Osoyoos Credit Union
Consolidated Financial Statements
December 31, 2018

Contents

For the year ended December 31, 2018

Management's Responsibility

To the Members of Osoyoos Credit Union:

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

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

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

March 7, 2019

Chief Executive Officer	Controller

Independent Auditor's Report

To the Members of Osoyoos Credit Union:

Opinion

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

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

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

Kelowna, British Columbia

MNP LLP

March 7, 2019

Chartered Professional Accountants

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

	2018	*2017*
Assets		
Cash	**7,795,913**	8,782,892
Investments *(Note 5)*	**56,643,940**	56,457,342
Members' loans receivable *(Note 6), (Note 16)*	**73,891,006**	75,877,249
Income taxes recoverable *(Note 7)*	**-**	44,990
Advances to joint venture	**36,000**	-
Property, plant and equipment *(Note 8)*	**2,714,625**	2,752,434
Intangible assets *(Note 9)*	**177,973**	227,688
Other assets *(Note 10)*	**202,280**	241,854
Investment property *(Note 11)*	**430,621**	437,596
	141,892,358	144,822,045
Liabilities		
Member deposits *(Note 12)*	**130,654,117**	134,308,436
Income taxes payable *(Note 7)*	**50,007**	-
Other liabilities	**329,990**	301,204
Deferred tax liabilities *(Note 7)*	**55,977**	100,238
Patronage dividends payable *(Note 13)*	**187,017**	173,774
Member shares *(Note 13)*	**1,346,591**	1,487,107
	132,623,699	136,370,759
Commitments *(Note 17)*		
Members' equity		
Member shares *(Note 13)*	**238,277**	207,740
Retained earnings	**9,030,382**	8,554,661
Accumulated other comprehensive loss	**-**	(311,115)
	9,268,659	8,451,286
	141,892,358	144,822,045

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

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

	2018	*2017*
Interest revenue		
Interest on member loans	**2,856,280**	2,747,465
Interest on investments and deposits	**1,599,828**	1,085,506
	4,456,108	3,832,971
Interest expense		
Interest on member deposits	**1,547,711**	1,068,656
Net interest income	**2,908,397**	2,764,315
Impairment losses on member loans *(Note 6), (Note 16)*	**22,983**	18,000
Financial margin	**2,885,414**	2,746,315
Other income	**415,203**	322,805
	3,300,617	3,069,120
Operating expenses		
Amortization of intangible assets *(Note 9)*	**67,236**	58,973
Deposit insurance	**114,030**	127,358
Depreciation of property, plant and equipment *(Note 8), (Note 11)*	**115,754**	133,681
Director and committee expense	**27,175**	16,150
Distribution to members *(Note 13)*	**182,875**	171,140
Employee salaries and benefits	**1,418,917**	1,366,422
Occupancy and equipment	**124,588**	129,685
Operating and administrative expense *(Note 14)*	**855,121**	809,350
	2,905,696	2,812,759
Operating income	**394,921**	256,361
Loss on disposal of property, plant and equipment	**(48,832)**	-
Income before income taxes	**346,089**	256,361
Provision for (recovery of) income taxes *(Note 7)*		
Current	**67,347**	1,750
Deferred	**(44,261)**	4,306
	23,086	6,056
Net income	**323,003**	250,305

The accompanying notes are an integral part of these financial statements

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

	2018	2017
Net income	**323,003**	250,305
Other comprehensive loss		
Unrealized loss on available-for-sale investments, net of tax	**-**	(162,084)
Total comprehensive income for the year	**323,003**	88,221

The accompanying notes are an integral part of these financial statements

Osoyoos Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2018

	Member shares	*Retained earnings*	*Accumulated other comprehensive loss*	*Total equity*
Balance December 31, 2016	**214,583**	**8,306,990**	**(149,031)**	**8,372,542**
Net income	**-**	**250,305**	**-**	**250,305**
Other comprehensive income for the year	**-**	**-**	**(162,084)**	**(162,084)**
Distribution to members	**-**	**(2,634)**	**-**	**(2,634)**
Net issuance of member shares	**(6,843)**	**-**	**-**	**(6,843)**
	-	**-**	**-**	**-**
Balance December 31, 2017	**207,740**	**8,554,661**	**(311,115)**	**8,451,286**
Net income	**-**	**323,003**	**-**	**323,003**
Distribution to members	**-**	**(4,142)**	**-**	**(4,142)**
Net issuance of member shares	**30,537**	**-**	**-**	**30,537**
Impact of initial application of IFRS 9	**-**	**156,860**	**311,115**	**467,975**
Balance December 31, 2018	**238,277**	**9,030,382**	**-**	**9,268,659**

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

	2018	*2017*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	**2,627,746**	2,348,771
Interest and dividends received from investments	**1,791,909**	1,673,024
Fees, commissions and miscellaneous income received	**373,167**	322,805
Cash paid to suppliers and employees	**(2,404,062)**	(2,335,713)
Interest paid on deposits	**(1,236,035)**	(1,007,985)
Patronage and dividends paid	**(168,124)**	(172,433)
Income taxes recovered (paid)	**27,650**	(17,003)
	1,012,251	811,466
Financing activities		
Net change in member deposits	**(3,630,410)**	8,769,719
Net change in member shares	**(109,979)**	(65,769)
	(3,740,389)	8,703,950
Investing activities		
Net change in members' loans receivable	**2,006,368**	2,555,192
Amounts invested in joint venture	**(36,000)**	-
Purchases of investments	**(91,887)**	(9,987,457)
Purchases of property, plant and equipment	**(119,802)**	(13,343)
Purchases of intangible assets	**(17,520)**	(50,207)
	1,741,159	(7,495,815)
Increase (decrease) in cash resources	**(986,979)**	2,019,601
Cash resources, beginning of year	**8,782,892**	6,763,291
Cash resources, end of year	**7,795,913**	8,782,892

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Reporting Entity

Osoyoos Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include deposit products, loan products and registered investment products. The Credit Union’s head office is located at 8312 Main Street, Osoyoos, BC.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2018 comprise the Credit Union and its wholly owned subsidiary OCU Wealth Management Services Ltd. Together, these entities are referred to as the Credit Union.

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS, issued by the International Accounting Standards Board. The consolidated financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2018.

These consolidated financial statements have been approved and authorized by the Board of Directors on March 7, 2019.

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 3.

Basis of measurement

These consolidated financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments.

Functional and presentation currency

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

2. Change in accounting policies

Standards and Interpretations effective in the current period

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

IFRS 9 Financial instruments

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

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

Classification of financial assets and financial liabilities

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

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

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

Impairment of financial assets

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

Transition

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

Classification and measurement

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

Certain financial assets which had not previously been designated as measured at fair value through profit or loss were designated on the date of initial application as measured at fair value through profit or loss.

Impairment

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

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

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

Initial application of IFRS 9

Impact on equity

The following table shows the impact, net of tax, of the initial application of IFRS 9 on various components of equity. There is no impact to other components of equity.

	Impact of initial application of IFRS 9
Retained earnings	
Closing balance under IAS 39 at December 31, 2017	**8,554,661**
Reclassification of equity instruments from available-for-sale to fair value through profit and loss	**116,288**
Recognition of expected credit losses under IFRS 9	**(10,452)**
Reclassification of tax effect on available-for-sale equity investments to amortized cost	**51,024**
Opening balance under IFRS 9 at January 1, 2018	**8,711,521**
Accumulated other comprehensive income	
Closing balance under IAS 39 (December 31, 2017)	**311,115**
Reclassification of investments from available-for-sale to amortized cost	**(411,018)**
Reclassification of equity investments from available-for-sale to fair value through profit and loss	**99,903**
Opening balance under IFRS 9 January 1, 2018	**-**

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

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

	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Cash		FVTPL (designated)	FVTPL (mandatory)	**8,782,892**	**8,782,892**
Investments - term deposits		Held to maturity	Amortized cost	**24,191,792**	**24,191,792**
Equity investments	1	Available-for-sale	FVTPL (mandatory)	**678,953**	**678,953**
Portfolio investments	2	Available-for-sale	Amortized cost	**31,586,597**	**32,065,024**
Members' loan receivable	3	Loans and receivables	Amortized cost	**75,877,249**	**75,866,797**
Accounts receivable		Loans and receivables	Amortized cost	**75,633**	**75,633**
Total financial assets				**141,193,116**	**141,661,091**
Financial liabilities					
Member deposits		Amortized cost	Amortized cost	**134,308,436**	**134,308,436**
Other liabilities		Amortized cost	Amortized cost	**301,205**	**301,205**
Patronage dividend payable		Amortized cost	Amortized cost	**173,774**	**173,774**
Member shares		Amortized cost	Amortized cost	**1,487,107**	**1,487,107**
Total financial liabilities				**136,270,522**	**136,270,522**

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

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

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

2 - As a result of the adoption of IFRS 9, portfolio investments comprised of commercial bonds were reclassified out of the fair value through other comprehensive income category and into the amortized cost category. This reclassification occurred as the investments consist solely of payments of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows and for sale. This change resulted in an increase to the carrying value of those investments upon transition in the amount of $478,427.

3 – As a result of the adoption of IFRS 9, members' loans receivables were reclassified out of the loans and receivables category and into the amortized category. This reclassification occurred as the members' loan receivables consist solely of payments of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows and for sale.

The provision for loan impairment, as measured under the impairment requirements of IAS 39, attributable to financial assets previously categorized as loans and receivables as at December 31, 2017 was $57,603. This loss allowance increased to $68,055 upon transition to the impairment requirements of IFRS 9 on the date of initial application.

IFRS 15 Revenue from contracts with customers

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

Transition

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

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

Initial application of IFRS 15

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

3. Significant accounting judgments, estimates and assumptions

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

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

Allowance for expected credit losses

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

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

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

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

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

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

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

Financial instruments not traded in active markets

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

Impairment of non-financial assets

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

Income tax

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax asset or liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax assets or liabilities.

Classification of financial assets

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

4. Significant accounting policies

Basis of consolidation

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

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

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

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

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

Cash

Cash on hand and on deposit are with original maturities of three months or less from the date of acquisition, and are subject to an insignificant risk of changes in their fair value.

Investments

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

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets are recorded as property held for resale or investment properties. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell. Losses arising on reduction of the net realizable value are charged to net income.

Property, plant and equipment

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

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

	Rate
Buildings	10-50 years
ATM equipment	7-15 years
Computer equipment	4-10 years
Furniture, fixtures and other	10-15 years

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

Intangible assets

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

	Rate
Licences	5 years
Software	5-10 years

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

Investments in joint arrangements

A joint arrangement is a contractual arrangement whereby the two or more parties have joint control. Joint control is the contractually agreed sharing control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

The Credit Union reports its interests in joint ventures over which it has joint control using the equity method. Under the equity method, investments in the joint ventures are initially accounted for at cost, and thereafter adjusted for post-acquisition changes in the Credit Union's share of the net assets of the joint venture, less any impairment in the value of an individual investment. Where losses of a joint venture exceed the Credit Union's interest in that joint venture, the excess is recognized only to the extent that the Credit Union has incurred legal or constructive obligations on behalf of the joint venture.

The Credit Union's profit or loss and other comprehensive income includes its share of the joint venture's profit or loss and other comprehensive income respectively. Distributions received from a joint venture reduce the carrying amount of the investment. All other net asset changes are recognized in equity.

Impairment of non-financial assets

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

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

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

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

Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

All investment property having a limited useful life is depreciated using the straight-line method over the estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Investment property is depreciated from the date of acquisition.

The residual value, useful life and depreciation method is reviewed at least annually and adjusted if necessary.
The depreciation rate applicable during the current and comparative period is as follows:

	Rate
Building	40 years

Members' deposits

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

Other liabilities

Accrued liabilities and accounts payable are stated at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts 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.

Members' shares

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

Income taxes

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

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

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

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

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

Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in the statement of comprehensive income.

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Classification is as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of members' loans receivable, investments in term deposits, portfolio investments and accounts receivables.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Financial assets measured at fair value through profit or loss are comprised of cash and equity investments.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Where the Credit Union uses a credit derivative with a matching referenced name and seniority to manage all or part of a credit exposure, it may, at any time, designate that financial instrument to be measured at fair value through profit or loss to the proportional extent that it is so managed. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

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

Refer to Note 19 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

Contractual cash flow assessment

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

Reclassifications

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

Impairment

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

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

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

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

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

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

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 16 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

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

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

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

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

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

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

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

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

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

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

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Collateral

The Credit Union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Credit Union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

Distributions to members

Patronage distributions per member are determined based on each members actual use of Credit Union services and on the overall financial operations of the Credit Union in any given year. Patronage amounts are payable at the discretion of the Board of Directors.

Fair value measurements

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

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

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

Revenue recognition

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

Interest

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

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

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

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

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

Other revenue

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

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

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

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 was issued in June 2017 to specify how to reflect the effects of uncertainty in accounting for income taxes. The interpretation aims to reduce the diversity in how entities recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this interpretation on its consolidated financial statements.

5. Investments

	2018	*2017*
Term deposits		
Amortized cost		
Term deposits due by March 31, 2019 or earlier, bearing interest between 0.70% - 1.20%	**-**	2,496,596
Term deposits due between April 1 and December 31, 2019, bearing interest between 0.89% - 3.05%	**7,860,690**	7,806,260
Term deposits due more than 1 year, bearing interest between 1.95% - 2.70%	**12,958,272**	13,750,000
Accrued interest	**160,066**	138,936
	20,979,028	24,191,792
Portfolio investments		
Amortized cost		
Commercial bonds	**34,822,697**	31,390,748
Accrued interest	**212,204**	195,849
	35,034,901	31,586,597
Equity investments		
Fair value through profit or loss		
Central 1 shares - Class A	**56,517**	498,127
Central 1 shares - Class E	**35**	116,335
Central 1 shares - Class F	**530,124**	-
Stabilization Credit Union Shares	**141**	141
CUPP Services Ltd.	**43,194**	43,194
Accrued dividends on Central 1 shares	**-**	21,156
	630,011	678,953
	56,643,940	56,457,342

Liquidity reserve deposit

The Credit Union must maintain liquid reserve deposits with Central 1 at 8% of total member deposits at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total member deposits or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and as a condition of membership in Central 1.

6. Members' loans receivable

Principal and allowance by loan type:

					2017
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Commercial mortgages	20,922,109	-	-	-	20,922,109
Consumer loans	11,444,881	-	-	-	11,444,881
Commercial loans	2,187,668	-	-	-	2,187,668
Residential mortgages	41,231,427	-	-	57,603	41,173,824
Accrued interest	148,767	-	-	-	148,767
Total	75,934,852	-	-	57,603	75,877,249

The allowance for loan impairment changed as follows:

	2017
Balance, beginning of year	42,976
Provision for (recovery of) loan impairment	18,000
	60,976
Less: accounts written off	3,373
Balance, end of year	57,603

For current year information on members' loans receivable and loan allowance see Note 16.

7. Income taxes

The significant components of income tax expense included in net income are composed of:

	2018	*2017*
Current income tax expense		
Based on current year taxable income	**67,347**	26,722
Tax effects of amounts in other comprehensive income	**-**	(24,972)
	67,347	1,750
Deferred income tax expense		
Origination and reversal of temporary differences	**(44,261)**	4,306
	23,086	6,056

The movement in 2018 deferred income tax assets and liabilities are:

	Jan 1, 2018	**Recognized in net income**	**Dec 31, 2018**
Deferred income tax assets:			
Loan loss provision	-	878	**878**
Retirement allowance	16,094	1,219	**17,313**
Other liabilities	818	6,845	**7,663**
	16,912	8,942	**25,854**
Deferred income tax liabilities:			
Property, plant and equipment	117,150	(35,319)	**81,831**
2018 net deferred tax liability	(100,238)	44,261	**(55,977)**

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.00% (2017 - 26.00%) are as follows:

	2018	*2017*
Net income for the year	**346,089**	256,361
Income tax expense on the statutory rate	**93,444**	66,654
Preferred rate deduction for Credit Unions	**(6,049)**	(132)
Items not taxable/deductible for tax purposes	**21,579**	(3,155)
Small business deduction	**(40,584)**	(9,746)
Other	**(1,043)**	(26,899)
	67,347	26,722

The movement in 2017 deferred income tax assets and liabilities are:

The movement in 2017 deferred income tax assets and liabilities are:

	Jan 1, 2017	Recognized in net income	Dec 31, 2017
Deferred income tax assets:			
Retirement allowance	20,621	(4,527)	16,094
Other liabilities	830	(12)	818
	21,451	(4,539)	16,912
Deferred income tax liabilities:			
Property, plant and equipment	117,383	(233)	117,150
2017 net deferred tax liability	(95,932)	(4,306)	(100,238)

	2018	*2017*
Deferred income tax assets to be settled after more than 12 months	**17,318**	16,912
Deferred income tax liabilities to be recovered after more than 12 months	**(73,295)**	(117,150)
	(55,977)	(100,238)

8. Property, plant and equipment

	Land	*Buildings*	*Furniture and equipment*	*Total*
Cost				
Balance at December 31, 2016	**84,770**	**3,368,244**	**1,773,101**	**5,226,115**
Additions	**-**	**-**	**13,343**	**13,343**
Balance at December 31, 2017	**84,770**	**3,368,244**	**1,786,444**	**5,239,458**
Additions	**-**	**34,134**	**85,668**	**119,802**
Disposals	**-**	**-**	**(109,872)**	**(109,872)**
Balance at December 31, 2018	**84,770**	**3,402,378**	**1,762,240**	**5,249,388**
Depreciation				
Balance December 31, 2016	**-**	**867,432**	**1,492,886**	**2,360,318**
Depreciation expense	**-**	**63,575**	**63,131**	**126,706**
Balance at December 31, 2017	**-**	**931,007**	**1,556,017**	**2,487,024**
Depreciation expense	**-**	**66,031**	**42,748**	**108,779**
Disposals	**-**	**-**	**(61,040)**	**(61,040)**
Balance at December 31, 2018	**-**	**997,038**	**1,537,725**	**2,534,763**
Net book value				
December 31, 2017	84,770	2,437,237	230,427	2,752,434
December 31, 2018	**84,770**	**2,405,340**	**224,515**	**2,714,625**

9. Intangible assets

	Software	*Licences*	*Total*
Cost			
Balance at December 31, 2016	**389,578**	**105,667**	**495,245**
Additions	**50,207**	**-**	**50,207**
Balance at December 31, 2017	**439,785**	**105,667**	**545,452**
Additions	**7,840**	**9,680**	**17,520**
Balance at December 31, 2018	**447,625**	**115,347**	**562,972**
Accumulated Amortization			
Balance at December 31, 2016	**195,143**	**63,647**	**258,790**
Amortization expense	**46,557**	**12,416**	**58,973**
Balance at December 31, 2017	**241,700**	**76,063**	**317,763**
Amortization expense	**57,524**	**9,712**	**67,236**
Balance at December 31, 2018	**299,224**	**85,775**	**384,999**
Carrying amounts			
December 31, 2017	198,085	29,604	227,689
December 31, 2018	**148,401**	**29,572**	**177,973**

10. Other assets

	2018	2017
Accounts receivable	**15,561**	75,633
Prepaid expenses and deposits	**186,719**	166,221
	202,280	241,854

11. Investment properties

Changes to the carrying amount of investment properties are as follows:

	2018	2017
Carrying amount, beginning of year	**437,596**	444,571
Depreciation	**(6,975)**	(6,975)
Carrying amount, end of year	**430,621**	437,596

Fair value of investment properties as at December 31, 2018 is estimated at $470,638 (2017 – $470,638).

12. Member deposits

	2018	2017
Demand deposits	**65,513,793**	67,694,510
Term deposits	**42,382,348**	45,370,056
Registered plans	**22,197,160**	20,658,885
Dormant account	**28,515**	23,611
Non-equity shares	**34,524**	39,690
Accrued interest	**497,777**	521,684
	130,654,117	134,308,436

Included in registered plans are retirement savings plans, retirement income funds, educational savings plans, and tax free savings accounts.

13. Members' shares

		2018		2017	
	Authorized	**Equity**	**Liability**	Equity	Liability
Membership equity shares	Unlimited	**238,277**	**548,916**	207,740	651,975
Investment equity shares	Unlimited	**-**	**797,675**	-	835,132
		238,277	**1,346,591**	207,740	1,487,107

Terms and conditions

*Membership equity share*s

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold a certain amount of membership shares. These membership shares are redeemable at par only when a membership is withdrawn subject to a 10% redemption maximum based on the prior years issued and outstanding total. The authorized shares for new issuances of Class A shares is unlimited. Dividends are declared and paid at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by CUDIC. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 18), as is the payment of any dividends on these shares. Member holdings of Class A membership share is limited to 1,000 shares. Membership shares that are available for redemption are classified as a liability and shares subject to redemption restrictions are classified as equity.

Investment shares

Class B investment shares were issued to increase capital and are no longer offered by the Credit Union. They are non-voting and are redeemable at par only when requested by a member. There is a 3,000 share limit which can be held by a member. Investment shares are all available for redemption at any time and are therefore classified as a liability. Dividends are declared and paid at the discretion of the Board of Directors.

Patronage amounts

Patronage distributions per member are determined based on member actual use of Credit Union services and on the overall financial operations of the Credit Union in any given year. Patronage amounts are declared and paid at the discretion of the Board of Directors.

Distribution to members

	2018	*2017*
Patronage distributions	**131,546**	131,403
Dividends on members' shares	**55,471**	42,371
	187,017	173,774

Total patronage and dividends of $182,875 were recognized through income while $4,142 was recognized in equity (2017 - $171,140 and $2,634, respectively).

14. Operating and administrative expenses

	2018	2017
Advertising and promotion	**127,271**	109,242
Annual general meeting	**3,833**	3,903
Bank charges	**65,324**	58,884
Data processing	**240,326**	212,392
Education and travel	**46,694**	80,227
Insurance	**23,874**	24,514
Investment property expenses	**11,607**	8,883
Office	**31,652**	32,331
Other expenses	**105,356**	88,375
Professional fees	**165,831**	153,512
Savings and loans insurance	**3,417**	3,652
Scholarships	**5,500**	5,500
Telephone	**24,436**	27,935
	855,121	809,350

15. Related party transactions

Key management compensation of the Credit Union

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

	2018	2017
Salaries, and other short-term employee benefits	**486,028**	400,811
Total pension and other post-employment benefits	**61,426**	55,766
Total remuneration	**547,454**	456,577

Transactions with key management personnel

The Credit Union's policy for lending to key management personnel is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. There are nominal benefits and no concessional terms and conditions applicable to related parties.

There are no loans that are impaired in relation to loan balances with KMP.

	2018	2017
Member loans		
Aggregate value of loans advanced	**1,476,190**	1,549,474
Interest received on loans advanced	**29,004**	21,426
Total value of lines of credit advanced	**562,149**	848,646
Interest received on lines of credit advanced	**17,733**	27,991
Unused value of lines of credit	**1,026,351**	894,554

	2018	*2017*
Member deposits		
Aggregate value of demand, term and registered deposits	**1,208,281**	1,221,203
Total interest paid on demand, term and registered deposits	**67,579**	33,883

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to related parties.

16. Financial instruments

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

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. The risk can relate to balance sheet assets such as loans, as well as off balance sheet assets such as investments in debt securities, and the Credit Union's lending activities.

Risk management process

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

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.
- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities.
- Loan syndication processes.

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

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

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

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

See Note 17 for commitments that the Credit Union has entered into as of December 31, 2018.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

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

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

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

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

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

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when there is evidence that the quantitative or qualitative indicator for a significant increase in credit risk not longer exists for a particular financial asset. Subsequently, management monitors these assets to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

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

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default or past due event;
- The credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

As it may not be possible to identify a single discrete event, a combined effect of several events may result in a financial asset to become credit-impaired.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans that have not been assessed as credit-impaired on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held. The expected credit losses for credit-impaired member loans are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers the probability of default, loss given default, forward looking information and macroeconomic factors, and exposure at default of the financial asset. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

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

Write-offs

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

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets’ gross carrying amount.

The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

	12-month ECL	2018 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Consumer mortgages				
Low risk	**38,126,692**	**-**	**-**	**38,126,692**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**5,036**	**5,036**
Total gross carrying amount	**38,126,692**	**-**	**5,036**	**38,131,728**
Less: loss allowance	**7,850**	**-**	**55,953**	**63,803**
Total carrying amount	**38,118,842**	**-**	**-**	**38,067,925**
Consumer loans				
Low risk	**9,620,273**	**-**	**-**	**9,620,273**
Medium risk	**-**	**449,507**	**-**	**449,507**
Default	**-**	**-**	**3,000**	**3,000**
Total gross carrying amount	**9,620,273**	**449,507**	**3,000**	**10,072,780**
Less: loss allowance	**9,695**	**3,390**	**3,053**	**16,138**
Total carrying amount	**9,610,578**	**446,117**	**-**	**10,056,642**
Commercial loans				
Low risk	**2,433,016**	**-**	**-**	**2,433,016**
Medium risk	**-**	**280,869**	**-**	**280,869**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**2,433,016**	**280,869**	**-**	**2,713,885**
Less: loss allowance	**223**	**2**	**-**	**225**
Total carrying amount	**2,432,793**	**280,867**	**-**	**2,713,660**
Commercial mortgages				
Low risk	**19,870,262**	**-**	**-**	**19,870,262**
Medium risk	**-**	**530,889**	**-**	**530,889**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**19,870,262**	**530,889**	**-**	**20,401,151**
Less: loss allowance	**5,725**	**1,213**	**-**	**6,938**
Total carrying amount	**19,864,537**	**529,676**	**-**	**20,394,213**
Investment mortgage packages				
Low risk	**2,489,673**	**-**	**-**	**2,489,673**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**2,489,673**	**-**	**-**	**2,489,673**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**2,489,673**	**-**	**-**	**2,489,673**
Members' loans receivable				
Total gross carrying amount	**72,539,916**	**1,261,265**	**8,036**	**73,809,217**
Add: accrued interest	**115,998**	**1,978**	**50,917**	**168,893**
Less: loss allowance	**23,493**	**4,605**	**59,006**	**87,104**
Total carrying amount	**72,632,421**	**1,258,638**	**-**	**73,891,006**

As at December 31, 2018, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is $73,978,110 (2017 – $75,934,852). The Credit Union holds senior-ranking general security claims and property backed personal financial guarantees with respect to members' loan receivable.

Amounts arising from expected credit losses

Reconciliation of the allowance for impaired loans

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*IAS 39 Comparatives*	*Total*
Members' loans receivable					
Balance at January 1, 2017	-	-	-	42,976	42,976
Provision for loan impairment	-	-	-	18,000	18,000
Write-offs	-	-	-	(3,373)	(3,373)
Impact of initial application of IFRS 9	-	-	-	10,452	10,452
Balance at January 1, 2018	-	-	-	68,055	68,055
Transfer to 12-month ECL	5,115	-	-	(5,115)	-
Transfer to lifetime ECL (credit impaired)	-	-	62,940	(62,940)	-
Provision for loan impairment	18,378	4,605	-	-	22,983
Write-offs	-	-	(3,934)	-	(3,934)
Balance at December 31, 2018	23,493	4,605	59,006	-	87,104

Market risk

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below.

Interest rate risk

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as, loan prepayment and deposit redemption, which also impact interest rate risk.

Risk Measurement

The Credit Union measures its interest rate risk on a monthly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Board on a quarterly basis. Board reports are then submitted to FICOM on a monthly basis.

The Credit Union's potential risk due to changes in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	2018	2017
1 % increase in interest rate		
Impact on financial margin (for the next 12 months)	**52,000**	35,000
1% decrease in interest rates		
Impact on financial margin (for the next 12 months)	**(106,000)**	(32,810)

			(In thousands)			
	Under 1 Year	***1-4 Years***	***Over 4 Years***	***Non-Interest Sensitive***	***2018***	*2017*
Assets						
Cash	7,129	-	-	667	**7,796**	8,783
Average yield %	*1.90*	-	-	-	*1.75*	*1.40*
Investments	12,580	36,378	7,686	-	**56,644**	56,457
Average yield %	*2.60*	*3.19*	*3.11*	-	*2.91*	*2.39*
Member loans	30,193	32,838	10,860	-	**73,891**	75,877
Average yield %	*4.41*	*3.50*	*3.88*	-	*3.97*	*4.80*
Other assets	-	-	-	16	**16**	76
Subtotal	**49,902**	**69,216**	**18,546**	**683**	**138,347**	141,193
Liabilities						
Member deposits	48,939	26,961	1,527	53,227	**130,654**	134,309
Average yield %	*1.05*	*1.95*	*2.32*	-	*0.97*	*1.70*
Other liabilities and member shares	-	-	1,863	-	**1,863**	1,962
Net sensitivity	**963**	**42,255**	**15,156**	**(52,544)**	**5,830**	4,922

Currency risk

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in U.S. dollars.

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period.

At December 31, 2018, the Credit Union's exposure to foreign exchange risk was not significant.

Liquidity risk

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due

Risk measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources.

Legislation requires that the Credit Union maintain liquid assets with Central 1 of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly and the ILC receives regular reporting of available cash resources and utilization rates. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2018, the Credit Union's total liquidity ratio was 14.06% (2017 - 15.78%) and the Credit Union's liquidity deposits exceeding the minimum requirement by $8,520,059 (2017 - $10,856,399).

17. Commitments

Contractual obligations

The Credit Union has a commitment to acquire on-line data processing services through Open Solutions Canada that expires in December 2021. The fixed annual payments for core contracted services is $62,160 plus a variable charge based on use. The total charge for the year was $240,326 (2017 - $212,392).

Credit facilities

The Credit Union has available to it, through Central 1, a $750,000 CAD and $250,000 USD demand operating line of credit secured by a demand debenture and the general assignment of book debts. The outstanding balance at December 31, 2018 was $nil (2017 - $nil).

Member loans

The Credit Union has the following commitments to its members in loans, unused lines of credit and letters of credit:

	2018	*2017*
Unadvanced loans	**142,609**	268,891
Unused lines of credit	**11,496,508**	12,925,793
Letters of credit	**74,500**	84,500

18. Capital management

In managing its capital, the Credit Union's primary objective is to ensure it maintains adequate liquidity to meet its financial obligations, make necessary capital purchases and support ongoing business. The Credit Union monitors and assesses its financial performance to ensure it is meeting its objectives.

The Financial Institutions Act (British Columbia) requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset.

The Financial Institutions Act (British Columbia) regulations prescribe that the minimum required capital ratio exceeds 8.0% for the Credit Union's fiscal year. At December 31, 2018, the Credit Union's capital ratio is 19.93% (2017 - 20.34%), exceeding the minimum requirement.

The Credit Union considers its capital to include membership shares (member shares and investment shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Union which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2018 was $60,852,328 (2017 - $55,901,560).

	2018	*2017*
Primary capital		
Retained earnings	**9,030,382**	8,554,661
Membership equity shares	**841,840**	911,873
Deferred income tax	**55,977**	100,238
	9,928,199	9,566,772
Secondary capital		
Share of system retained earnings	**1,458,307**	1,079,000
Other equity shares	**920,201**	951,561
Deductions from capital	**(175,914)**	(227,689)
	12,130,793	11,369,644

19. Fair value measurements

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer, etc.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and discounted cash flow models, comparison with quoted or observable prices for similar instruments, Black-Scholes / binomial / polynomial option pricing models, monte carlo simulations, etc. The Credit Union uses assumptions and estimates for risk-free interest rates, market pricing movements, interest rate yield curves, expected volatilities, correlations between inputs, etc.

Assets and liabilities measured at fair value

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

	Fair Value	***Level 1***	***2018 (IFRS 9) Level 3***
Assets			
Financial assets at fair value through profit or loss			
Cash	**7,795,913**	**7,795,913**	**-**
Equity investments	**630,011**	**-**	**630,011**
Total financial assets at fair value	**8,425,924**	**7,795,913**	**630,011**

Liabilities
There are no liabilities measured at fair value

	Fair Value	*Level 1*	*2017 (IAS 39) Level 3*
Assets			
Financial assets at fair value through profit or loss			
Cash	8,782,892	8,782,892	-
Available-for-sale financial assets			
Equity and portfolio investments	32,265,550	31,586,597	678,953
Total financial assets at fair value	41,048,442	40,369,489	678,953
Liabilities	-	-	-
There were no liabilities measured at fair value			

Level 2 fair value measurements

There were no assets or liabilities categorized into level 2 of the fair value hierarchy.

Financial instruments not measured at fair value

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

	Carrying amount	***Fair Value***	***Level 2***	***2018 (IFRS 9) Level 3***
Assets				
Amortized cost				
Members' loans receivable	**73,891,006**	**73,439,974**	**73,439,974**	**-**
Investments - term deposits and portfolio	**56,013,929**	**56,941,745**	**56,941,745**	**-**
Other assets	**15,561**	**15,561**	**15,561**	**-**
Total financial assets	**129,920,496**	**130,397,280**	**130,397,280**	**-**

				2018 (IFRS 9)
	Carrying amount	***Fair Value***	***Level 2***	***Level 3***
Liabilities				
Amortized cost				
Member deposits	**130,654,117**	**130,175,572**	**130,175,572**	**-**
Other liabilities	**517,007**	**517,007**	**517,007**	**-**
Member shares - liability	**1,346,591**	**1,346,591**	**-**	**1,346,591**
Total financial liabilities	**132,517,715**	**132,039,170**	**130,692,579**	**1,346,591**

				2017 (IAS 39)
	Carrying amount	*Fair Value*	*Level 2*	*Level 3*
Assets				
Amortized cost				
Members' loans receivable	75,877,249	76,246,249	76,246,249	-
Investments - term deposits	24,191,792	25,125,792	25,125,792	-
Other assets	75,633	75,633	75,633	-
Total financial assets	100,144,674	101,447,674	101,447,674	-
Liabilities				
Amortized cost				
Member deposits	134,308,436	134,052,434	134,052,434	-
Other liabilities	474,979	474,979	474,979	-
Member shares - liability	1,487,107	1,487,107	-	1,487,107
Total financial liabilities	136,270,522	136,014,520	134,527,413	1,487,107

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to the amortized cost.