Consolidated Financial Statements

Sunshine Coast Credit Union

December 31, 2018

Contents

Independent Auditor's Report

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To the Members of
Sunshine Coast Credit Union

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *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 IFRS, 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.

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.

Grant Thornton LLP

Vancouver, Canada
February 27, 2019

Chartered Professional Accountants

Sunshine Coast Credit Union
Consolidated Statement of Financial Position

December 31		**2018**		2017
Assets				
Cash and cash equivalents (Note 6)	**$**	**13,704,912**	$	14,532,962
Investments (Note 7)		**58,719,529**		46,433,836
Investments in associates (Note 8)		**650,490**		650,490
Loans (Note 9)		**624,231,941**		568,929,540
Property and equipment (Note 11)		**4,856,618**		4,907,286
Intangible assets (Note 11)		**333,337**		300,796
Other assets (Note 12)		**1,249,288**		1,405,197
Assets held for sale (Note 13)		**47,228**		12,834
Deferred income tax asset (Note 19)		**377,000**		292,000
Total assets	**$**	**704,170,343**	$	637,464,941
Liabilities				
Borrowings (Note 14)	**$**	**-**	$	2,000,000
Secured borrowings (Note 15)		**50,751,396**		44,692,812
Deposits (Note 16)		**607,149,814**		549,069,649
Payables and other liabilities (Note 17)		**3,931,382**		3,132,246
Total liabilities		**661,832,592**		598,894,707
Members' equity				
Patronage and investment shares (Note 20)		**2,631,897**		2,640,209
Retained earnings		**40,277,817**		36,695,842
Accumulated other comprehensive loss		**(571,963)**		(765,817)
Total members' equity		**42,337,751**		38,570,234
Total liabilities and members' equity	**$**	**704,170,343**	$	637,464,941

Commitments (Note 27)

Signed on behalf of the Board of Directors by:

Director

Director

Sunshine Coast Credit Union
Consolidated Statements of Earnings and Comprehensive Income

Year ended December 31	2018	2017
Financial income		
Interest on loans	$ 22,816,239	$ 18,857,018
Other interest revenue	1,204,859	754,145
Total financial income	24,021,098	19,611,163
Financial expense		
Interest on deposits and borrowings	9,176,380	6,311,225
Financial margin	14,844,718	13,299,938
Provision on loans (Note 10)	584,759	391,034
Other income (Note 21)	3,886,640	3,322,233
Operating margin	18,146,599	16,231,137
Operating expenses		
Deposit insurance	494,401	449,163
Depreciation and amortization	586,610	624,708
Director and committee expense	92,908	90,959
Employee salaries and benefits	6,463,424	6,344,519
Other operating and administrative (Note 22)	5,232,399	4,332,596
Lease costs	67,082	64,663
Occupancy	618,031	507,142
Total operating expenses	13,554,855	12,413,750
Earnings from operations	4,591,744	3,817,387
Distributions to members (Note 20)	15,212	9,157
Earnings before income taxes	4,576,532	3,808,230
Provision for income taxes (Note 19)		
Current income tax	955,908	595,787
Deferred income tax recovery	(85,000)	(84,000)
Total provision for income taxes	870,908	511,787
Net earnings for the year	3,705,624	3,296,443
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Change in unrealized gains on available-for-sale investments	-	30,955
Change in unrealized gains (losses) on hedges	224,809	(1,001,210)
Total comprehensive income for the year	$ 3,930,433	$ 2,326,188

See accompanying notes to the consolidated financial statements.

Sunshine Coast Credit Union
Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2018

	Patronage and Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance on January 1, 2017	$ 2,969,277	33,478,373	204,438	$ 36,652,088
Net earnings	-	3,296,443	-	3,296,443
Distributions to members (Note 20)	-	(78,974)	-	(78,974)
Redemption of members' shares	(329,068)	-	-	(329,068)
Change in unrealized gains on available-for-sale investments	-	-	30,955	30,955
Change in unrealized losses on hedges (Note 25)	-	-	(1,001,210)	(1,001,210)
Balance on December 31, 2017	2,640,209	36,695,842	(765,817)	38,570,234
Adjustment from the adoption of IFRS 9	-	(23,850)	(30,955)	(54,805)
Adjusted balance on January 1, 2018	2,640,209	36,671,992	(796,772)	38,515,429
Net earnings	-	3,705,624	-	3,705,624
Distributions to members (Note 20)	-	(99,799)	-	(99,799)
Redemption of members' shares	(8,312)	-	-	(8,312)
Change in unrealized gains on hedges (Note 25)	-	-	224,809	224,809
Balance on December 31, 2018	**$ 2,631,897**	**$ 40,277,817**	**$ (571,963)**	**$ 42,337,751**

See accompanying notes to the consolidated financial statements.

Sunshine Coast Credit Union
Consolidated Statement of Cash Flows

Year ended December 31	2018	2017
Cash derived from (applied to)		
Operating		
Net earnings for the year	**$ 3,705,624**	$ 3,296,443
Adjustments for:		
Depreciation and amortization	**586,610**	624,708
Provision on loans	**584,759**	391,034
Interest income, net	**(14,844,718)**	(13,299,938)
Provision for current income tax	**955,908**	595,787
Unrealized gain on available-for-sale investments	**-**	30,955
Net changes in non-cash working capital items (Note 28)	**1,060,460**	215,895
	(7,951,357)	(8,145,116)
Change in member activities, net		
Increase in loans	**(56,042,641)**	(73,758,131)
Increase in deposits	**56,212,711**	49,821,680
	(7,781,287)	(32,081,567)
Cash flows related to interest and income taxes		
Interest received	**24,121,774**	19,421,401
Interest paid	**(7,308,926)**	(6,112,485)
Income taxes paid, net	**(955,908)**	(595,787)
Total cash inflows (outflows) from operating	**8,075,653**	(19,368,438)
Investing		
Investments, net	**(12,285,693)**	(4,542,613)
Purchase of property and equipment and intangible assets	**(568,483)**	(300,701)
Total cash outflows from investing	**(12,854,176)**	(4,843,314)
Financing		
Increase (decrease) in borrowings	**(2,000,000)**	2,000,000
Increase in secured borrowings	**6,058,584**	21,085,831
Redemption of members' shares	**(8,312)**	(329,068)
Dividends paid	**(99,799)**	(78,974)
Total cash inflows from financing	**3,950,473**	22,677,789
Net decrease in cash and cash equivalents	**(828,050)**	(1,533,963)
Cash and cash equivalents, beginning of year	**14,532,962**	16,066,925
Cash and cash equivalents, end of year	**$ 13,704,912**	$ 14,532,962

1. Governing legislation and nature of operations

Sunshine Coast Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, registered retirement savings plans (“RRSPs”), Registered retirement income funds (“RRIFs”), automated banking machines ("ABMs"), debit and credit cards, and internet banking. The Credit Union’s head office is located at 985 Gibsons Way, Gibsons, BC, V0N 1V0.

These consolidated financial statements have been approved and authorized for issue by the board of directors on February 27, 2019.

2. Basis of presentation and statement of compliance

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

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

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 4.

3. Changes to accounting policies

Revenue from contracts with customers

The Credit Union has adopted IFRS 15 Revenue from Contracts with Customers and the related Clarifications to IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) as of January 1, 2018. IFRS 15 replaces IAS 18 Revenue (“IAS 18”) and IAS 11 Construction Contracts (“IAS 11”). The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at January 1, 2018. The adoption of IFRS 15 did not have a significant impact on the timing or amount of revenue recognized by the Credit Union in any year.

Financial instruments

IFRS 9 replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an ‘expected credit loss’ model for the impairment of financial assets.

When adopting IFRS 9, the Credit Union has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognized in retained earnings.

3. Changes to accounting policies (continued)

Financial instruments (continued)

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Credit Union applies the new hedge accounting requirements prospectively and all hedges qualify for being regarded as continuing hedging relationships.

The adoption of IFRS 9 has impacted the following areas:

- the classification and measurement of the Credit Union's financial assets; and
- the impairment of financial assets applying the expected credit loss model.

On the date of initial application, January 1, 2018, the financial instruments of the Credit Union were reclassified as follows:

	Measurement category		Carrying amount		
	Original IAS 39 category	**New IFRS 9 category**	**Closing balance December 31, 2017 (IAS 39)**	**Adoption of IFRS 9**	**Closing balance January 1, 2018 (IFRS 9)**
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 14,532,962	$ -	$ 14,532,962
Term deposits and accrued interest	Held to maturity	Amortized cost	39,148,657	-	39,148,657
Term deposits	Available for sale	Amortized cost	5,030,955	-	5,030,955
Shares	Available for sale	FVTPL	2,254,224	-	2,254,224
Loans	Loans and receivables	Amortized cost	568,929,540	(54,805)	568,874,735
Other accounts receivable	Loans and receivables	Amortized cost	44,334	-	44,334
Total financial assets			**$ 629,940,672**	**$ (54,805)**	**$ 629,885,867**

An increase of $54,805 in the allowance for impairment of loans was recognized in opening retained earnings at January 1, 2018. There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

Available for sale financial assets included equity investments. These are now classified at fair value through profit and loss in IFRS 9. The Credit Union did not use the designation of fair value through other comprehensive income which is available for equity investments in IFRS 9. There has been no material changes in the amount of the equity investments as a result of the transition from IAS 39 to IFRS 9.

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements consolidate those of the Credit Union and its subsidiary, SunCu Financial Services Inc. The subsidiary is an entity over which the Credit Union has the power to control the financial and operating policies. All transactions and balances between the Credit Union and the subsidiary are eliminated on consolidation and amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union. The subsidiary has a reporting date of December 31.

Cash and cash equivalents

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

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

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

Classification and initial measurement of financial assets

IFRS 9 eliminates the previous IAS 39 categories for financial assets held to maturity, financial assets available for sale, loans and other accounts receivable. All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income (“FVOCI”); or
- fair value through profit or loss (“FVTPL”).

In the periods presented, the Credit Union does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets at amortized cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, loans and other accounts receivable fall into this category of financial instruments. The term deposits and accrued interest that were previously classified as held-to-maturity and term deposits that were previously classified as available-for-sale under IAS 39, also fall into this category.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

The category also contains equity investments. The Credit Union accounts for its equity investment in Central 1, CUPP Services Ltd., Ficanex Technologies, and Stabilization Central Credit Union at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI). In the comparative period, these investments were classified as available for sale under IAS 39 and measured at cost less any impairment charges, as it was determined that their fair values could not be estimated reliably. In the current financial year, the fair values were determined in order to be in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

IFRS 9's impairment requirements use of more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans, term deposits and other accounts receivable measured at amortized cost.

Recognition of credit losses is no longer dependent on the Credit Union first identifying a credit loss event. Instead the Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Credit Union's financial liabilities were not impacted by the adoption of IFRS 9.

The Credit Union's financial liabilities include secured borrowings, deposits, borrowings, payables and other liabilities, and Class B members' shares.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedge Accounting

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps.

The Credit Union applies the new hedge accounting requirements in IFRS 9 prospectively. All hedging relationships that were hedging relationships under IAS 39 at the December 31, 2017 reporting date meet the IFRS 9's criteria for hedge accounting at January 1, 2018 and are therefore regarded as continuing hedging relationships. Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

For the reporting periods under review, the Credit Union has designated the interest rate swap contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's hedges are primarily hedges of floating rate commercial and personal loans. The Credit Union has not entered into any fair value hedges at this time.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

4. Summary of significant accounting policies (continued)

Mortgage securitization

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently at amortized cost, using the effective interest rate method.

Investments in associates

The shares of investments which the Credit Union has acquired significant influence are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and adjusted thereafter to recognize the Credit Union's share of the profit or loss and other comprehensive income of the investment. When the Credit Union's share of losses of investment exceeds the Credit Union's interest in that associate, the Credit Union discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Credit Union has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Revenue

Revenue arises mainly from interest earned on loans.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

Property and equipment

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

Buildings and renovations	40 years
Building components	15 - 30 years
Computer hardware	5 years
Furniture and fixtures	10 years
Leasehold improvements	Lease term

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

4. Summary of significant accounting policies (continued)

Property and equipment (continued)

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within 'other income' or 'other expenses'.

The carrying amount of property and equipment are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Intangible assets

Intangible assets include acquired computer software used in administration that qualifies for recognition as an intangible asset. Software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over its estimated useful life of not more than 5 years. Residual values and useful lives are reviewed at each reporting date.

Amortization has been included within 'depreciation and amortization'. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

Impairment of property and equipment and intangible assets

The carrying amount of property and equipment and intangible assets are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Assets held for sale

Assets that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Assets held for sale include property and land, and property that has been repossessed following foreclosure on loans that are in default.

Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated. An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell, but not exceeding any cumulative impairment losses previously recognized.

If the Credit Union has classified an asset as held for sale, but the recognition criteria are no longer met, then the Credit Union ceases to classify the asset as held for sale. The Credit Union measures an asset that ceases to be classified as held for sale at the lower of either: (i) the carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, or (ii) its recoverable amount at the date of the subsequent decision not to sell. Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be transferred to net income in the period in which the recognition criteria are no longer met.

4. Summary of significant accounting policies (continued)

Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases; however, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in net earnings.

Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

4. Summary of significant accounting policies (continued)

Post-employment benefit and short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Credit Union also participates in a supplemental retirement plan for eligible employees. This is a defined benefit plan, which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset; however, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Members’ shares

Members’ shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, namely patronage and investment shares, the shares are classified as equity.

Patronage distributions

Patronage distributions are accrued as per annual budget and/or when approved by the board of directors.

4. Summary of significant accounting policies (continued)

Leased assets

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Currently, the Credit Union does not have any finance leases.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of earnings and comprehensive income on a straight-line basis over the lease term.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement of monetary items at year end exchange rates are recognized in net earnings.

Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union’s accounting periods beginning January 1, 2019, that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

IFRS 16 *Leases* will replace IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are ‘capitalised’ by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The IASB has set the effective date to annual period beginning on or after January 1, 2019. Early adoption of the standard is permitted. The Credit Union has not early adopted this standard and has assessed that the impact that this standard will have on the Credit Union’s financial statements is immaterial.

5. Estimation uncertainty

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2018, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 11. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques, management makes maximum use of market inputs and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

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

5. Estimation uncertainty (continued)

Significant influence investments

The Credit Union has assessed that it exerts significant influence over certain companies and accounts for them as 'investments in associates' using the equity method (Note 8). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The assessment of the existence of significant influence was based on the fact that the Credit Union holds more than 20% but less than 50% interest in the investments in associates, and has significant representation on the board of directors.

Income taxes

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 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 liabilities.

6. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2018 is 1.56% (2017 – 1.10%).

	2018	2017
Cash and cash equivalents	**$ 4,167,386**	$ 5,461,013
Term deposits and accrued interest	**9,537,526**	9,071,949
	$ 13,704,912	$ 14,532,962

7. Investments

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

	2018	2017
Term deposits and accrued interest, amortized cost	**$ 55,478,250**	$ 44,179,612
Shares		
Central 1 Credit Union	**3,072,506**	2,085,453
CUPP Services Ltd.	**104,045**	104,043
Ficanex Technologies	**60,000**	60,000
Stabilization Central Credit Union	**324**	324
Other shares	**4,404**	4,404
	$ 58,719,529	$ 46,433,836

Under IAS 39, term deposits and accrued interest was categorized as term deposits and accrued interest, held-to-maturity and term deposits, available-for-sale (2017 - $39,148,657 and $5,030,955, respectively).

The Credit Union must maintain liquidity reserves with Central 1 at 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities 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.

Non-callable term deposits are due between three months and one year. The carrying amounts for deposits approximate fair value due to their having similar characteristics as cash and cash equivalents.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the board of directors of Central 1. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the board of directors.

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. All such shares are classified as fair value through profit or loss. Central 1 shares are not available for trade in an active market therefore the market values are not readily available and the potential variability in the range of fair value estimates based on valuation models is significant. All shares are recorded at their cost as the fair value cannot be reliably measured. The likelihood and timing of any future redemption of the shares cannot be determined.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the board of directors of Central 1.

8. Investments in associates

	2018	2017
Sunshine Coast Venture Partners	**$ 450,000**	$ 450,000
Coast Community Investment Corporation	**150,000**	150,000
1037243 BC Ltd.	**50,000**	50,000
Sunshine Coast Insurance Services	**490**	490
	$ 650,490	$ 650,490

The Credit Union invested in common shares of 1037243 BC Ltd., a company which creates and manages venture capital funds. The Credit Union also invested in non-voting shares of Sunshine Coast Venture Partners Inc. and preferred shares of Coast Community Investment Corporation, venture capital funds owned and managed by 1037243 BC Ltd. As the Credit Union owns 33% of the shares of the parent company 1037243 BC Ltd., the Credit Union has significant influence over these investments and accounts for them using the equity method.

The above companies did generate revenue and had profits or losses from operations in fiscal 2018, however, the proportionate share attributed to the Credit Union is negligible.

9. Loans

	2018	2017
Personal loans		
Residential mortgages	**$ 428,234,595**	$ 392,376,331
Other loans and lines of credit	**14,297,860**	14,933,036
Commercial loans		
Mortgages	**178,658,712**	157,897,515
Other loans and lines of credit	**4,858,851**	5,059,174
	626,050,018	570,266,056
Accrued interest receivable	**729,232**	829,908
Deferred loan fees	**(1,164,444)**	(1,051,765)
	625,614,806	570,044,199
Allowance for credit losses (Note 10)	**(1,382,865)**	(1,114,659)
Net loans to members	**$ 624,231,941**	$ 568,929,540

Terms and conditions

Loans to members can have either a variable or fixed rate of interest with a maturity date of up to 7 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 8%. The Credit Union's prime rate at December 31, 2018 was 3.95% (2017 – 3.20%).

9. Loans (continued)

Terms and conditions (continued)

The interest rate offered on fixed rate loans being advanced at December 31, 2018 ranges from 3.64% to 10.25% (2017 – 3.24% to 10.00%).

Personal loans that are comprised of residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

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

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

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2018		2017	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 92,470,423**	**5.59%**	$ 96,007,823	5.12%
Fixed rate due less than one year	**160,196,726**	**4.11%**	152,181,138	3.47%
Fixed rate due between one and seven years	**373,382,869**	**3.62%**	322,077,095	3.29%
	$ 626,050,018	**4.04%**	$ 570,266,056	3.65%

Fair value

The fair value of loans to members at December 31, 2018, was $631,737,012 (2017 - $571,470,647).

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

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to geographic concentration risk.

9. Loans (continued)

Transfers of mortgage and mortgage loan receivables

The Credit Union enters into arrangements to fund mortgage growth by selling loans to unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in transferred mortgage and mortgage loans being derecognized from the consolidated statement of financial position.

The amount of residential mortgage and mortgage loans, including accrued interest, that were transferred at December 31, 2018 was $5,662,975 (2017 - $2,460,103). The Credit Union has transferred substantially all of the risks and rewards of ownership to the third party and the full balance has been derecognized from the consolidated statement of financial position.

10. Allowance for credit losses

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, personal loans are classified as impaired when payment is contractually 90 days past due, or one year past due for residential mortgages if guaranteed by the Government of Canada. Personal loans and some small business loans are normally written off when they are one year past due. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 90 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower’s payments are past due more than 90 days.

Once a loan is identified as impaired, the Credit Union continues to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money are recognized and presented as interest income.

10. Allowance for credit losses (continued)

Total allowance for impaired loans as at December 31, 2018 under IFRS 9:

	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Allowance for credit losses	$ 249,603	$ 171,078	$ 19,143	$ **439,824**
Carrying amount	384,454,528	14,250,515	272,276	**398,977,319**
Commercial loans				
Allowance for credit losses	42,341	192,074	166,729	**401,144**
Carrying amount	179,248,525	3,966,868	322,493	**183,537,886**
Personal loans and lines of credit				
Allowance for credit losses	257,506	172,763	111,628	**541,897**
Carrying amount	41,333,053	1,985,844	215,916	**43,534,813**
Total allowance for credit losses	**$ 549,450**	**$ 535,915**	**$ 297,500**	**$ 1,382,865**
Total carrying amount	**$ 605,036,106**	**$ 20,203,227**	**$ 810,685**	**$ 626,050,018**

Total allowance for impaired loans as at December 31, 2017 under IAS 39:

	Collective allowance	Specific allowance	**Total**
Total allowance	$ 444,419	$ 670,240	**$ 1,114,659**

10. Allowance for credit losses (continued)

The following table shows the continuity in the loss allowance by each product type as at December 31, 2018:

	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Balance as at January 1, 2018	$ 160,374	$ 78,766	$ -	**$ 239,140**
Transfer to Stage 1	9,071	(9,071)	-	**-**
Transfer to Stage 2	(56,684)	56,684	-	**-**
Transfer to Stage 3	-	(19,143)	19,143	**-**
Net remeasurement of allowance	60,418	12,831	-	**73,249**
Loan originations	113,178	60,417	-	**173,595**
Derecognition and maturities	(36,754)	(9,406)	-	**(46,160)**
Total before write-offs	249,603	171,078	19,143	**439,824**
Write-offs	-	-	-	**-**
Balance as at December 31, 2018	249,603	171,078	19,143	**439,824**
Commercial loans				
Balance as at January 1, 2018	49,266	206,252	278,293	**533,811**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(95,564)	95,564	-	**-**
Transfer to Stage 3	-	-	-	**-**
Net remeasurement of allowance	90,015	(6,224)	149,264	**233,055**
Loan originations	7,612	1,260	-	**8,872**
Derecognition and maturities	(8,988)	(95,959)	(91,892)	**(196,839)**
Total before write-offs	42,341	200,893	335,665	**578,899**
Write-offs	-	(8,819)	(168,936)	**(177,755)**
Balance as at December 31, 2018	42,341	192,074	166,729	**401,144**
Personal loans and lines of credit				
Balance as at January 1, 2018	254,473	110,564	31,476	**396,513**
Transfer to Stage 1	8,917	(8,917)	-	**-**
Transfer to Stage 2	(77,343)	77,343	-	**-**
Transfer to Stage 3	(12,194)	(69,862)	82,056	**-**
Net remeasurement of allowance	70,780	51,091	172,166	**294,037**
Loan originations	64,061	40,631	12,113	**116,805**
Derecognition and maturities	(46,058)	(13,558)	(12,239)	**(71,855)**
Total before write-offs	262,636	187,292	285,572	**735,500**
Write-offs	(5,130)	(14,529)	(173,944)	**(193,603)**
Balance as at December 31, 2018	257,506	172,763	111,628	**541,897**
Total as at December 31, 2018	**$ 549,450**	**$ 535,915**	**$ 297,500**	**$ 1,382,865**
Percentage of total carrying amount				**0.22%**

10. Allowance for credit losses (continued)

Change in allowance for fiscal 2017 under IAS 39:

	Beginning Balance	Provision / (Recoveries)	Write-offs	Ending Balance
Residential mortgages	$ 322,444	$ 53,844	$ (172,154)	$ 204,134
Commercial mortgages	149,323	(97,632)	-	51,691
Personal and commercial loans and lines of credit	596,552	434,822	(172,540)	858,834
	$ 1,068,319	$ 391,034	$ (344,694)	$ 1,114,659
Percentage of total loans and accrued interest				0.20%

Key inputs and assumptions

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

Probability of default ("PD")

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered. These inputs include:

- Retail – Based on default data from Credit Unions reported to Equifax.
- Non-Retail – Based on mapping to external default data (no credit union data available).

Exposure of default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate payed per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

Exposure of default ("EAD")

For retail revolving loans, the assumptions are to be provided by the Credit Union. For non-retail revolving loans, the assumptions are based on data from large banks. Term loans and mortgages use contractual conditions and construction loans use the outstanding balance.

10. Allowance for credit losses (continued)

Key inputs and assumptions (continued)

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

For residential mortgages and Home Equity Lines of Credit ("HELOC"), estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date and the corresponding Home Price Index ("HPI") as of the valuation date;
- The HPI at the reporting date and projected values in the future;
- The type of property – single family, multi-family or condo;
- The average regional property value;
- The borrower's credit score; and
- The recovery rate.

The recovered amount of uncollateralized exposure is assumed to be the regulatory amount of 45% as data is not available to estimate this amount.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral; and
- Collateral might be shared among many different loans.

The recovered amount of uncollateralized exposure is assumed to be 51.7%, which is an average value obtained in two studies performed by Moody's and JP Morgan Chase.

Staging

Changes in staging occur when the following events take place:

- Retail – Significant changes in beacon score and loans that are greater than 30 days past due.
- Non-Retail – Significant changes in borrower risk rating and loans that are greater than 30 days past due.

10. Allowance for credit losses (continued)

Key inputs and assumptions (continued)

Lifetime

The lifetime of a product is based on the following data:

- Term and non-retail revolving – Contractual term of the product.
- Retail revolving – Based on Credit Union data provided by Equifax.

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential mortgage and HELOC LGD – Collateral value adjustments based on property index projections.
- Retail and non-retail PD – Relationships with macro drivers derived from bank industry data series and pay net.

Renegotiated loans

The Credit Union may modify the contractual terms of a loan due to the poor financial condition of the borrower. The Credit Union assesses renegotiated loans for impairment consistent with the existing policies for impairment. When renegotiation leads to significant concessions being granted, and the concessions are for economic or legal reasons related to the borrower's financial difficulty that we would not otherwise consider, the loan is classified as impaired.

Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant, or are returned to performing status when none of the criteria for classification as impaired continue to apply.

The Credit Union did not renegotiate any loans during the year (2017 – $Nil).

11. Property and equipment and intangible assets

	Property and Equipment						Intangible Assets
	Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Total	Total
Cost							
Balance on December 31, 2017	$ 962,157	$ 5,983,499	$ 244,580	$ 645,180	$ 2,157,714	$ 9,993,130	$ 2,041,086
Additions	-	-	-	125,795	214,385	340,180	228,303
Disposals	-	-	-	(64,193)	(195,243)	(259,436)	-
Balance on December 31, 2018	**962,157**	**5,983,499**	**244,580**	**706,782**	**2,176,856**	**10,073,874**	**2,269,389**
Accumulated depreciation							
Balance on December 31, 2017	-	2,481,948	241,802	541,753	1,820,341	5,085,844	1,740,290
Depreciation and amortization	-	176,007	855	94,692	119,294	390,848	195,762
Disposals	-	-	-	(64,193)	(195,243)	(259,436)	-
Balance on December 31, 2018	**-**	**2,657,955**	**242,657**	**572,252**	**1,744,392**	**5,217,256**	**1,936,052**
Net book value December 31, 2018	**$ 962,157**	**$ 3,325,544**	**$ 1,923**	**$ 134,530**	**$ 432,464**	**$ 4,856,618**	**$ 333,337**

11. Property and equipment and intangible assets (continued)

	Property and Equipment						Intangible Assets
	Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Total	Total
Cost							
Balance on December 31, 2016	$ 962,157	$ 5,978,609	$ 244,580	$ 610,508	$ 2,136,614	$ 9,932,468	$ 1,893,411
Additions	-	4,890	-	37,941	110,195	153,026	147,675
Disposals	-	-	-	(3,269)	(89,095)	(92,364)	-
Balance on December 31, 2017	962,157	5,983,499	244,580	645,180	2,157,714	9,993,130	2,041,086
Accumulated depreciation							
Balance on December 31, 2016	-	2,320,089	240,947	433,368	1,764,560	4,758,964	1,534,826
Depreciation and amortization	-	161,859	855	111,654	144,876	419,244	205,464
Disposals	-	-	-	(3,269)	(89,095)	(92,364)	-
Balance on December 31, 2017	-	2,481,948	241,802	541,753	1,820,341	5,085,844	1,740,290
Net book value							
December 31, 2017	$ 962,157	$ 3,501,551	$ 2,778	$ 103,427	$ 337,373	$ 4,907,286	$ 300,796

12. Other assets		**2018**		2017
Prepaid expenses	**$**	**1,183,146**	$	1,238,207
Income tax receivable		**21,808**		126,656
Other accounts receivable		**44,334**		40,334
	$	**1,249,288**	$	1,405,197

13. Assets held for sale

Assets held for sale consists of two vehicles (2017 - one vehicle) seized by the Credit Union in relation to delinquent loans. The vehicles are listed for sale as at year end and management intends to complete these sales to the first reasonable offers.

14. Borrowings

The Credit Union has a term loan in the amount of $Nil (2017 - $2,000,000). The term loan has an interest rate of 2.52% with no specified terms of repayment.

The Credit Union has authorized lines of credit with Central 1 totaling $25,000,000; however, $1,500,000 is held as security for secured letters of credit. Of the line of credit, $500,000 is denominated in US dollars. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. As at year end drawings on the operating line were $Nil (2017 - $Nil).

15. Secured borrowings

The Credit Union enters into loan securitization transactions. In accordance with the Credit Union's accounting policy, the transferred financial assets continue to either be recognized in their entirety or to the extent of the continuing involvement, or are derecognized in their entirety.

Transferred financial assets that are not derecognized in their entirety

All loans to members are measured at amortized cost in the Statement of Financial Position.

		2018		2017
Carrying amounts of assets, included in loans to members	**$**	**51,074,298**	$	44,896,998
Carrying amounts of associated liabilities recognized as secured borrowings	**$**	**50,751,396**	$	44,692,812

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

16. Deposits	**2018**	2017
Chequing	**$ 108,677,441**	$ 107,980,685
Savings	**113,302,839**	125,738,798
Term	**277,476,499**	224,044,052
Registered retirement saving plans	**42,188,721**	38,094,755
Registered retirement income funds	**18,755,012**	17,063,503
Registered education savings plan	**1,896,961**	1,628,993
Registered disability savings plan	**470,464**	342,301
Tax free savings account	**39,475,910**	31,155,451
Accrued interest and dividends	**4,354,917**	2,487,463
Members' shares (Note 20)	**551,050**	533,648
	$ 607,149,814	$ 549,069,649

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 1.05% at December 31, 2018 (2017 – 0.80%).

Savings deposits are due on demand and bear interest at a variable rate up to 1.05% at December 31, 2018 (2017 – 0.80%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2018 range from 0.35% to 3.00% (2017 – 0.20% to 2.15%).

The registered retirement savings plans (“RRSPs”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.05% at December 31, 2018 (2017 – 0.80%).

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

Registered education savings plan (“RESPs”) and registered disability savings plan (“RDSPs”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

16. Deposits (continued)

Average yields to maturity

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

	2018		2017	
	Principal	**Yield**	Principal	Yield
Non-interest sensitive	**$ 179,357,958**	**0.00%**	$ 133,670,712	0.00%
Variable rate	**77,586,099**	**1.56%**	121,071,434	0.87%
Fixed rate due less than one year	**174,210,629**	**2.07%**	163,183,437	1.64%
Fixed rate due between one and five years	**171,640,211**	**2.14%**	128,656,603	1.81%
	602,794,897	**1.41%**	546,582,186	1.11%
Accrued interest and dividends payable	**4,354,917**	**0.00%**	2,487,463	0.00%
	$ 607,149,814	**1.41%**	$ 549,069,649	1.11%

Fair value

The fair value of member deposits at December 31, 2018 was $606,456,106 (2017 – $550,481,506).

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

17. Payables and other liabilities	**2018**	2017
Payables and accruals	**$ 2,842,750**	$ 2,271,394
Derivatives	**713,727**	838,515
Income taxes payable	**374,905**	22,337
	$ 3,931,382	$ 3,132,246

18. Pension plan

The Credit Union makes contributions to the BC Credit Union Employees' Pension Plan which is a multi-employer plan, on behalf of members of its staff. Central 1 administers the plan including the payment of the pension benefits on behalf of employers and employees in accordance with the BC Credit Union Employees' Pension Plan Rules. The pension is based on years of service, contributions and average earnings at retirement. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Credit Union is only one of a number of employers that participates in the plan and the financial information provided to the Credit Union on the basis of the contractual agreements is usually insufficient to measure reliably the Credit Union's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2018 was $651,369 (2017 - $636,374). The contributions were made for current service and these have been recognized in net earnings. As at December 31, 2018 (date of the most recent valuation), the plan actuary reported a deficit. The next valuation report will be performed as at December 31, 2021.

In addition to the plan mentioned above, the Credit Union has established a supplemental retirement plan for eligible employees, whereby the Credit Union and the employees are not required to make contributions in respect of the benefits described in this plan. However, the Credit Union, in its sole discretion, has the option to fund or make contributions to the plan. The pension expense, in respect of contributions paid into this plan in 2018 is nominal.

19. Income taxes

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2018	2017
Allowance for credit losses	**$ 388,000**	$ 314,000
Premises and equipment	**(11,000)**	(22,000)
Net deferred income tax asset	**$ 377,000**	$ 292,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.0% (2017 - 26.0%) are as follows:

	2018	2017
Combined federal and provincial statutory income tax rate	**27.0 %**	26.0 %
Provincial credit union rate reduction	**(10.0)%**	(8.9)%
Other	**2.0 %**	(3.7)%
	19.0 %	13.4 %

20. Members' shares

Members' shares issued and outstanding are included in deposit balances (see Note 16).

Patronage and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of BC.

Terms and conditions

Membership shares
Membership shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. They are considered voting shares and have minimum deposit requirements based on age of member, and a maximum of 1,000 shares.

Patronage shares
Patronage shares were issued as part of patronage refunds and dividends. These shares are non-voting, redeemable at the option of the board of directors of the Credit Union and have a maximum of 1,000 shares.

Investment shares
Investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash or additional shares. They are subject to a maximum of 5,000 shares and are redeemable only at the option of the board of directors of the Credit Union.

Distributions to members

	2018		2017	
	Net Earnings	**Net Equity**	Net Earnings	Net Equity
Dividends on patronage shares	**$ -**	**$ 8,530**	$ -	$ 5,236
Dividends on investment shares	**-**	**107,664**	-	90,055
Dividends on membership shares	**15,212**	**-**	9,157	-
Less related income taxes	**-**	**(16,395)**	-	(16,317)
	$ 15,212	**$ 99,799**	$ 9,157	$ 78,974

21. Other income	**2018**	2017
Account service fees	**$ 1,113,665**	$ 1,096,510
Commissions	**1,108,479**	1,059,987
Loan administration fees	**939,021**	756,954
Gain on Central 1 share redemption	**358,764**	71,793
Foreign exchange	**141,976**	133,542
Other	**224,735**	203,447
	$ 3,886,640	$ 3,322,233

22. Other operating and administrative expenses	**2018**	2017
Advertising and member relations	**$ 599,305**	$ 476,689
Data processing	**973,010**	805,737
Clearing and processing charges	**749,150**	671,473
Office and general	**1,104,822**	938,689
MBS administration expenses	**141,418**	82,265
Professional fees	**1,354,021**	1,055,950
Regulatory costs	**310,673**	301,793
	$ 5,232,399	$ 4,332,596

23. Related party transactions

The Credit Union's related parties include key management personnel. Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, as well as the directors of the Credit Union, and close family members. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

(a) The Credit Union entered into the following transactions with key management personnel.

	2018	2017
Compensation		
Salaries and other short-term employee benefits	**$ 881,267**	$ 786,621
Total pension and other post-employment benefits	**106,176**	137,660
	$ 987,443	$ 924,281
Loans to key management personnel		
Aggregate value of loans advanced	**$ 1,258,686**	$ 1,775,328
Interest received on loans advanced	**38,482**	52,375
Total value of lines of credit advanced	**203,073**	183,529
Interest received on lines of credit advanced	**9,068**	6,834
Unused value of lines of credit	**123,471**	331,471

23. Related party transactions (continued)

The Credit Union's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

	2018	2017
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 2,512,418**	$ 2,844,351
Total interest paid on term and savings deposits	**42,374**	36,354

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

(b) Remuneration to directors was $63,887 (2017 - $72,117).

24. Financial instrument risk management general objectives, policies and processes

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

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the board of directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being the Sunshine Coast and surrounding areas.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The board of directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

24. Financial instrument risk management general objectives, policies and processes (continued)

Credit risk (continued)

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including board of director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- 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;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the board of directors receives monthly reports summarizing delinquent loans and overdraft utilization. The board of directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

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

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union’s management oversees the Credit Union’s liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union’s business requires such capital for operating and regulatory purposes.

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

The Credit Union is required to maintain a prudent amount of liquid assets in order to meet member withdrawals. Where the statutory requirement is set at a minimum liquidity ratio of 8%, the Credit Union has set an acceptable range between 10 to 13%.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Monitoring the liquidity ratios monthly.

The board of directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union’s liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

24. Financial instrument risk management general objectives, policies and processes (continued)

Liquidity risk (continued)

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

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk.

The fair value hierarchy establishes three levels to classify the significance of inputs to valuation techniques used in making fair value measurements.

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are based on unobservable market data.

24. Financial instrument risk management general objectives, policies and processes (continued)

Marked risk (continued)

Fair value risk (continued)
The following table presents the financial instruments carried on balance sheet by asset class and by level within the valuation hierarchy:

	($'000)			
	Level 1	Level 2	Level 3	Total Fair Value
2018				
Financial assets				
Investment, Central 1 shares	**$ -**	**$ 3,177**	**$ -**	**$ 3,177**
Investment, other shares		**65**		
Financial liabilities				
Derivative financial instruments	**$ -**	**$ 714**	**$ -**	**$ 714**
2017				
Financial assets				
Investment, Central 1 shares	$ -	$ 2,189	$ -	$ 2,189
Investment, other shares		65		
Financial liabilities				
Derivative financial instruments	**$ -**	**$ 839**	**$ -**	**$ 839**

Measurement of fair value of financial instruments

The Credit Union performs valuations of financial items for financial reporting purposes, including Level 2 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

Level 2 financial instruments consist of statutory deposits and investments with Central 1. Typically, the Central 1 shares are not available for trade in an active market but the effects of non-observable inputs are not significant for shares at year end. The Credit Union also has investments in other shares. Discounted cash flow valuation models are used to determine the present value of the other investments. Discount rates are based on observable market inputs, other than quoted prices, which include relevant interest rates pertaining to the value of the assets. Where there is no observable market data, management uses estimates they believed to be reasonable.

Level 2 financial instruments also include derivative instruments, which is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data.

24. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Fair value risk (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

	($'000)			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
2018				
Assets				
Cash and cash equivalents	**$ 9,538**	**$ 4,167**	**$ -**	**$ 13,705**
Term deposits	**55,478**	**-**	**-**	**55,478**
Loans	**-**	**-**	**631,717**	**631,717**
Other accounts receivable	**-**	**44**	**-**	**44**
Liabilities				
Secured borrowings	**$ -**	**$ 50,751**	**$ -**	**$ 50,751**
Deposits	**-**	**606,456**	**-**	**606,456**
Payables and other liabilities	**-**	**3,931**	**-**	**3,931**
2017				
Assets				
Loans and receivables	$ 9,072	$ 5,461	$ 572,876	$ 587,409
Held-to-maturity investments	44,180	-	-	44,180
Liabilities				
Borrowings	$ -	$ 2,000	$ -	$ 2,000
Secured borrowings	-	44,693	-	44,693
Deposits	-	550,482	-	550,482
Payables and other liabilities	-	3,132	-	3,132

Where available, the fair value of loans and receivables is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques.

There were no movements in fair value levels during the year.

Interest rate risk
Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans, deposits and other interest bearing financial instruments.

The Credit Union's position is measured quarterly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

24. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Interest rate risk (continued)

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to reprice on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

As at December 31, 2018, the Credit Union had entered into interest rate swap contracts for a total of $74.5 million of notional principal (2017 - $50.0 million) maturing at various times between 2019 and 2022. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a predetermined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

The following tables do not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

2018		($'000)				
		Interest sensitive balances				
	Average rates	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
Assets						
Cash and investments	1.81%	$ 11,412	$ 27,056	$ 28,025	$ 6,582	$ 73,075
Loans	4.04%	146,480	106,300	373,383	(1,932)	624,231
Other	0.56%	-	-	-	6,864	6,864
		$ 157,892	$ 133,356	$ 401,408	$ 11,514	$ 704,170
Liabilities						
Deposits and shares	1.54%	$ 116,043	$ 135,754	$ 171,640	$ 183,713	$ 607,150
Other	0.00%	1,756	5,047	44,270	45,947	97,020
		$ 117,799	$ 140,801	$ 215,910	$ 229,660	$ 704,170
Balance sheet mismatch		$ 40,093	$ (7,445)	$ 185,498	$ (218,146)	$ -
Derivatives		(74,500)	10,000	64,500	-	-
Interest sensitivity position 2018		$ (34,407)	$ 2,555	$ 249,998	$ (218,146)	$ -

24. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Interest rate risk (continued)

2017 ($'000)

		Interest sensitive balances				
	Average Rates	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
Assets						
Cash and investments	1.24%	$ 12,176	$ 20,941	$ 23,000	$ 5,500	$ 61,617
Loans	3.65%	147,726	100,463	322,041	(1,300)	568,930
Other	0.46%	-	-	-	6,918	6,918
		$ 159,902	$ 121,404	$ 345,041	$ 11,118	$ 637,465
Liabilities						
Deposits and shares	1.17%	$ 108,445	$ 125,823	$ 128,657	$ 186,145	$ 549,070
Other	1.57%	5,856	9,684	31,357	41,498	88,395
		$ 114,301	$ 135,507	$ 160,014	$ 227,643	$ 637,465
Balance sheet mismatch		$ 45,601	$ (14,103)	$ 185,027	$ (216,525)	$ -
Derivatives		(50,000)	-	50,000	-	-
Interest sensitivity position 2017		$ (4,399)	$ (14,103)	$ 235,027	$ (216,525)	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net earnings of $203,000 (2017 - $43,000) while a decrease in interest rates of 1% could result in an increase to net earnings of $158,000 (2017 - $147,000).

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

Currency risk
Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Credit Union’s foreign exchange risk is related to US dollar deposits. As at December 31, 2018, the Credit Union has $4,538,940 (2017 - $5,869,464) of US dollars included in cash and equivalents, and deposits of $4,230,059 (2017 - $5,866,897) denominated in US dollars.

25. Derivative financial instruments

As at December 31, 2018, the Credit Union had entered into interest rate swap contracts for a total of $74.5 million (2017 - $50.0 million) of notional principal where the Credit Union has agreed to pay at floating interest rates based on banker's acceptance rates and receive at fixed interest rates. These swaps contracts have fixed interest rates ranging from 1.290% to 2.460% and mature from June 20, 2019 to December 1, 2022. The agreements are secured by a general security agreement covering all assets of the Credit Union.

26. Capital management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union included retained earnings, and members' shares totaling $42.9 million (2017 - $39.3 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to approximately 16% (2017 – 16%) of the total value of risk weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the board of directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the board of directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2018.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by the internal target. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

27. Commitments

Loans to members

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

Unadvanced loans	$6,678,571
Unused lines of credit	64,493,565
Letters of credit	5,715,731

Contractual obligations

IT outsourcing services
The Credit Union is committed to acquiring outsourced IT and network services until December 31, 2019 at an approximate cost of $375,000 per year. IT and network service charges are a flat fee with annual increases occurring only up to the level of Consumer Price Index increases for the prior year.

Data processing services
The Credit Union is committed to purchasing online data processing services until March 29, 2021 at an approximate cost of $350,000. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Off balance sheet

Letters of credit
In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

At December 31, 2018, the Credit Union has outstanding letters of credit on behalf of members in the amount of $5,715,731 (2017 - $3,878,284). These letters of credit have various levels of security.

Funds under administration
Off balance sheet funds under administration by the Credit Union are comprised of loans that have been syndicated, sold mortgages to other Credit Unions and are administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is $12,182,341 (2017 - $8,930,297). As at December 31, 2018, the Credit Union has unadvanced loans of $4,295,576 (2017 - $5,782,456) related to these syndicated loans.

28. Supplemental cash flow disclosures

Net changes in non-cash working capital items are comprised of the following:

	2018	2017
Change in derivatives	**$ 224,809**	$ (1,001,210)
Change in other assets	**155,909**	(403,330)
Change in assets held for sale	**(34,394)**	29,156
Change in deferred income tax	**(85,000)**	(84,000)
Change in payables and other liabilities	**799,136**	1,675,279
	$ 1,060,460	$ 215,895

29. Comparative figures

Certain prior year amounts have been reclassified to conform with the financial statement presentation in the current period.

30. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.