



G&F
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Consolidated Financial Statements

(Expressed in thousands of dollars)

Gulf & Fraser Fishermen's Credit Union
Year ended December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of Gulf and Fraser Fishermen's Credit Union (the Credit Union) who are responsible for their reliability, completeness, and integrity. The consolidated financial statements were prepared in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with International Financial Reporting Standards.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems provide assurance that all transactions are authorized and proper records are maintained. Internal audit procedures provide management with the ability to assess the adequacy of these controls.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG LLP, Chartered Professional Accountants, the independent external auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the management and staff of the Credit Union and the Audit Committee of the Board.



William Kiss
Co-Chief Executive Officer



Jeff Shewfelt
Co-Chief Executive Officer



Ron Lee
Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Members of Gulf and Fraser Fishermen's Credit Union:

Opinion

We have audited the consolidated financial statements of Gulf and Fraser Fishermen's Credit Union (the Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- 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 the Credit Union as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of 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 the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 12, 2020

Consolidated Statement of Financial Position

(Expressed in thousands of dollars)

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Cash		\$ 16,512	\$ 5,622
Financial investments	6	202,250	181,228
Derivative assets	7	902	732
Loans	8, 9	2,068,805	1,862,404
Premises and equipment	10	36,096	7,376
Intangible assets	10	486	592
Investment property	11	797	797
Deferred income tax asset	12	1,303	1,214
Other assets	13	2,055	3,657
		\$ 2,329,206	\$ 2,063,622
Liabilities and Members' Equity			
Derivative liabilities	7	\$ -	\$ 484
Deposits	14	2,156,900	1,887,475
Members' shares	15	8,854	8,047
Secured borrowings	16	25,419	51,455
Other liabilities	17,18	15,972	6,192
		2,207,145	1,953,653
Members' equity:			
Accumulated other comprehensive income		600	152
Retained earnings		121,461	109,817
		122,061	109,969
Commitments	19		
		\$ 2,329,206	\$ 2,063,622

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

Lewis Bubl 
President and Chair, Board of Directors

Christine Dacre
Chair of the Audit Committee

Consolidated Statement of Income

(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Interest income:			
Interest on loans		\$ 76,655	\$ 66,804
Other interest income		5,432	3,224
		82,087	70,028
Interest expense:			
Interest on deposits		41,143	29,786
Other interest expense		1,345	1,384
		42,488	31,170
Net interest income			
		39,599	38,858
Other income (expense):			
Member services income		10,618	9,000
Hedge ineffectiveness on cash flow hedges		84	(47)
Other income		149	148
Provision for credit losses	9	(597)	(697)
		10,254	8,404
Operating margin			
		49,853	47,262
Operating expenses:			
Salaries and employee benefits	20	20,396	19,238
Office and other administrative		3,281	3,099
Depreciation		3,248	1,497
Data processing		2,864	2,353
Occupancy		1,889	3,511
Advertising and promotion		1,493	1,762
Dues		1,374	1,778
Other expenses		916	1,221
		35,461	34,459
Earnings from operations			
		14,392	12,803
Distribution to members			
		(369)	(315)
Income before income taxes			
		14,023	12,488
Provision for income taxes			
	12	2,379	2,126
Net income			
		\$ 11,644	\$ 10,362

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019		2018	
Net income	\$	11,644	\$	10,362
Net unrealized gain from cash flow hedges, net of tax expense of \$92 (2018 - tax expense of \$124)		448		603
Total comprehensive income	\$	12,092	\$	10,965

See accompanying notes consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

*(Expressed in thousands of dollars)**Year ended December 31, 2019, with comparative information for 2018*

	Accumulated other comprehensive income cash flow hedging reserve	Retained earnings	Members' equity
Balance, January 1, 2018	\$ (451)	\$ 99,455	\$ 99,004
Cash flow hedges	603	-	603
Net income	-	10,362	10,362
Balance, December 31, 2018	152	109,817	109,969
Cash flow hedges	448	-	448
Net income	-	11,644	11,644
Balance, December 31, 2019	\$ 600	\$ 121,461	\$ 122,061

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income	\$ 11,644	\$ 10,362
Adjustments:		
Depreciation	3,248	1,497
Provision for credit losses	597	697
Interest income	(82,087)	(70,028)
Interest expense	42,488	31,170
Deferred income tax	(89)	(373)
Change in fair value of financial investments	-	-
Change in derivative instruments	(206)	294
	(24,405)	(26,381)
Changes in non-cash operating working capital:		
Other assets	1,602	(1,101)
Accounts payable and other liabilities	3,418	2,323
Net increase in loans	(206,277)	(154,812)
Net increase in deposits	264,289	140,114
Interest income received on loans	81,366	73,584
Interest expense paid on deposits	(37,352)	(26,652)
Income taxes paid	(3,436)	(1,684)
	79,205	5,391
Investing activities:		
Net acquisition of investments	(21,022)	(19,835)
Net acquisition of:		
Premises and equipment	(20,563)	(2,056)
Intangible assets	(247)	(439)
	(41,832)	(22,330)
Financing activities:		
Payment on lease liabilities	(1,254)	-
Net increase (decrease) in:		
Members' shares	807	1,104
Borrowings	(26,036)	6,156
	(26,483)	7,260
Increase (decrease) in cash	10,890	(9,679)
Cash, beginning of year	5,622	15,301
Cash, end of year	\$ 16,512	\$ 5,622

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

1. Reporting entity:

Gulf and Fraser Fishermen's Credit Union (the Credit Union) is incorporated under the British Columbia Credit Union Incorporation Act and is a member of Central 1 Credit Union (Central 1), which is the central credit union and trade services organization for British Columbia and Ontario credit unions. The Credit Union provides financial services to its members principally in the Greater Vancouver area of British Columbia. The Credit Union's head office is located at 7375 Kingsway, Burnaby, British Columbia.

2. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 12, 2020.

(b) Basis of measurement:

These consolidated financial statements were prepared using the historical cost basis, except for financial investments and derivative assets and liabilities, which are measured at fair value.

(c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies:

The Credit Union's accounting policies for leases up to December 31, 2018, were in accordance with IAS 17. The Credit Union adopted IFRS 16 with a date of initial application of January 1, 2019. Accounting policies for leases applicable from January 1, 2019, are disclosed in note 4.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Gulf and Fraser Insurance Services Ltd. The consolidated financial statements have been prepared using uniform accounting policies.

(b) Financial instruments:

(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 other comprehensive income ("FVOCI") or fair value through profit and loss ("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 assets 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 debt security 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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (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 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 for which an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive income. 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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (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, 2019.

(iii) Impairment:

An impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

Loss allowances are measured on either of the following bases utilizing an expected credit loss ("ECL") model.

- 12-month ECL: these are losses that result from possible default events within the 12 months after the reporting date; and
- lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

The ECL model requires the recognition of credit losses based on up to 12-months of expected losses of performing loans ("Stage 1") and the recognition of lifetime expected losses on performing loans that have experience a significant increase in credit risk since origination ("Stage 2") and credit impaired assets ("Stage 3").

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (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, management judgment, and delinquency and monitoring. The importance and relevance of each specific macroeconomic factor depends on the 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 the gap.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

Measurement of ECL:

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as 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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (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 OCI instead of reducing the carrying amount of the asset.

Write-off:

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

(iv) Derecognition of financial instruments:

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:
 - The Credit Union has transferred substantially all the risks and rewards of the asset; or
 - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(iv) Derecognition of financial instruments (continued):

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset. In that case the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

(c) 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 require lifetime losses to be estimated ("Stage 3"). The determination of a significant increase in credit risk takes into account many different factors and varies by 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.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(d) Derivative financial instruments and hedging:

Derivative financial instruments, are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. The notional contract amounts related to derivatives are not included on the consolidated statement of financial position. In the ordinary course of business, the Credit Union enters into interest rate swaps and equity index-linked option contracts. The Credit Union enters into such contracts primarily to manage its exposure to fluctuations in interest rates and other financial indices as part of the Credit Union's asset/liability management program.

Derivatives are carried at fair value, and are recorded as assets when they have a net positive fair value and liabilities when they have a net negative fair value.

Non-hedging derivative instruments:

Derivatives that are not designated as hedging instruments are classified as held-for-trading.

Upon initial recognition, the Credit Union's derivatives related to equity index-linked option contracts are classified as held-for-trading in order to avoid an accounting mismatch in relation to changes in fair value between the option contract and the underlying equity index-linked member deposit.

Non-hedging derivatives are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recognized in net income.

Hedging derivative instruments:

Derivatives can be designated for accounting purposes as either cash flow hedging instruments or fair value hedging instruments. The Credit Union has only entered into interest rate swap contracts as cash flow hedges at this time. Cash flow hedges modify exposure to variability in cash flows for variable interest bearing instruments. The Credit Union's cash flow hedges comprise hedges of variable rate mortgages and deposits.

Each hedge undertaken by the Credit Union is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The Credit Union formally assesses prospectively and retrospectively at the hedge's inception and on an ongoing basis whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recognized in other comprehensive income. The ineffective portion is immediately recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the same period that the hedged cash flows affect net income.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(d) Derivative financial instruments and hedging (continued):

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time either remains in accumulated other comprehensive income and is amortized into net income over the remaining term of the original hedge or immediately when the hedged item is derecognized.

(e) Securitization:

The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which include securitization of residential mortgages into special purpose entities which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfer 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 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. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

Monies raised from securitization transactions whereby the Credit Union did not transfer substantially all of the risks and rewards of ownership of the mortgages in the securitization are accounted for as a secured borrowing.

(f) Premises and equipment:

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

Asset	Useful life
Buildings	5 - 50 years
Furniture and equipment	2 - 10 years
Leasehold improvements	5 - 15 years

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

Gains or losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of premises and equipment, and are recognized net within net income.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(g) Intangible assets:

Intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of 2 to 5 years.

(h) Investment property:

The Credit Union's investment property consists of land and buildings held to earn rental income. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings and related improvements are depreciated on a straight-line basis over their estimated useful life of 5 to 25 years. Rental income is recognized on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Impairment charges are included in net income.

(j) Income taxes:

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

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

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

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(j) Income taxes (continued):

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

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

(k) Revenue recognition:

Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

(l) Leased assets - policy applicable prior to January 1, 2019:

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a finance lease), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an operating lease), the total rentals payable under the lease are charged to the statement of income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(m) Provisions:

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

3. Significant accounting policies (continued):

(n) Foreign currency translation:

Transactions in foreign currencies are translated into the functional currency of the Credit Union at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Realized and unrealized gains and losses arising from translation are included in the consolidated statement of comprehensive income.

4. Change in accounting policies:

IFRS 16 Leases:

IFRS 16 sets out a new model for lease accounting, replacing IAS 17. The new standard recognizes the initial present value of unavoidable future lease payments as right-of-use assets and lease liabilities on the statement of financial position, including those for most leases that were previously accounted for as operating leases.

(a) Lease definition - policy applicable from January 1, 2019:

At inception of a contract, the Credit Union assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(b) Recognition and measurement - policy applicable from January 1, 2019:

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: (i) in the lease term; (ii) the Credit Union's assessment of whether it will exercise a purchase option; (iii) a change in an index or a change in the rate used to determine the payments; and (iv) amounts expected to be payable under residual value guarantees.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

4. Changes in accounting policies (continued):

IFRS 16 Leases (continued):

(c) Transition impact from adopting IFRS 16 (continued):

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which the cumulative effect of initial application would be recognized in retained earnings as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17.

On initial application, the Credit Union elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liability of \$9,008 were recorded as at January 1, 2019, with no impact on retained earnings for leases previously recognized as operating leases under IAS 17.

The Credit Union applied the following recognition exemptions and practical expedients:

- To not recognize short-term leases with a term less than 12 months or leases of low-value assets;
- To apply IFRS 16 only to contracts that were previously identified as leases; and
- To use hindsight when determining the lease term if the contract contained options to extend or terminate the lease.

The lease liability as at January 1, 2019 of \$9,008 was derived through the discounting of the Credit Union's operating lease commitments as at December 31, 2018 of \$9,832 using the Credit Union's incremental borrowing rate at January 1, 2019 of 2.75%. The Credit Union did not have any finance lease liabilities outstanding as at December 31, 2018 and no adjustments were considered significant.

5. Critical accounting estimates and judgments:

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of the Credit Union's accounting policies and the reported amounts of assets, liabilities, income and expenses.

(a) Significant judgments:

The critical judgments that management has made in the process of applying the Credit Union's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

5. Critical accounting estimates and judgments (continued):

(a) Significant judgments (continued):

Classification and measurement of financial assets:

Determining the appropriate classification and measurement of the Credit Union's financial assets requires management to make judgments as to the objectives of the business models that the financial assets are held within and whether the contractual cash flows of the financial assets represent solely payments of principal and interest on the principal amount outstanding on initial recognition. In assessing the Credit Union's business models, management considers all relevant evidence available at the date of assessment, including but not limited to:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and the financial assets held within it and the way in which those risks are managed;
- how managers of the business model are compensated; and
- the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

(b) Assumptions and estimates:

The preparation of these consolidated financial statements requires that management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Credit Union's assets and liabilities at the end of the reporting period. Actual results may differ from these estimates as the estimation process is inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Credit Union's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period are as follows:

Loss allowance for expected credit losses on financial assets:

In determining the amount recognized as a loss allowance for ECLs on financial assets measured at amortized cost, management first assesses whether there has been a significant increase in credit risk for its financial assets. This assessment reflects management's view of the risk of default occurring in future periods for the respective financial assets. Actual occurrence of default may differ from these estimates.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

5. Critical accounting estimates and judgments (continued):

(b) Assumptions and estimates (continued):

The calculation of 12-month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets and Stage 3 credit-impaired financial assets requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward looking information and forecasts of macroeconomic conditions to the Credit Union's ECLs and expected remaining lives of the financial assets. Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the Credit Union's consolidated financial statements.

Fair value of financial instruments and investment property:

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

The Credit Union determines the fair value of investment property based on property tax notices, which may not fully capture market movements to the date of the financial statements.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in notes 6, 7, 8, 11, 14, 16 and 21.

6. Financial investments:

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

	2019	2018
Central 1 term deposits	\$ 189,566	\$ 169,258
Accrued interest on term deposits	1,093	1,046
Central 1 - Class A shares	744	741
Central 1 - Class E shares	1	1
Central 1 - Class F shares	9,486	8,498
Other investments	1,360	1,684
	\$ 202,250	\$ 181,228

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

6. Financial investments (continued):

The Credit Union must maintain liquidity reserves with Central 1 of at least 8% of total members' deposits and non-equity shares, and borrowings. The fair value of term deposits with Central 1 is \$201,246 at December 31, 2019 (2018 - \$168,781).

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

Central 1 shares and other investments, which are comprised of shares of credit union system entities, are measured at fair value, the determination of which is based on the par value of the underlying share classes.

The Credit Union is not intending any further dispositions of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

7. Derivatives:

	Notional amounts				Fair value	
	Maturities of derivatives			2019	2019	2018
	Within 1 year	1 to 3 years	3 to 5 years			
Derivatives used to manage interest rate risks:						
Receive fixed interest rate swaps	\$ -	\$ 175,000	\$ 25,000	\$ 200,000	\$ 728	\$ (484)
Forward start interest rate swaps	-	-	-	-	-	588
Other derivatives:						
Index-linked option contracts	878	1,454	110	2,442	174	144
Total derivative contracts	\$ 878	\$ 176,454	\$ 25,110	\$ 202,442	\$ 902	\$ 248

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

8. Loans:

The following table provides information on loans by type. The maximum exposure to credit risk would be the carrying values as detailed below:

	2019	2018
Residential mortgages and personal loans	\$ 1,474,946	\$ 1,363,004
Commercial lending	594,364	500,078
	2,069,310	1,863,082
Accrued interest receivable	4,277	3,556
	2,073,587	1,866,638
Allowance for credit losses (note 9)	(4,782)	(4,234)
Net loans to members	\$ 2,068,805	\$ 1,862,404

At December 31, 2019, \$1,073,981 (2018 - \$1,065,424) of loans are expected to be settled more than twelve months after the reporting date.

(a) Terms and conditions:

Loans can have either a variable or fixed rate of interest and mature within 6 years.

Variable rate loans are based on a "prime rate" formula. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2019 was 3.95% (2018 - 3.95%).

The interest rate offered on fixed rate loans being advanced to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans secured by residential property and generally receive monthly blended payments of principal and interest or interest only. Personal loans consist of term loans and lines of credit with various repayment terms.

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

(b) Fair value:

The fair value of loans at December 31, 2019 was \$2,076,175 (2018 - \$1,874,021).

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

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

8. Loans (continued):

(c) Securitized loans:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund mortgage growth by securitizing loans to Central 1 or unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in all or a portion of the transferred mortgages being derecognized from the consolidated statement of financial position.

The amount of residential mortgages that were transferred but which were not derecognized at December 31, 2019 was \$25,419 (2018 - \$36,550). The Credit Union has also recognized \$25,419 (2018 - \$36,547) of secured borrowings (note 16) relating to the securitization transactions, as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 2.10% (2018 - 2.08%) and it matures over the same term as the underlying mortgages.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

(d) Credit quality of loans:

A breakdown of the security held on a portfolio basis is as follows:

	2019	2018
Loans - insured by government	\$ 78,719	\$ 87,302
Loans - real estate secured	1,968,207	1,756,580
Loans - otherwise secured	11,885	8,741
Loans - unsecured	10,499	10,459
	\$ 2,069,310	\$ 1,863,082

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

9. Allowance for credit losses:

(a) Reconciliation of allowance for credit losses:

The following tables show reconciliations from the opening balance to the closing balance of the Credit Union's ECL allowance on loans, by class of financial asset and loss allowance category.

2019	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
Balance at January 1,	\$ 2,610	\$ 262	\$ -	\$ 2,872
Provision for credit losses:				
Transfers to Stage 1	23	(23)	-	-
Transfers to Stage 2	(3)	3	-	-
Transfers to Stage 3	-	-	-	-
Originations	1,807	-	-	1,807
Maturities	(1,507)	(71)	-	(1,578)
Remeasurements	196	80	-	276
Net write-offs	-	-	-	-
Balance at December 31	\$ 3,126	\$ 251	\$ -	\$ 3,377
Residential mortgages and personal loans:				
Balance at January 1	\$ 1,139	\$ 102	\$ 121	\$ 1,362
Provision for credit losses:				
Transfers to Stage 1	2	(2)	-	-
Transfers to Stage 2	(25)	25	-	-
Transfers to Stage 3	(2)	-	2	-
Originations	262	7	-	269
Maturities	(153)	(10)	(39)	(202)
Remeasurements	(106)	62	69	25
Net write-offs	-	-	(49)	(49)
Balance at December 31	\$ 1,117	\$ 184	\$ 104	\$ 1,405
Total loans:				
Balance at January 1	\$ 3,749	\$ 364	\$ 121	\$ 4,234
Provision for credit losses:				
Transfers to Stage 1	25	(25)	-	-
Transfers to Stage 2	(28)	28	-	-
Transfers to Stage 3	(2)	-	2	-
Originations	2,069	7	-	2,076
Maturities	(1,660)	(81)	(39)	(1,780)
Remeasurements	90	142	69	301
Net write-offs	-	-	(49)	(49)
Balance at December 31	\$ 4,243	\$ 435	\$ 104	\$ 4,782

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

9. Allowance for credit losses (continued):

(a) Reconciliation of allowance for credit losses (continued):

2018	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
Balance at January 1,	\$ 2,475	\$ 55	\$ 2	\$ 2,532
Provision for credit losses:				
Transfers to Stage 1	32	(32)	-	-
Transfers to Stage 2	(237)	237	-	-
Transfers to Stage 3	-	-	-	-
Originations	680	22	-	702
Maturities	(1,010)	(18)	(2)	(1,030)
Remeasurements	670	(2)	-	668
Net write-offs	-	-	-	-
Balance at December 31	\$ 2,610	\$ 262	\$ -	\$ 2,872
Residential mortgages and personal loans:				
Balance at January 1	\$ 968	\$ 129	\$ 38	\$ 1,135
Provision for credit losses:				
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(28)	28	-	-
Transfers to Stage 3	(69)	-	69	-
Originations	271	9	18	298
Maturities	(162)	(35)	(1)	(198)
Remeasurements	158	(28)	127	257
Net write-offs	-	-	(130)	(130)
Balance at December 31	\$ 1,139	\$ 102	\$ 121	\$ 1,362
Total loans:				
Balance at January 1	\$ 3,443	\$ 184	\$ 40	\$ 3,667
Provision for credit losses:				
Transfers to Stage 1	33	(33)	-	-
Transfers to Stage 2	(265)	265	-	-
Transfers to Stage 3	(69)	-	69	-
Originations	951	31	18	1,000
Maturities	(1,172)	(53)	(3)	(1,228)
Remeasurements	828	(30)	127	925
Net write-offs	-	-	(130)	(130)
Balance at December 31	\$ 3,749	\$ 364	\$ 121	\$ 4,234

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

9. Allowance for credit losses (continued):

(b) Loans past due but not impaired:

Loans that are past due but not impaired as at December 31, 2019 and 2018 are as follows:

2019	Residential mortgages and personal loans	Commercial lending	Total
30 to 90 days	\$ 2,279	\$ -	\$ 2,279
Over 90 days	-	-	-
Balance, December 31, 2019	\$ 2,279	\$ -	\$ 2,279

2018	Residential mortgages and personal loans	Commercial lending	Total
30 to 90 days	\$ 9	\$ -	\$ 9
Over 90 days	23	-	23
Balance, December 31, 2018	\$ 32	\$ -	\$ 32

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(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

10. Premises and equipment and intangible assets:

	Premises and equipment						Intangible assets	
	Land	Building	Leasehold improvement	Furniture and equipment	Right-of-use assets / Building	Total	Computer software	
Cost:								
Balance, December 31, 2017	\$ 2,242	\$ 1,338	\$ 8,129	\$ 7,657	\$ -	\$ 19,366	\$ 6,098	
Additions	-	63	1,503	490	-	2,056	439	
Disposals	-	-	-	-	-	-	-	
Balance, December 31, 2018	2,242	1,401	9,632	8,147	-	21,422	6,537	
Recognition of right-of-use on asset on initial application of IFRS 16	-	-	-	-	9,008	9,008	-	
Adjusted balance, January 1, 2019	2,242	1,401	9,632	8,147	9,008	30,430	6,537	
Additions	2,536	17,072	157	798	2,044	22,607	247	
Disposals	-	-	-	-	-	-	-	
Balance, December 31, 2019	\$ 4,778	\$ 18,473	\$ 9,789	\$ 8,945	\$ -	\$ 53,037	\$ 6,784	
Accumulated depreciation:								
Balance, December 31, 2017	\$ -	\$ 1,311	\$ 4,695	\$ 6,991	\$ -	\$ 12,997	\$ 5,497	
Depreciation expense	-	12	751	286	-	1,049	448	
Disposals	-	-	-	-	-	-	-	
Balance, December 31, 2018	-	1,323	5,446	7,277	-	14,046	5,945	
Depreciation expense	-	8	890	331	1,666	2,895	353	
Disposals	-	-	-	-	-	-	-	
Balance, December 31, 2019	\$ -	\$ 1,331	\$ 6,336	\$ 7,608	\$ 1,666	\$ 16,941	\$ 6,298	
Net book value:								
As at December 31, 2018	\$ 2,242	\$ 78	\$ 4,186	\$ 870	\$ -	\$ 7,376	\$ 592	
As at December 31, 2019	4,778	17,142	3,453	1,337	9,386	36,096	486	

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

11. Investment property:

(a) Cost:

		Land		Building		Total
Balance, December 31, 2018 and 2019	\$	797	\$	30	\$	827

(b) Accumulated depreciation:

		Land		Building		Total
Balance, December 31, 2017	\$	-	\$	30	\$	30
Depreciation expense		-		-		-
Balance, December 31, 2018		-		30		30
Depreciation expense		-		-		-
Balance, December 31, 2019	\$	-	\$	30	\$	30

(c) Net book value:

		Land		Building		Total
Balance, December 31, 2018	\$	797	\$	-	\$	797
Balance, December 31, 2019		797		-		797

The fair value of the investment property at December 31, 2019 is \$3,908 (2018 - \$3,890). The fair value of the investment property was estimated based on the property tax assessment notices for the applicable year. Investment property held by the Credit Union is leased out under operating leases. During the year ended December 31, 2019, rental income of \$14 (2018 - \$14) and operating expenses (including repairs and maintenance) of \$10 (2018 - \$9) related to investment property was recognized in the consolidated statement of income.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

12. Provision for income taxes:

	2019	2018
Current income taxes:		
Current year	\$ 2,468	\$ 2,647
Deferred income taxes:		
Origination and reversal of temporary differences	(89)	(521)
	\$ 2,379	\$ 2,126

At December 31, 2019, a deferred income tax liability for temporary differences of \$1,261 (2018 - \$1,288) related to investments in subsidiaries was not recognized because the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

During the year ended December 31, 2019, income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2018 - 27%) to income before income taxes. The reasons for the differences are as follows:

	2019		2018	
Combined basic federal and provincial statutory income tax	\$ 3,786	27.0%	\$ 3,372	27.0%
Decrease in tax due to:				
Preferred rate deduction available to credit unions	(1,408)	(10.0)%	(1,246)	(10.0)%
Non-deductible	9	0.1%	33	0.3%
Other	(8)	(0.1)%	(33)	(0.3)%
Total income taxes	\$ 2,379	17.0%	\$ 2,126	17.0%

At December 31, 2019, income taxes receivable of \$191 is included in other assets (2018 - taxes payable of \$967).

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

12. Provision for income taxes (continued):

The components of deferred income taxes are as follows:

	2019	2018
Deferred income tax asset:		
Allowance for impaired loans	\$ 796	\$ 701
Premises and equipment	177	288
Deposits	316	290
Leases	70	-
Other	36	57
Deferred income tax liability:		
Prepaid expense	(92)	(122)
Net deferred tax asset	\$ 1,303	\$ 1,214

13. Other assets:

	2019	2018
Prepaid expenses	\$ 1,549	\$ 3,483
Accounts receivable	223	104
Income tax receivable	191	-
Other assets	92	70
	\$ 2,055	\$ 3,657

14. Deposits:

	2019	2018
Demand deposits	\$ 512,642	\$ 470,456
Term deposits	1,351,409	1,156,071
Registered Retirement Savings Plans	108,934	105,969
Registered Retirement Income Funds	58,149	50,197
Registered Education Savings Plans	4,132	3,979
Tax Free Savings Accounts	101,422	85,727
	2,136,688	1,872,399
Accrued interest payable	20,212	15,076
	\$ 2,156,900	\$ 1,887,475

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

14. Deposits (continued):

At December 31, 2019, \$532,064 (2018 - \$388,441) of deposits are expected to be settled more than 12 months after the reporting date.

(a) Terms and conditions:

Demand deposits primarily consist of chequing and savings accounts. Interest rates and account fees are specific to each type of deposit account.

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

The Registered Retirement Savings Plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above.

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

The Registered Education Savings Plans (RESP) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

The Tax-Free Savings Accounts (TFSA) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

(b) Fair value:

The fair value of deposits at December 31, 2019 was \$2,165,125 (2018 - \$1,889,812).

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

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15. Members' shares:

The members' shares of the Credit Union are divided into four classes of shares being membership shares, investment equity shares, patronage shares and non-equity shares. All of the Credit Union's member shares are classified as financial liabilities as each class of shares is redeemable at the option of the member. The member shares are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(a) Terms and conditions:

(i) Membership shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold five dollars in membership shares. These membership shares are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in membership shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of membership shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

(ii) Investment equity shares:

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in investment equity shares are not insured by CUDIC. The withdrawal of investment equity shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

(iii) Patronage shares:

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par (one dollar). There is no limit on the number of patronage shares which can be held by a member.

Funds issued in patronage shares are not insured by CUDIC. The withdrawal of patronage shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year. Patronage rebates are at the discretion of the Directors. All issued shares are fully paid.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

15. Members' shares (continued):

(a) Terms and conditions (continued):

(iv) Non-equity shares:

Non-equity shares are withdrawable on demand by the member and may be redeemed by the Credit Union at par (one dollar). Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

(b) Number of shares outstanding:

	Membership shares	Investment equity shares	Patronage shares	Non-equity shares	Total
Balance, December 31, 2017	2,620	3,366	715	242	6,943
Issued during the year	234	1,274	11	2	1,521
Redeemed during the year	142	224	29	22	417
Balance, December 31, 2018	2,712	4,416	697	222	8,047
Issued during the year	209	1,104	10	2	1,325
Redeemed during the year	91	380	22	25	518
Balance, December 31, 2019	2,830	5,140	685	199	8,854
Authorized shares - 2018	Unlimited	Unlimited	Unlimited	Unlimited	
Authorized shares - 2019	Unlimited	Unlimited	Unlimited	Unlimited	

16. Secured borrowings:

	2019	2018
Central 1 - credit facilities	\$ -	\$ 14,908
Central 1 - secured loan (note 8(c))	25,419	36,547
	\$ 25,419	\$ 51,455

The fair value of borrowings as at December 31, 2019 was \$25,343 (2018 - \$50,950).

In addition to the Central 1 secured loan noted above, the Credit Union has an authorized operating line and term loan facility of \$135,584 (2018 - \$104,862) with Central 1, bearing interest that varies with the bankers' acceptance rate. This facility is secured by an assignment of book accounts.

The Credit Union also has a credit facility agreement with Fédérations des caisses Desjardins du Québec authorized up to \$30,000 and is secured by a first charge against eligible residential mortgages. This credit facility bears interest that varies with the bankers' acceptance rate.

As of December 31, 2019, no amounts (2018 - \$14,908) were drawn against the Central 1 credit facilities.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

17. Other liabilities:

	2019	2018
Accounts payable and accrued liabilities	\$ 5,898	\$ 4,780
Deferred revenue	276	445
Income tax payable	-	967
Lease liability (note 18)	9,798	-
	\$ 15,972	\$ 6,192

18. Lease liability:

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2019:

Less than one year	\$ 1,839
Between one and five years	6,112
More than five years	2,961
Total undiscounted lease obligations	\$ 10,912
Lease liabilities included in statement of financial position	
Current	\$ 1,590
Non-current	8,208
Total	\$ 9,798

The Credit Union has used a weighted average incremental borrowing rate of 2.75% to discount its lease obligations.

19. Commitments:

(a) Letters of credit:

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. Letters of credit are not reflected in the consolidated statement of financial position. At December 31, 2019, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$9,524 (2018 - \$8,776).

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

19. Commitments (continued):

(b) Contractual obligations:

The Credit Union has a license agreement with a third party vendor for banking system software and associated supporting applications. The Credit Union also has a data processing agreement with the third party vendor to operate the software on behalf of the Credit Union, providing related services and interfaces. Both agreements expire on March 31, 2021.

The Credit Union has a subscription agreement with a third party vendor for a customer relationship management application. This agreement expires on February 11, 2022.

20. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, which includes those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union.

	2019		2018
Compensation:			
Salaries and employee benefits	\$ 2,904	\$	2,944
Post-employment benefits	196		189
	\$ 3,100	\$	3,133
Transactions with key management personnel:			
Loans outstanding	\$ 1,974	\$	4,667
Term and savings deposits	2,812		2,141
	\$ 4,786	\$	6,808

The Credit Union's policy for lending to, and for receiving deposits from, key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. The employees of the Credit Union are eligible for reduced interest rates on personal loans, lines of credit and mortgages. Directors are not eligible for these benefits.

During the year ended December 31, 2019, the Credit Union's Board of Directors received aggregate remuneration of \$257 (2018 - \$239) which is included in compensation to key management personnel above.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

21. Financial instrument classification and fair value:

(a) Financial instrument classification:

The following table represents the carrying amount by classification.

	Measured at amortized cost	Measured at FVTPL	Total
December 31, 2019			
Cash	\$ 16,512	\$ -	\$ 16,512
Financial investments	190,659	11,591	202,250
Derivative assets	-	902	902
Loans	2,068,805	-	2,068,805
Accounts receivable	223	-	223
Deposits	(2,156,900)	-	(2,156,900)
Members' shares	(8,854)	-	(8,854)
Secured borrowings	(25,419)	-	(25,419)
Accounts payable	(5,898)	-	(5,898)
Lease liability	(9,798)	-	(9,798)
	\$ 69,330	\$ 12,493	\$ 81,823

	Measured at amortized cost	Measured at FVTPL	Total
December 31, 2018			
Cash	\$ 5,622	\$ -	\$ 5,622
Financial investments	170,304	10,924	181,228
Derivative assets	-	732	732
Loans	1,862,404	-	1,862,404
Accounts receivable	104	-	104
Derivative liabilities	-	(484)	(484)
Deposits	(1,887,475)	-	(1,887,475)
Members' shares	(8,047)	-	(8,047)
Borrowings	(51,455)	-	(51,455)
Accounts payable	(4,780)	-	(4,780)
	\$ 86,677	\$ 11,172	\$ 97,849

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

21. Financial instrument classification and fair value (continued):

(b) Financial instruments measured at fair value:

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

- Level 1 - fair value measurements based on unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - fair value measurements based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - fair value measurements based on inputs that are not based on observable market data.

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

	Level 1	Level 2	Level 3	Total
December 31, 2019:				
Central 1 - Class A shares	\$ -	\$ 744	\$ -	\$ 744
Central 1 - Class E shares	-	1	-	1
Central 1 - Class F shares	-	9,486	-	9,486
Derivative assets	-	902	-	902
Other investments	-	1,360	-	1,360
	\$ -	\$ 12,493	\$ -	\$ 12,493
December 31, 2018:				
Central 1 - Class A shares	\$ -	\$ 741	\$ -	\$ 741
Central 1 - Class E shares	-	1	-	1
Central 1 - Class F shares	-	8,498	-	8,498
Derivative assets	-	732	-	732
Other investments	-	1,684	-	1,684
Derivative liabilities	-	(484)	-	(484)
	\$ -	\$ 11,172	\$ -	\$ 11,172

The fair value of derivative assets has been determined through present value techniques. The fair value of the other financial instruments in the table above is described in note 6.

There were no transfers between level 1 and level 2 in the fair value hierarchy in 2019 or 2018.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

21. Financial instrument classification and fair value (continued):

(b) Financial instruments measured at fair value (continued):

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2019	2018
Balance, beginning of the year	\$ -	\$ 1,142
Purchases	-	-
Redemption	-	(1,141)
Transfers into Level 3	-	-
Transfers out of Level 3 into Level 2	-	(1)
Realized gains (losses)	-	-
Change in unrealized appreciation/depreciation	-	-
Balance, end of year	\$ -	\$ -

There were no Level 3 investments held as at December 31, 2019 and 2018.

(c) Financial instruments not measured at fair value:

The fair value of the Credit Union's cash, accounts receivable, members' shares and accounts payable approximates carrying value due to their short-term nature or ability to be settled on demand. These financial instruments are classified as Level 2 in the fair value hierarchy because while settlement amounts or prices are available, there is no active market for these instruments.

The fair value of: loans disclosed in note 8, deposits disclosed in note 14 and secured borrowings in note 16 has been determined using present value techniques, which include inputs based on market observable data. Accordingly, these financial instruments are classified as Level 2 in the fair value hierarchy.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management:

The Credit Union is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments. Below is a description of those risks and how the Credit Union manages its exposure.

(a) Credit risk:

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. The Credit Union's exposure to credit risk is concentrated primarily in its loans. Risk management policies are implemented by management and the Board. These policies include evaluating the member's ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts. Notes 8 and 9 provide further discussion over the Credit Union's loan balances and exposure to credit risk. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas. The Credit Union's market service area is primarily the Greater Vancouver Area of British Columbia and as a result, repayment by members is dependent in part upon the general economic conditions of this geographic region.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan. The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans, overdraft utilization, bad debts analysis and allowance for impaired loans.

(b) Credit risk exposure:

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the consolidated statement of financial position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2019	2018
On-balance sheet exposures	\$ 2,068,805	\$ 1,862,404
Off-balance sheet exposures	241,654	224,690
	\$ 2,310,459	\$ 2,087,094

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management (continued):

(b) Credit risk exposure (continued):

The following tables set out information about the credit quality of the Credit Union's loans measured at amortized cost, by category of loss allowance at December 31, 2019. The amounts in the table represent the carrying amounts of loans.

At December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages and personal loans:				
Beacon score > 750 (excellent)	\$ 723,921	\$ 195	\$ -	\$ 724,116
Beacon score 650 - 749 (good)	612,992	1,876	122	614,990
Beacon score 600 - 649 (satisfactory)	100,193	6,725	1,238	108,156
Beacon score < 600 (poor)	19,384	8,294	6	27,684
Accrued interest	1,739	27	42	1,808
Loss allowance	(1,117)	(183)	(105)	(1,405)
	\$ 1,457,112	\$ 16,934	\$ 1,303	\$ 1,475,349

At December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages and personal loans:				
Beacon score > 750 (excellent)	\$ 610,807	\$ 86	\$ -	\$ 610,893
Beacon score 650 - 749 (good)	608,044	1,827	670	610,541
Beacon score 600 - 649 (satisfactory)	111,933	2,315	872	115,120
Beacon score < 600 (poor)	21,630	4,806	14	26,450
Accrued interest	1,557	23	23	1,603
Loss allowance	(1,139)	(101)	(122)	(1,362)
	\$ 1,352,832	\$ 8,956	\$ 1,457	\$ 1,363,245

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management (continued):

(b) Credit risk exposure (continued):

At December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
R1- Excellent	\$ 3,858	\$ -	\$ -	\$ 3,858
R2- Good	376,305	115	-	376,420
R3 - R5 Satisfactory	57,408	-	-	57,408
R6 - R7 Satisfactory with higher risk	133,957	18,605	-	152,562
R8 Less than satisfactory	4,091	25	-	4,116
R9 - R10 Credit Impaired	-	-	-	-
Accrued interest	2,385	84	-	2,469
Loss allowance	(3,126)	(251)	-	(3,377)
	\$ 574,878	\$ 18,578	\$ -	\$ 593,456

At December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
R1- Excellent	\$ 3,939	\$ -	\$ -	\$ 3,939
R2- Good	313,762	-	-	313,762
R3 - R5 Satisfactory	55,646	874	-	56,520
R6 - R7 Satisfactory with higher risk	112,114	6,482	-	118,596
R8 Less than satisfactory	4,275	2,986	-	7,261
R9 - R10 Credit Impaired	-	-	-	-
Accrued interest	1,915	38	-	1,953
Loss allowance	(2,610)	(262)	-	(2,872)
	\$ 489,041	\$ 10,118	\$ -	\$ 499,159

(c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due. Cash flows payable under financial liabilities by their remaining contractual maturities are included in the interest rate sensitivity analysis included in note 22(d).

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

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

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management (continued):

(c) Liquidity risk (continued):

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union is required to maintain, in the form of cash and term deposits, a minimum of 8% liquidity at all times, based on total members' deposits and non-equity shares, and borrowings. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(d) Market risk:

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and other market prices. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union's investment, lending, and deposit portfolios. The Credit Union has limited exposure to other price risk because the majority of its investments are deposits held with Central 1.

The Credit Union's business is predominantly conducted in Canadian currency. However, some of the Credit Union's deposits are denominated in US funds. The Credit Union economically hedges its exposure to negative impacts from US currency fluctuations by maintaining US dollar denominated investments in amounts which approximate its US deposits. Therefore, exposures to foreign currency fluctuations are managed to immaterial levels on an ongoing basis.

Interest rate risk is the potential impact on the Credit Union's earnings and economic value due to changes in interest rates. The Credit Union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities, and equity against the impact of various possible rate increases or decreases.

The Credit Union has formal internal policies that establish acceptable levels of interest rate risk. These policies are directed at ensuring that expected net interest income has a high probability of falling within an acceptable range. There are further policies designed to ensure that the market value of equity is not eroded by interest rate changes beyond an acceptable range. The Credit Union also consults with independent experts with regards to both the quality and interpretation of its internal interest rate risk management programs. Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing interest rate risk.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management (continued):

(d) Market risk (continued):

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within one year, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. There are no maturities for the non-interest sensitive financial liabilities as the amounts are payable on demand. All financial liabilities classified as within one year have a contractual maturity of less than one year.

December 31, 2019	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets								
Cash and financial investments	1.73%	\$ 122,124	\$ 25,632	\$ 40,615	\$ 12,643	\$ -	\$ 17,748	\$ 218,762
Loans	4.05%	1,191,721	368,563	339,952	100,351	68,723	(505)	2,068,805
Others							41,639	41,639
		\$ 1,313,845	\$ 394,195	\$ 380,567	\$ 112,994	\$ 68,723	\$ 58,882	\$ 2,329,206
Liabilities and Members' Equity								
Deposits and members' shares	1.98%	\$ 1,223,915	\$ 471,063	\$ 40,697	\$ 13,110	\$ 7,194	\$ 409,775	\$ 2,165,754
Other	1.25%	18,154	3,433	3,839	-	-	15,965	41,391
Members' equity							122,061	122,061
		\$ 1,242,069	\$ 474,496	\$ 44,536	\$ 13,110	\$ 7,194	\$ 547,801	\$ 2,329,206
Swaps		\$ (200,000)	\$ 50,000	\$ 125,000	\$ 25,000	\$ -	\$ -	\$ -
Interest sensitivity position		\$ (128,224)	\$ (30,301)	\$ 461,031	\$ 124,884	\$ 61,529	\$ (488,919)	\$ -
December 31, 2018								
Assets								
Cash and financial investments	1.86%	\$ 72,147	\$ 17,543	\$ 25,814	\$ 40,948	\$ 12,806	\$ 17,592	\$ 186,850
Loans	3.89%	992,006	289,902	265,340	217,529	98,306	(679)	1,862,404
Others		-	-	-	-	-	14,368	14,368
		\$ 1,064,153	\$ 307,445	\$ 291,154	\$ 258,477	\$ 111,112	\$ 31,281	\$ 2,063,622
Liabilities and Members' Equity								
Deposits and members' shares	1.89%	\$ 1,135,926	\$ 228,830	\$ 139,238	\$ 17,334	\$ 3,039	\$ 371,155	\$ 1,895,522
Other	1.95%	23,500	19,677	3,850	4,430	-	6,674	58,131
Members' equity		-	-	-	-	-	109,969	109,969
		\$ 1,159,426	\$ 248,507	\$ 143,088	\$ 21,764	\$ 3,039	\$ 487,798	\$ 2,063,622
Swaps		\$ (100,000)	\$ -	\$ 50,000	\$ 50,000	\$ -	\$ -	\$ -
Interest sensitivity position		\$ (195,273)	\$ 58,938	\$ 198,066	\$ 286,713	\$ 108,073	\$ (456,517)	\$ -

The following table summarizes the pre-tax impact of an immediate and sustained parallel 1% increase or decrease shift in interest rates over the next 12 months on net interest income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by management.

Notes to Consolidated Financial Statements

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

Year ended December 31, 2019

22. Financial instrument risk management (continued):

(d) Market risk (continued):

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 risk management initiatives.

Impact of	2019		2018	
	Amount	Percentage of base forecast	Amount	Percentage of base forecast
100 bp increase in interest rates	\$ 1,043	2.29%	\$ 895	2.36%
100 bp decrease in interest rates	(1,673)	(3.67)%	(1,296)	(3.42)%

23. Capital management:

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

The *Financial Institutions Act of British Columbia* requires the Credit Union to maintain a prescribed capital base at all times. This base consists primarily of equity shares and retained earnings. The level of capital required is based on a percentage of the total value of risk-weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. The *Financial Institutions Act of British Columbia* prescribes a minimum capital ratio of 8%, to avoid certain operating restrictions.

The Internal Capital Target guideline issued by the British Columbia Financial Services Authority sets a Supervisory level for credit unions of 10% for internal capital targets.

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk-weighted asset levels. At December 31, 2019 and 2018, the Credit Union's estimated capital ratio exceeded the required capital ratio.

Notes to Consolidated Financial Statements

*(Tabular amount expressed in thousands of dollars, except for indicated otherwise)**Year ended December 31, 2019***24. Funds under administration:**

Funds under administration by the Credit Union comprise loans that have been syndicated and administered in the capacity as an agent. It also includes investment portfolios and mutual fund accounts that are managed on behalf of members. Funds under administration are kept separate from Credit Union assets and therefore are not reflected in the consolidated statement of financial position.

	2019	2018
Syndicated loans	\$ 128,058	\$ 103,789
Investment portfolios and mutual funds at market value	257,028	223,673
	\$ 385,086	\$ 327,462