salaries, commissions and bonuses	$ 34,541	$ 31,863
Benefits	2,582	2,468
Pension costs:		
Multi-employer plan	3,006	3,020
Other benefit plans	276	258
Defined-contribution plan	37	37
	$ 40,442	$ 37,646

22. Building and occupancy and general and administrative expenses:

	2018	2017
Building and occupancy:		
Amortization	$ 3,817	$ 3,663
Occupancy	3,960	3,911
	$ 7,777	$ 7,574

	2018	2017
General and administrative expenses:		
Dues, fees and charges	$ 5,449	$ 4,449
General business	4,588	1,563
Technology	4,348	4,459
Marketing	2,341	2,516
Office expenses	1,709	1,652
Amortization of intangible assets	1,471	1,719
Bank charges	1,187	1,092
Human resources and training	638	665
Board compensation, meetings and other expenses	550	483
Lien & title searches	499	534
Equipment rental and maintenance	477	430
	$ 23,257	$ 19,562

23. Income taxes:

(a) Income tax expense:

		2018		2017
Current tax expense:				
Current year	$	4,388	$	3,639
Deferred tax expense:				
Origination and reversal of temporary differences		(877)		(896)
Total income tax expense	$	3,511	$	2,743

(b) Reconciliation of effective tax rate:

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate table. The income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates of 27.0% (2017 - 26.0%) to income before income taxes. The reasons for the differences are as follows:

	2018	2017
Combined federal and provincial statutory tax rate	27.0%	26.0%
Credit union preferred rate reduction	(10.0%)	(9.0%)
Non-taxable and other items	(0.9%)	(5.4%)
	16.1%	11.6%

23. Income taxes (continued):

(c) Deferred tax assets and liabilities:

	Balance at December 31, 2017	Recognized in profit or loss	Reclass	Recognized in OCI	Balance at December 31, 2018
Deferred tax assets:					
Leasing assets	$ 948	$ (173)	$ -	$ -	$ 775
Pensions benefits	452	93	-	-	545
Allowance for impairment of loans	1,310	172	-	-	1,482
Loss carryforward	740	560	-	-	1,300
Total	$ 3,450	$ 652	$ -	$ -	$ 4,102
Deferred tax liabilities:					
Premises and equipment	$ 1,958	$ -	$ -	$ -	$ 1,958
Deferred revenue	919	(288)	-	-	631
Land	484	63	-	-	547
Total	$ 3,361	$ (225)	$ -	$ -	$ 3,136
Net deferred tax assets	$ 1,605	$ -	$ -	$ -	$ 1,605
Net deferred tax liabilities	1,516	(877)	-	-	639

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 17.0% (2017 - 17.0%). All other entities have used the statutory applicable rate of 27.0%.

(d) Unrecognized deferred tax assets:

At December 31, 2018, deferred tax assets for temporary differences related to investments in subsidiaries were not recognized because the Credit Union controls these assets.

24. Commitments and contingencies:

(a) Credit commitments:

The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire, terminate or be cancelled without being utilized.

	2018	2017
Undrawn lines of credit	$ 378,010	$ 348,209
Commitments to extend credit	167,009	169,773
Documentary letters of credit	7,113	8,854
	$ 552,132	$ 526,836

24. Commitments and contingencies (continued):

(b) Deposit commitments:

Under governing legislation, the Credit Union is required to maintain a portion of its liquidity in the form of deposits with Central 1. Required liquidity deposits with Central 1 totaled $328,655 (2017 - $291,984) of the total $351,469 (2017 - $304,691) deposited.

(c) Restricted cash:

Included within cash and cash equivalents, the Credit Union has restricted cash of $6,602 (2017 - $2,985) arising from securitization agreements in the ordinary course of business. This restricted cash is due to be paid to the recipient of the transferred receivables, but has not yet been remitted.

(d) Lease commitments:

The Credit Union has leases on certain branch and office premises for terms extending to 2033 with an option to renew after that period. The lease arrangements may include escalation clauses to reflect fair market rental rates. Total lease payments of $1,741 (2017 - $1,453) were expensed during the year ended December 31, 2018, and are recognized in the consolidated statement of income as a part of building and occupancy expenses.

The future minimum lease payments are as follows:

	2018	2017
No later than one year	$ 1,866	$ 1,564
Later than one year and no later than five years	5,608	6,630
Later than five years	5,497	3,536
	$ 12,971	$ 11,730

24. Commitments and contingencies (continued):

(e) Other commitments:

The Credit Union has a commitment to pay annual maintenance fees for its banking system and other information systems.

Over the next two years the Credit Union also has a commitment to pay for Central 1 Class F shares.

The Credit Union and Capilano University (the University) have an agreement whereby the Credit Union committed $1 million over a 15 year period to the University starting in 2011, which results in the University's performing arts theatre at the North Vancouver campus being named the BlueShore Financial Centre for the Performing Arts.

Outstanding commitments are as follows:

		2018		2017
Technology and Other Commitments	$	3,907	$	2,231
Central 1 Class F Shares		2,101		-
Capilano University		467		533
	$	6,475	$	2,764

(f) Contingencies:

In the ordinary course of business, the Credit Union has legal proceedings or other claims brought against it. No provisions are made unless the determination is likely and the amount can be reliably measured. The Credit Union has included provisions in its liabilities where appropriate. Based on current knowledge, the Credit Union expects the final determination of these proceedings or other claims will not have a material adverse effect on its consolidated statement of financial position or on operating results.

25. Related parties:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, Board of Directors, senior management, close family members of senior management and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by senior management or their close family members.

A number of transactions were entered into with senior management in the normal course of business:

	2018 Opening balance	2018 Activity	2018 Ending balance
Loans and deposits:			
Loans	$ 7,341	$ 794	$ 8,135
Deposits	6,560	1,936	8,496
	$ 13,901	$ 2,730	$ 16,631

	2018	2017
Key management personnel compensation:		
Salaries and other short-term employee benefits	$ 2,327	$ 2,549
Total pension and other post-employment benefits	395	429
Other long-term benefits	628	559
	$ 3,350	$ 3,537

The above key management personnel compensation represents the total compensation (base salary, incentives, benefits and pension contributions) that was charged to salaries and employee benefits in the consolidated statement of income for the Chief Executive Officer and the executive management of the Credit Union, who have the authority and responsibility for planning, directing and controlling the activities of the Credit Union.

In addition, members of the Board of Directors, in their capacity as Directors, received remuneration of $366 (2017 - $342) in aggregate.