Consolidated Financial Statements of

NORTHERN SAVINGS CREDIT UNION

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Northern Savings Credit Union

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Emphasis of Matter – Change in Accounting Policy

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

Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 28, 2019

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

		2018		2017
Assets				
Cash and cash equivalents (note 6)	$	11,514,595	$	19,538,847
Investments (note 7)		84,773,777		101,582,863
Loans (note 8)		508,850,718		536,063,814
Property and equipment (note 10)		12,751,244		10,944,860
Intangible assets (note 11)		1,543,289		1,438,510
Deferred income tax asset (note 17)		395,655		654,925
Other assets (note 13)		3,619,004		2,978,928
	$	623,448,282	$	673,202,747
Liabilities and Members' Equity				
Deposits (note 14)	$	563,268,123	$	600,190,563
Secured and other borrowings (note 15)		14,177,905		28,903,570
Payables and other liabilities		3,397,489		4,747,494
		580,843,517		633,841,627
Members' equity:				
Contributed surplus		950,936		950,936
Accumulated other comprehensive income		-		457,783
Retained earnings		41,653,829		37,952,401
		42,604,765		39,361,120
	$	623,448,282	$	673,202,747

Commitments and contingencies (note 25)

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

Approved on behalf of the Board:

[signature] Director

Flora D'Angelo Director

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Income

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

	2018	2017
Interest income:		
Loans	$ 19,693,915	$ 19,654,424
Cash resources and investments	1,902,162	1,839,839
	21,596,077	21,494,263
Interest expense:		
Deposits	6,095,362	7,300,535
Borrowings	392,052	756,541
	6,487,414	8,057,076
Net interest income	15,108,663	13,437,187
Provision (recovery) for credit losses (note 9)	6,352	(73,653)
Other income (note 19)	8,719,459	8,652,013
Total operating income	23,821,770	22,162,853
Operating expenses (note 20)	19,954,048	19,356,646
Income from operations	3,867,722	2,806,207
Distributions to members (note 18)	96,259	111,637
Income before income taxes	3,771,463	2,694,570
Provision for income taxes (note 17):		
Current income tax expense	268,549	442,377
Deferred income tax expense (recovery)	259,269	(206,101)
	527,818	236,276
Net income	$ 3,243,645	$ 2,458,294

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Comprehensive Income

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

	2018	2017
Net income	$ 3,243,645	$ 2,458,294
Items that were or may be reclassified to net income:		
Available-for-sale financial instruments:		
Net change in unrealized gains during the year, net of tax of nil (2017 - $93,762) (note 7)	-	457,783
Total comprehensive income	$ 3,243,645	$ 2,916,077

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Changes in Members' Equity

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

	Contributed surplus	Accumulated other comprehensive income	Retained earnings
Balance, December 31, 2016	$ 950,936	$ -	$ 35,494,107
Income for the year	-	-	2,458,294
Available-for-sale financial instruments	-	457,783	-
Balance, December 31, 2017	950,936	457,783	37,952,401
Impact of adopting IFRS 9 (see note 4)	-	(457,783)	457,783
Income for the year	-	-	3,243,645
Balance, December 31, 2018	$ 950,936	$ -	$ 41,653,829

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

NORTHERN SAVINGS CREDIT UNION

Consolidated Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income	$ 3,243,645	$ 2,458,294
Items not involving cash:		
Amortization and impairment	729,967	781,512
Loss on disposal of property and equipment	-	7,892
Provision for credit losses	6,352	(73,653)
Income tax expense	527,818	236,276
Adjustments for:		
Interest income	(21,596,077)	(21,494,263)
Interest expense	6,487,414	8,057,076
	(10,600,881)	(10,026,866)
Change in loans	27,186,528	36,967,317
Change in deposits	(36,628,625)	(24,579,196)
Change in other assets	(934,584)	33,122
Change in payables and other liabilities	(1,350,005)	(1,287,517)
Interest received	21,616,293	21,575,094
Interest paid	(6,781,229)	(9,488,786)
Income taxes paid	25,959	(88,000)
Other items	-	270,819
	(7,466,544)	13,375,987
Financing activities:		
Repayment of secured borrowings	(14,725,665)	(14,328,912)
Investing activities:		
Change in investments, net	16,809,086	(7,943,665)
Purchase of property and equipment	(2,407,804)	(227,568)
Purchase of intangible assets	(233,325)	-
	14,167,957	(8,171,233)
Decrease in cash and cash equivalents	(8,024,252)	(9,124,158)
Cash and cash equivalents, beginning of year	19,538,847	28,663,005
Cash and cash equivalents, end of year	$ 11,514,595	$ 19,538,847

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

1. Governing legislation and operations:

Northern Savings Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members primarily in the Prince Rupert, Terrace, Haida Gwaii and coastal areas of British Columbia. Deposits are gathered from the Credit Union’s main service area. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

The Credit Union is domiciled in Canada and its registered office and principal place of business is 138 Third Avenue West, Prince Rupert, British Columbia. These consolidated financial statements have been approved and authorized for issue by the Board of Directors on February 28, 2019.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

3. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and all of its wholly-owned subsidiaries as of December 31, 2018. A parent company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of December 31.

All transactions and balances between the Credit Union and its subsidiaries are eliminated on consolidation. 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.

Net income and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Special purpose entities (“SPEs”) are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated, if based on an evaluation of the substance of its relationship with the Credit Union, and the SPEs’ risks and rewards, the Credit Union concludes that it controls the SPE. The Credit Union’s activities have not resulted in any entity meeting the circumstances that would require an SPE to be consolidated within these consolidated financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents are non-derivative assets and include cash on hand, unrestricted balances held with Central 1 Credit Union (“Central 1”), and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are held at amortized cost on the consolidated statement of financial position.

(c) Financial instruments – policy applicable before January 1, 2018:

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 contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

3. Significant accounting policies (continued):

(c) Financial instruments – policy applicable before January 1, 2018 (continued):

Subsequent measurement of financial assets and financial liabilities is as described below:

(*i*) Financial assets:

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss or held-for-trading;
- held-to-maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in net income or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Credit Union has not designated any of its financial assets as fair value through profit or loss.

(*ii*) Loans and receivables:

Cash and cash equivalents, other receivables and member loans have been classified as loans and receivables.

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest for all loans is accounted for on the accrual basis.

3. Significant accounting policies (continued):

(c) Financial instruments – policy applicable before January 1, 2018 (continued):

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

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of expected cash flows discounted at the loans' original effective interest rate. Short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

The Credit Union maintains a collective allowance to absorb credit losses that management estimates have occurred at the financial reporting date for which specific allowances cannot yet be determined. The Credit Union applies a methodology that tests the adequacy of the collective allowance by utilizing a number of modeling tools. These tools stress test the collective allowance and the underlying security values held by the Credit Union in a variety of market condition scenarios.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Loans are written-off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the amount is unlikely. Loans are written-off against the allowances for impairment if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write-offs are recognized as expenses in net income.

3. Significant accounting policies (continued):

(c) Financial instruments – policy applicable before January 1, 2018 (continued):

(*iii*) Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Central 1 term deposits designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in net income. Term deposits at Central 1 are classified as held-to-maturity.

(*iv*) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost. Impairment charges are recognized in net income.

The Credit Union's available-for-sale financial assets include its equity investments.

(*v*) Financial liabilities:

The Credit Union's financial liabilities include deposits (inclusive of member shares), payables and other liabilities, and secured borrowings.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held-for-trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in net income.

3. Significant accounting policies (continued):

(c) Financial instruments – policy applicable before January 1, 2018 (continued):

(*vi*) Derivative financial instruments:

Derivative financial instruments, are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The notional contract amounts related to derivatives are not included on the consolidated statement of financial position. In the ordinary course of business, the Credit Union may enter into interest rate swaps primarily to manage its exposure to fluctuations in interest rates.

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

Non-hedging derivative instruments:

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

Non-hedging derivative instruments are measured at fair value, both initially and subsequently. Gains and losses arising from changes in fair values of these instruments are recognized in net income.

Hedging derivative instruments:

Swap contracts can be designated for accounting purposes as either cash flow hedging instruments or fair value hedging instruments. Cash flow hedges modify exposure to variability in cash flows for variable interest bearing instruments. The Credit Union's cash flow hedges are primarily hedges of variable rate mortgages and deposits.

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

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

3. Significant accounting policies (continued):

(c) Financial instruments – policy applicable before January 1, 2018 (continued):

(*vi*) Derivative financial instruments (continued):

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

(d) De-recognition of financial assets:

A financial asset is derecognized when:

(*i*) The rights to receive cash flows from the asset have expired; or

(*ii*) The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:

- The Credit Union has transferred substantially all the risks and rewards of the asset; or
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(e) 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.

3. Significant accounting policies (continued):

(e) Property and equipment (continued):

Depreciation is recognized in net income and is provided on a straight-line or declining balance basis over the estimated useful life of the assets to a maximum as follows:

Asset	Basis	Rate
Buildings and renovations	Declining balance	2.5%
Building components	Straight-line	10 - 20 years
Computer hardware	Straight-line	3 - 5 years
Furniture and fixtures	Straight-line	5 - 10 years
Leasehold improvements		Lease term

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

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 income within 'other income' or 'other expenses'.

(f) Intangible assets:

Intangible assets represent finite-lived and indefinite-lived intangible assets. Finite-lived intangible assets consist of customer lists and software and are amortized over their estimated useful lives. Amortization is included in net income. Finite-lived intangible assets are tested for impairment by management whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Indefinite-lived intangible assets consist of insurance licenses and are tested by management annually for impairment and between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the intangible assets below their carrying value.

(*i*) Acquired software:

Acquired computer software is capitalized on the basis of the costs incurred to acquire and install the specific software. Brand names and customer lists acquired in a business combination that qualify for separate recognition are recognized as intangible assets at their fair values.

3. Significant accounting policies (continued):

(g) Goodwill:

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is reviewed by management on at least an annual basis to determine whether there is an impairment in value. Goodwill is tested between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the goodwill below its carrying value. Any loss on impairment during the year is charged to net income.

(h) Impairment of non-financial assets:

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

(i) Income taxes:

Tax expense recognized in net income comprises the sum of deferred tax and current tax not recognized 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 net income 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 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 goodwill, or 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.

3. Significant accounting policies (continued):

(i) Income taxes (continued):

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, 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 utilized 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 income and other comprehensive income.

(j) 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.

(k) Post-employment benefit and short-term employee benefits:

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

The Credit Union provides a defined contribution pension plan to its employees. Under this plan, employees each receive a specified flat rate as the employer's contribution. The Credit Union has no further payment obligations once these contributions have been made. The contributions are recognized as salaries and benefits expenses in the period during which services are rendered by the employees.

The Credit Union also 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.

3. Significant accounting policies (continued):

(l) 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.

(m) Members' shares:

Class A membership shares are classified as liabilities based on their terms as they are redeemable at the option of the member, either on demand or on withdrawal from membership. Class B voluntary shares are classified as liabilities as they are redeemable at the request of the members to a maximum amount of 10% of such shares in any one year, subject to minimum capital requirements.

(n) Patronage distributions:

Patronage distributions are expensed in net income when approved by the Board of Directors.

(o) Revenue recognition:

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

3. Significant accounting policies (continued):

(o) Revenue recognition (continued):

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

The accounting treatment for loan and deposit fees varies depending on the transaction. Fees that are considered to be adjustments to yield are recognized using the effective interest method. The effective interest rate method capitalizes fees and transaction costs on the consolidated statement of financial position and amortizes them to interest income or expense over the expected life of the related loan or deposit. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the average term of the loan using the effective interest method. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan and deposit fees that are recognized using the effective interest method are included with the respective loan and deposit balances on the consolidated statement of financial position.

(p) 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 net income on a straight-line basis over the lease term.

(q) 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 re-measurement of monetary items at year end exchange rates are recognized in net income.

3. Significant accounting policies (continued):

(r) Securitization:

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

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

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

(s) Standards and interpretations issued but not effective:

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

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

IFRS 16, *Leases*, was released in January 2016 and replaces current guidance in IAS 17, *Leases*. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors the accounting is similar to IAS 17. The standard is effective for accounting periods beginning on or after January 1, 2019. The Credit Union is in the process of assessing the impact of adoption.

(*ii*) Conceptual Framework for Financial Reporting:

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

4. Changes in accounting policies:

IFRS 9, *Financial instruments:*

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

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

(*i*) Recognition, classification and measurement:

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

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

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

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

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

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

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

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

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

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

Business model assessment

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

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

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

Contractual cash flow characteristics assessment

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

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

(*ii*) Reclassification of financial assets:

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

(*iii*) Impairment:

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

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

(*iii*) Impairment (continued):

Assessment of significant increase in credit risk

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

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

Measurement of ECL

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

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

(*iii*) Impairment (continued):

Credit-impaired and restructured financial assets

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

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

Presentation of impairment

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

Write-off

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

(*iv*) Derecognition of financial instruments:

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

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

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

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

(c) Hedge accounting:

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

(d) Transition impact from adopting IFRS 9:

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

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

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

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

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

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

	IAS 39		IFRS 9	
	Measurement category	Carrying amount December 31, 2017	Measurement category	Carrying amount January 1, 2018
Financial assets				
Cash and cash equivalents	Loans and receivable	$ 15,037,877	Amortized cost	$ 15,037,877
Cash and cash equivalents (with original maturity up to 3 months)	FVTPL	4,500,970	Amortized cost	4,500,970
Interest-bearing deposits with financial institutions	Loans and receivable	98,111,886	Amortized cost	98,111,886
Other financial assets	AFS	3,470,977	FVTPL	3,470,977
Loans	Loans and receivable	536,063,814	Amortized cost	536,063,814
Other assets	Loans and receivable	2,976,799	Amortized cost	2,976,799
Total financial assets		$ 660,162,323		$ 660,162,323
Financial liabilities				
Deposits	Amortized cost	$ 600,190,563	Amortized cost	$ 600,190,563
Secured and other borrowings	Amortized cost	28,903,570	Amortized cost	28,903,570
Payables and other liabilities	Amortized cost	4,747,494	Amortized cost	4,747,494
Total financial liabilities		$ 633,841,627		$ 633,841,627

4. Changes in accounting policies (continued):

IFRS 9, *Financial instruments* (continued):

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

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

	IAS 39 balance December 31, 2017	Adjustment for reclassification	Adjustment for remeasurement	Adjustment for impairment	Adjustment for tax	IFRS 9 balance January 1, 2018
Financial assets						
Cash and cash equivalents	$ 19,538,847	$ -	$ -	$ -	$ -	$ 19,538,847
Interest-bearing deposits with financial institutions	98,111,886	-	-	-	-	998,111,886
Other financial assets [1]	3,470,977	-	-	-	-	3,470,977
Loans	536,063,814	-	-	-	-	536,063,814
Other assets	3,633,853	-	-	-	-	3,633,853
Total financial assets	$ 660,819,377	$ -	$ -	$ -	$ -	$ 660,819,377
Financial liabilities						
Deposits	$ 600,190,563	$ -	$ -	$ -	$ -	$ 600,190,563
Secured and other borrowings	28,903,570	-	-	-	-	28,903,570
Payables and other liabilities	4,747,494	-	-	-	-	4,747,494
Total financial liabilities	$ 633,841,627	$ -	$ -	$ -	$ -	$ 633,841,627
Retained earnings[1]	$ 37,952,401	$ 551,545	$ -	$ -	$ (93,762)	$ 38,410,184
Accumulated other comprehensive income[1]	457,783	(551,545)	-	-	93,762	-

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

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

	IAS 39 Impairment allowance December 31, 2017	Adjustment for remeasurement or reclassification	IFRS 9 ECL January 1, 2018	Stage 1	Stage 2	Stage 3
Loans and advances to members	$ 3,065,422	$ -	$ 3,065,422	$ 2,268,205	$ 28,522	$ 768,695
Total	$ 3,065,422	$ -	$ 3,065,422	$ 2,268,205	$ 28,522	$ 768,695

IFRS 15, *Revenue from contracts with customers:*

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

5. Judgments and estimates:

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

(a) Judgments:

Recognition of deferred tax assets:

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

(b) Estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in net 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.

(*i*) Allowance for impaired loans – applicable before January 1, 2018:
(For estimates and judgments applicable from January 1, 2018, see note 4(b))

In determining whether an impairment loss should be recorded in net income the Credit Union makes judgments on whether objective evidence of impairment exists for individual financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss allowance management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment.

(*ii*) Impairment of long-lived assets:

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

5. Judgments and estimates (continued):

(b) Estimates (continued):

(*iii*) 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.

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 1.81% (2017 - 1.37%).

	2018	2017
Cash and current accounts	$ 8,474,538	$ 15,037,877
Term deposits and accrued interest:		
Callable or maturing in three months or less	3,040,057	4,500,970
	$ 11,514,595	$ 19,538,847

7. Investments:

The following table provides information on the investments by type of security and issuer.

	2018	2017
Term deposits at Central 1 callable or maturing in more than three months	$ 79,909,045	$ 97,229,537
Shares:		
Central 1 Credit Union	2,702,126	2,612,567
Co-operators Group Ltd.	124,500	124,500
Other shares and investments	1,151,547	733,910
Other debt securities (note 15)	886,559	882,349
	$ 84,773,777	$ 101,582,863

The Credit Union must maintain liquidity reserves with Central 1 at 8.0% of total deposits and borrowings at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets 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 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 of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at a par value of one dollar per share. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

On March 29, 2018, Central 1 Credit Union (“Central 1”) issued 2,649,897 Class F shares with a price of $1 per share and redeemed 2,302,996 Class A shares with a redemption value of $1 per share. As part of this transaction, Central 1 also redeemed 5,516 Class E shares. These shares had a carrying value of $100 per share and were redeemed at $100 per share. No gains or losses were recognized during the year ended December 31, 2018 as Central 1 announced the redemption effective December 31, 2017, when the gain of $457,783 was recognized in OCI.

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

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

8. Loans:

	2018	2017
Personal loans:		
Residential mortgages	$ 353,112,531	$ 375,811,360
Other term loans and lines of credit	26,724,860	24,976,956
	379,837,391	400,788,316
Commercial loans:		
Mortgages	124,627,263	125,714,460
Other term loans and lines of credit	6,375,882	11,582,433
	131,003,145	137,296,893
	510,840,536	538,085,209
Accrued interest receivable	1,023,811	1,044,027
	511,864,347	539,129,236
Allowance for impaired loans (note 8)	(3,013,629)	(3,065,422)
Net loans to members	$ 508,850,718	$ 536,063,814

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maturity date of up to 5 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.50% to prime plus 9.00%. The Credit Union's prime rate at December 31, 2018, was 3.95% (2017 - 3.25%).

The interest rate offered on fixed rate loans being advanced at December 31, 2018, ranges from 3.19% to 6.9% (2017 - 3.09% to 6.50%)

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

8. Loans (continued):

(a) Terms and conditions (continued):

Loans in the amount of $14,177,905 (2017 - $28,948,316) have been securitized by the Credit Union and are pledged as security for secured borrowings (note 15).

(b) Average yields to maturity:

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

	2018		2017	
	Principal	Yield	Principal	Yield
Variable rate	$ 75,247,869	5.66%	$ 87,466,715	4.73%
Fixed rate due less than one year	154,355,420	3.71%	113,492,416	3.74%
Fixed rate due between one and ten years	281,237,247	3.58%	337,126,078	3.48%
	$ 510,840,536	3.92%	$ 538,085,209	3.74%

(c) Fair value:

The fair value of member loans at December 31, 2018 was $506,470,248 (2017 - $538,535,000).

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.

(d) Credit quality of loans:

Valuations of collateral are updated periodically depending on the nature of the collateral. It is not practical to value all collateral as at the financial reporting date due to the variety of assets and conditions.

A breakdown of loans by type of collateral held is as follows:

	2018	2017
Loans - insured	$ 159,314,499	$ 176,889,095
Loans - real estate secured	330,146,899	336,016,985
Loans - otherwise secured	10,792,104	13,107,823
Loans - unsecured	10,587,035	12,071,306
	$ 510,840,537	$ 538,085,209

9. Allowance for credit losses:

Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, January 1, 2018	$ 989,763	$ 15,193	$ 3,500	$ 1,008,456
Balance, December 31, 2018	$ 537,614	$ 108,050	$ 103,470	$ 749,134
Transfers:				
To Stage 1	-	-	-	-
To Stage 2	(120,549)	120,549	-	-
To Stage 3	(99,971)	-	99,971	-
Commercial loans				
Balance, January 1, 2018	$ 821,709	$ 13,175	$ 706,157	$ 1,541,041
Balance, December 31, 2018	$ 807,737	$ 680	$ 1,112,139	$ 1,920,556
Transfers:				
To Stage 1	-	-	-	-
To Stage 2	-	-	-	-
To Stage 3	-	-	-	-
Consumer loans				
Balance, January 1, 2018	$ 456,733	$ 154	$ 59,038	$ 515,925
Balance, December 31, 2018	$ 236,301	$ 50,149	$ 57,489	$ 343,939
Transfers:				
To Stage 1	-	-	-	-
To Stage 2	(101,980)	101,980	-	-
To Stage 3	(32,301)	-	32,301	-
Total loans and advances to members				
Balance, January 1, 2018	$ 2,268,205	$ 28,522	$ 768,695	$ 3,065,422
Balance, December 31, 2018	$ 1,581,652	$ 158,879	$ 1,273,098	$ 3,013,629
Transfers:				
To Stage 1	-	-	-	-
To Stage 2	(222,529)	222,529	-	-
To Stage 3	(132,272)	-	132,272	-

10. Property and equipment:

	Land	Buildings	Leasehold improvement	Furniture and computer equipment	Total
Cost:					
Balance, December 31, 2016	$ 828,597	$ 13,872,878	$ -	$ 7,517,809	$ 22,219,284
Additions	-	154,528	-	73,040	227,568
Disposals	-	-	-	(121,376)	(121,376)
Balance, December 31, 2017	828,597	14,027,406	-	7,469,473	22,325,476
Additions	779,069	1,381,789	-	246,946	2,407,804
Disposals	-	-	-	-	-
Balance, December 31, 2018	$ 1,607,666	$ 15,409,195	$ -	$ 7,716,419	$ 24,733,280
Accumulated depreciation and impairment losses:					
Balance, December 31, 2016	$ -	$ 4,422,145	$ -	$ 6,410,259	$ 10,832,404
Depreciation expense	-	345,209	-	316,487	661,696
Disposals	-	-	-	(113,484)	(113,484)
Impairment	-	-	-	-	-
Balance, December 31, 2017	-	4,767,354	-	6,613,262	11,380,616
Depreciation expense		342,500		258,920	601,420
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Balance, December 31, 2018	$ -	$ 5,109,854	$ -	$ 6,872,182	$ 11,982,036
Net book value:					
December 31, 2017	$ 828,597	$ 9,260,052	$ -	$ 856,211	$ 10,944,860
December 31, 2018	1,607,666	10,299,341	-	844,237	12,751,244

11. Intangible assets:

	Licences	Goodwill	Software	Total
Gross carrying amount:				
Non-depreciable intangible assets				
Balance, December 31, 2016	$ 739,736	$ 134,224	$ -	$ 873,960
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2017	$ 739,736	$ 134,224	$ -	$ 873,960
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2018	$ 739,736	$ 134,224	$ -	$ 873,960

	Licences	Goodwill	Software	Total
Gross carrying amount:				
Depreciable intangible assets				
Balance, December 31, 2016	$ -	$ -	$ 1,270,166	$ 1,270,166
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2017	-	-	1,270,166	1,270,166
Additions	-	-	233,325	233,325
Disposals	-	-	-	-
Balance, December 31, 2018	$ -	$ -	$ 1,503,491	$ 1,503,491
Amortization:				
Depreciable intangible assets				
Balance, December 31, 2016	$ -	$ -	$ 585,800	$ 585,800
Amortization	-	-	119,816	119,816
Disposals	-	-	-	-
Balance, December 31, 2017	-	-	705,616	705,616
Amortization	-	-	128,546	128,546
Disposals	-	-	-	-
Balance, December 31, 2018	$ -	$ -	$ 834,162	$ 834,162
Carrying amount				
December 31, 2017	$ 739,736	$ 134,224	$ 564,550	$ 1,438,510
December 31, 2018	739,736	134,224	669,329	1,543,289

12. Interest in subsidiaries:

Name of subsidiary	Principal activity	2018	2017
		Proportion of ownership interest held	
Northern Savings Insurance Services Ltd.	Sale of insurance products	100%	100%
Northern Savings Financial Services Ltd.	Financial planning and sales of investment products	100%	100%
CU Technical and Administrative Services Corp.	Computer banking system holding company	100%	100%
1146351 BC Ltd.	Holding company	100%	100%

13. Other assets:

	2018	2017
Receivables and prepaid expenses	$ 2,480,135	$ 2,684,419
Property held for sale	1,136,709	-
Income taxes receivable	2,160	294,509
	$ 3,619,004	$ 2,978,928

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

14. Deposits:

	2018	2017
Demand	$ 238,188,960	$ 220,043,116
Term	200,078,782	233,741,342
Registered savings plans	70,941,457	91,733,397
Tax free savings accounts	48,482,973	48,581,036
Members' shares (note 18)	3,118,363	3,340,519
Accrued interest and dividends	2,457,588	2,751,153
	$ 563,268,123	$ 600,190,563

14. Deposits (continued):

(a) Terms and conditions:

Chequing and savings deposits are due on demand and bear interest at variable rates up to 0.70% at December 31, 2018 (2017 - 0.70%). 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 as at December 31, 2018, range from 0.01% to 3.79% (2017 - 0.25% to 2.90%).

The registered retirement savings plan ("RRSP") 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 0.70% at December 31, 2018 (2017 - 0.70%).

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, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

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

Included in chequing and term deposits at December 31, 2018 is an amount of $3,452,316 (2017 - $3,220,472) denominated in United States dollars.

(b) Average yields to maturity:

	2018		2017	
	Principal	Yield	Principal	Yield
Variable rate	$ 108,357,947	0.83%	$ 93,511,084	0.69%
Fixed rate due less than one year	115,366,182	1.60%	177,914,883	1.74%
Fixed rate due between one and ten years	163,442,773	1.85%	151,163,179	1.67%
Non-interest sensitive	177,735,063	0.26%	177,021,606	0.27%
	$ 564,901,965	1.10%	$ 599,610,752	1.12%

15. Secured and other borrowings:

During 2013 and 2014, the Credit Union securitized and sold the rights to the cash flows arising from a portfolio of loans. The Credit Union has determined that the substantial risks and rewards of ownership have not transferred and, accordingly, continues to record the loans in the consolidated financial statements and also recognizes a related secured borrowing obligation. The carrying value of such loans at December 31, 2018 is $14,177,905 (2017 - $28,903,570).

In relation to these securitization transactions, the Credit Union is required to provide security and, as such, debt securities of $886,559 (2017 - $882,349) are pledged (note 7).

In addition, the Credit Union has credit facilities available with Central 1 in the amount of $13,779,401 (2017 - $13,749,401). At December 31, 2018, the Credit Union had nil borrowings outstanding with Central 1 (2017 - nil).

16. Employee future benefits:

(a) BC Credit Union Employees' Pension Plan:

The BC Credit Union Employees' Pension Plan is a contributory, multiemployer, multidivisional pension plan governed by a 12-member Board of Trustees, which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. Northern Savings Credit Union is one of several employers participating in the 1.75% Division of the Plan. At December 31, 2015, this Division covered about 3,200 active employees and approximately 760 retired plan members, and had assets of approximately $559.4M.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability in the 1.75% Division of $25.1M and a solvency deficiency of $123.0M. As this is a multi-employer plan, the assets and liabilities are pooled and assets are not tracked separately by participating employer. Although the actuaries may be able to determine a breakdown of the current liabilities based on each employer's individual demographic profile and allocate a proportionate share of the assets based on the solvency ratio of the entire Plan, the Plan does not track accumulated contributions and investment earnings for each employer.

(b) Northern Savings Credit Union Pension Plan:

The Credit Union participates in a defined contribution pension plan. Employees are eligible to enroll in the pension plan after one year of fulltime employment. Employee contributions are based on a percentage of salary and matched by the Credit Union.

The Credit Union's contribution to the two plans during the year was $422,218 (2017 - $517,222).

17. Income taxes:

The total provision for income taxes on the consolidated statement of income is at a rate less than combined federal and provincial rates for the following reasons:

	2018	2017
Combined federal and provincial statutory income tax rate	27.0%	26.0%
Credit union rate reduction	0.0%	(0.6)%
Changes in future rates	(7.8)%	(1.8)%
Utilization of non-capital loss previously not recognized	(4.0)%	0.0%
Deferred tax assets not recognized	0.0%	0.0%
Recognition of previously unrecognized tax losses	0.0%	(15.5)%
Other	(1.2)%	0.7%
Effective income tax rate	14.0%	8.8%

The components of deferred income tax balances are as follows:

	2018	2017
Allowance for credit losses	$ 504,317	$ 403,349
Premises and equipment	(547,944)	(325,057)
Non-capital loss carry forwards	276,024	529,570
Onerous lease provision	121,297	104,625
Non-deductible termination benefits	-	24,300
Bonus	16,200	-
Other	25,761	(81,862)
Net deferred income tax asset	$ 395,655	$ 654,925

The Credit Union has approximately $1 million of non-capital losses for income tax purposes available at December 31, 2018 to reduce taxable income in future years which expire beginning in 2029.

18. Members' shares:

Members' shares issued and outstanding are included in deposit balances (note 14).

Capital of the Credit Union is divided into two classes of members' shares designated as follows:

- Class A membership shares; and
- Class B voluntary shares.

The Credit Union is authorized to issue an unlimited number of non-transferable, Class A voting membership shares, with a par value of $1. With certain exceptions, all members are required to own twenty-five membership shares.

The Credit Union is authorized to issue a maximum of 20,000,000 Class B voluntary shares at a price of $1 per share, up to 25,000 shares per member.

18. Members' shares (continued):

Class A members' shares and Class B voluntary shares are redeemable at the option of the member, either on demand or on withdrawal from membership. Annual withdrawals on Class B shares are limited to 10% of the outstanding balance of the class and only after obtaining approval by the regulator. The Board of Directors of the Credit Union have the ability to cease withdrawals in a given year if the 10% threshold is met. The Class A and Class B shares are classified as liabilities.

Dividends are declared by the Board and paid out annually. The 2018 amount is $96,259 (2017 - $111,637).

	2018	2017
Members' shares issued:		
Class A membership shares	$ 1,211,397	$ 1,255,050
Class B voluntary shares	1,906,966	2,085,469
	$ 3,118,363	$ 3,340,519

19. Other income:

	2018	2017
Insurance, commissions and fees	$ 5,349,827	$ 5,195,387
Technical support services	643,363	713,025
Account and merchant service fees	1,811,081	1,749,735
Loan administration fees	520,180	520,478
Loan penalty income	215,969	283,436
Foreign exchange	179,039	189,952
	$ 8,719,459	$ 8,652,013

20. Operating expenses:

	2018	2017
Salaries and benefits	$ 11,464,828	$ 10,593,629
Advertising and member relations	431,493	458,609
Data processing	1,736,002	1,863,773
Amortization	729,967	781,554
Regulatory costs	592,752	643,390
Other administrative	2,004,297	1,969,049
Premises and office services	1,894,808	1,708,127
Dues and assessments	1,099,901	1,338,515
	$ 19,954,048	$ 19,356,646

21. Related party transactions:

The Credit Union's related parties include key personnel, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key personnel.

	2018	2017
Compensation:		
Salaries and other short-term employee benefits	$ 759,675	$ 385,514
Total pension and other post-employment benefits	43,047	25,343
Other payments	784,414	101,415
	$ 1,587,136	$ 512,272

	2018	2017
Loans and lines of credit to key personnel:		
Aggregate value of loans advanced	$ 1,373,250	$ 1,966,179
Interest received on loans advanced	43,417	53,028
Total value of lines of credit advanced	26,909	113,605
Interest received on lines of credit advanced	1,403	4,474
Unused value of lines of credit	247,691	225,995

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

	2018	2017
Deposits from key personnel:		
Aggregate value of term and savings deposits	$ 4,259,118	$ 4,785,392
Total interest paid on term and savings deposits	26,876	54,114

The Credit Union's policy for receiving deposits from key 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.

22. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discontinued cash flow techniques based on the interest rates being offered for similar types of assets and liabilities with similar term and risks as at the statement of financial position date. The fair values of financial assets and liabilities with floating interest rates are assumed to equal their book values, as the interest rates on these instruments automatically re-price to market rates. Fair values of receivables and payables are assumed to approximate their carrying values, primarily due to their short-term nature.

Fair values have not been determined for other assets or liabilities that are not a financial instrument. Due to the judgment used in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions as at the date of the reporting period and may not be reflective of future fair value.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only Level 1 of three levels. The Credit Union does not have any Level 1 measurements. There were no transfers into or out of the three levels during the year.

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

2018	Level 2	Level 3	Total
Financial investments at fair value through profit and loss:			
Central 1 shares	$ -	$ 2,702,126	$ 2,702,126
Other equity investments	-	1,276,047	1,276,047
Financial assets at amortized cost:			
Cash and cash equivalents	11,514,595	-	11,514,595
Investments	79,909,045	-	79,909,045
Other debt securities	886,559	-	886,559
Loans	508,850,718	-	508,850,718
Financial liabilities at amortized cost:			
Deposits	563,268,123	-	563,268,123
Borrowings	14,177,905	-	14,177,905

2017	Level 2	Level 3	Total
Financial investments available-for-sale:			
Central 1 shares	$ -	$ 2,612,567	$ 2,612,567
Other equity investments	-	858,410	858,410
Financial assets at amortized cost:			
Cash and cash equivalents	19,538,847	-	19,538,847
Investments held-to-maturity	97,229,537	-	97,229,537
Other debt securities	882,349	-	882,349
Loans	536,063,814	-	536,063,814
Financial liabilities at amortized cost:			
Deposits	600,190,563	-	600,190,563
Borrowings	28,903,570	-	28,903,570

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

The calculation of estimated fair values is based on market conditions at the reporting date and may not be reflective of future fair values. Changes in interest rates are the main cause of changes in the fair value of the Credit Union's financial instruments.

			2018	2017
	Book value	Estimated fair value	Fair value over (under) book value	Fair value over (under) book value
Assets:				
Cash resources	$ 11,514,595	$ 11,514,595	$ -	$ -
Investments	84,773,777	85,608,654	834,877	(382,702)
Loans	508,850,718	506,470,248	(2,380,470)	2,471,262
Other assets	3,619,004	3,619,004	-	-
			(1,545,593)	2,088,560
Liabilities:				
Deposits	563,268,123	564,208,477	940,354	543,738
Secured and other borrowings	14,177,905	14,177,905	-	-
Payables and accruals	3,397,489	3,490,463	92,974	(138,571)
			1,033,328	405,167
Fair value difference			$ (512,265)	$ 2,493,727

For the assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the table above, the fair value measurements are determined using Level 2 inputs, with the exception of cash resources, for which fair value measurements are determined using Level 1 inputs.

23. 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 management. The Board of Directors receives quarterly reports from the Credit Union's senior management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(a) Credit risk:

Credit risk is the risk of financial loss resulting from the failure of a member or counter party to meet its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy annually.

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

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

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

(*i*) General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;

(*ii*) Loan lending limits including board of director limits, schedule of assigned limits and exemptions from aggregate indebtedness;

(*iii*) Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;

(*iv*) Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations; and

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

(a) Credit risk (continued):

(*v*) Loan delinquency controls regarding procedures followed for loans in arrears.

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.

(*i*) Maximum exposure to credit risk:

The following table presents the maximum exposure to credit risk of financial instruments, before taking into account any collateral held or other credit enhancements. For financial assets recognized on the statement of financial position, the exposure to credit risk equals their carrying amount. For loan commitments and other credit-related commitments, that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	2018	2017
On balance sheet exposure:		
Loans	$ 510,840,536	$ 538,085,209
Cash, Term deposits, short term investments, and accrued interest	92,699,685	117,650,735
Central 1 and other shares	3,978,173	3,470,977
	$ 607,518,394	$ 659,206,921
Off balance sheet exposure:		
Loan commitments	$ 53,157,325	$ 50,067,430
Letters of credit	1,060,890	1,277,010
	$ 54,218,215	$ 51,344,440

(*ii*) Concentration of credit risk:

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 Northern Coast of British Columbia.

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

(a) Credit risk (continued):

(*iii*) Collateral and other credit enhancements:

The Credit Union's lending policy requires the assessment of the member's capacity to repay, rather than relying excessively on the underlying collateral security. Nevertheless, collateral can be an important mitigating factor of credit risk. Depending on the Member's standing and the type of product, facility may be unsecured.

The collateral and other credit enhancements held by the Credit Union as security for loans include:

- Insurance;
- Mortgages over residential lots and properties;
- Recourse to the commercial real estate properties being financed;
- Recourse to business assets such as real estate, equipment, inventory and accounts receivable; and
- Recourse to liquid assets, guarantees and securities.

(b) 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 manages 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. There is a regulatory limit of 8.0% and the Credit Union has set a minimum internal liquidity ratio of 15%. Liquidity ratios were 15.7% (2017 - 18.4%).

The Credit Union manages liquidity risk by:

(*i*) Continuously monitoring actual daily cash flows and longer term forecasted cash flows;

(*ii*) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;

(*iii*) Monitoring the maturity profiles of financial assets and liabilities; and

(*iv*) Monitoring the liquidity ratios monthly.

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

(b) Liquidity risk (continued):

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

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.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other price risk. The Credit Union is not significantly exposed to other price risk.

Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to interest rate risk on its loans and other interest bearing financial instruments.

The sensitivity of the Credit Union’s financial position to movements in interest rates results from differences in the maturities or re-pricing dates of interest rate sensitive assets and liabilities, including the notional amount of interest rate swaps. 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.

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

(c) Market risk (continued):

Interest rate risk (continued):

The table below does 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.

As at December 31, 2018:

Maturity dates Fixed rate	Assets	Yield	Liabilities and equity	Cost (%)	Asset/Liability gap
0-3 months	$ 41,850,242	3.70%	$ 36,664,786	1.51%	$ 5,185,456
4-6 months	62,781,351	3.31%	23,104,921	1.54%	39,676,430
7-12 months	81,309,121	3.34%	65,229,824	1.74%	16,079,297
1-2 years	140,204,856	3.22%	105,461,563	1.76%	34,743,293
2-3 years	87,118,056	3.38%	59,102,723	2.03%	28,015,333
3-4 years	62,202,340	3.53%	1,152,724	1.61%	61,049,616
Over 4 years	42,254,301	3.55%	2,270,319	2.00%	39,983,982
	517,720,267		292,986,860		224,733,407
Non-interest rate sensitive	30,708,528		228,443,653		(197,735,125)
Variable rate	81,359,665	5.38%	108,357,947	0.83%	(26,998,282)
	$ 629,788,460	3.48%	$ 629,788,460	1.04%	$ -

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

(c) Market risk (continued):

Interest rate risk (continued):

As at December 31, 2017:

Maturity dates Fixed rate	Assets	Yield	Liabilities and equity	Cost (%)	Asset/Liability gap
0-3 months	$ 74,647,781	1.95%	$ 71,107,888	2.03%	$ 3,539,893
4-6 months	37,010,936	3.12%	15,402,246	1.54%	21,608,690
7-12 months	80,289,427	3.37%	45,979,367	1.67%	34,310,060
1-2 years	123,459,785	3.22%	90,225,115	1.57%	33,234,670
2-3 years	110,133,348	3.21%	131,515,338	1.74%	(21,381,990)
3-4 years	64,368,434	3.38%	2,543,840	1.58%	61,824,594
Over 4 years	74,047,612	3.46%	694,610	1.61%	73,353,002
	563,957,323		357,468,404		206,488,919
Non-interest rate sensitive	21,778,711		160,053,061		(138,274,350)
Variable rate	87,466,713	4.73%	155,681,282	0.71%	(68,214,569)
	$ 673,202,747	3.22%	$ 673,202,747	1.08%	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union can use interest rate swaps to assist in managing this rate gap. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net income of $351,000 while a decrease in interest rates of 1% could result in a decrease to net income of $310,000.

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 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 United States dollar deposits and cash and cash equivalents.

As at December 31, 2018, the Credit Union has $3,528,944 (2017 - $3,205,940) of United States dollars included in cash, cash equivalents and investments, and deposits of $3,451,745 (2017 - $3,219,930).

24. 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 contributed surplus totaling $42 million (2017 - $38 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 has set an internal limit of 15%.

The Credit Union employs a Capital Management Plan and a Capital Contingency Policy that are reviewed by management and the Board of Directors.

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. Apart from the strategic decision to exit the southern lending division, 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 legislation or regulations. 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.

25. Commitments and contingencies:

(a) Credit facilities:

The Credit Union has authorized lines of credit with Central 1 totaling $13,779,401 (2017 - $13,779,401) however, $829,401 (2017 - $829,401) is held as security for secured letters of credit. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

(b) Member loans:

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:

	2018	2017
Unadvanced loans	$ 17,633,125	$ 16,000,877
Unused lines of credit	35,524,200	34,066,553
Letter of credit	1,060,890	1,277,010

(c) Contractual obligations:

The Credit Union leases land and buildings. The commitments to the end of the lease are as follows:

2019	$ 277,320
2020	184,880

Included in the above commitments are contractual lease payments for an office leased by the Credit Union, which the Credit Union is no longer using. The Credit Union is committed to the office space for three years after December 31, 2017 and had recognized a provision for this lease in 2015.

	2018	2017
Provision, beginning of year	$ 615,615	$ 805,394
Lease and sublease net payments	(188,963)	(189,779)
Provision, end of year	$ 426,652	$ 615,615

The amount of the provision has been included in payables and other liabilities.

25. Commitments and contingencies (continued):

(d) Servicing agreement:

In 2017, the Credit Union entered into a ten year banking system and technology servicing agreement with CDSL Canada Ltd. The annual minimum commitment is $800,000 per year and expires in 2025.

(e) Funds under administration:

Funds under administration by the Credit Union are comprised of loans that have been syndicated and are administered in the capacity as an agent. These funds are not included in the statement of financial position and the balance as at year-end is $400,450 (2017 - $863,220).