COASTAL COMMUNITY
CREDIT UNION

Consolidated Financial Statements
(Expressed in thousands of dollars)

COASTAL COMMUNITY CREDIT UNION

And Independent Auditors' Report thereon

Year ended December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the accompanying notes are the responsibility of the management of Coastal Community Credit Union (the Credit Union).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include, where appropriate, estimates based on the best judgment of management.

As part of its responsibilities, the Credit Union maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.

The Board of the Credit Union carries out its responsibilities with regard to the consolidated financial statements mainly through its Audit and Risk Committee (the Committee). The Committee reviews the annual consolidated financial statements and recommends them to the Board for approval. The Committee meets periodically with management, internal auditors and the external auditors. Following these meetings, the Committee meets privately with the auditors to ensure free and open discussion of any subject the Committee or the auditors wish to pursue. The Committee also recommends the engagement or reappointment of the external auditors, reviews the scope of the audit and approves the fees of the external auditors for audit and non-audit services.

These consolidated financial statements, audited by KPMG LLP, have been approved by the Board, on the recommendation of the Audit and Risk Committee.

Adrian Legin
President and Chief Executive Officer

Barbara Coe, CPA, CGA
Chief Financial and Risk Officer

March 25, 2020

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

INDEPENDENT AUDITORS' REPORT

To the Members of Coastal Community Credit Union

Opinion

We have audited the consolidated financial statements of Coastal Community Credit Union (the Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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

March 25, 2020

COASTAL COMMUNITY CREDIT UNION

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

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Cash and cash equivalents		$ 69,957	$ 45,147
Investments	7	206,339	201,132
Investment in joint venture	27	29,681	-
Loans to members	8	2,393,527	2,334,264
Premises and equipment	10	25,717	15,082
Intangible assets	10	1,434	9,387
Derivative financial instruments	14	-	1,572
Deferred income tax asset	16	1,405	1,210
Income taxes receivable		707	308
Other assets	11	8,158	9,832
		$ 2,736,925	$ 2,617,934
Liabilities and Members' Equity			
Member deposits	12	$ 2,366,519	$ 2,254,158
Borrowings	13	157,595	187,588
Other liabilities	15, 26	34,371	25,509
Derivative financial instruments	14	744	-
Members' shares	18	3,733	3,925
		2,562,962	2,471,180
Members' equity:			
Retained earnings		174,574	146,807
Accumulated other comprehensive loss		(611)	(53)
		173,963	146,754
		$ 2,736,925	$ 2,617,934

Commitments	24
Subsequent event	28

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

Approved on behalf of the Board:

Evelyn Clark
Chair, Board of Directors

John Newall
Chair, Audit and Risk Committee

COASTAL COMMUNITY CREDIT UNION

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

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

	Notes	2019	2018
Interest income:			
Interest on loans to members		$ 88,359	$ 80,460
Other		2,485	2,303
		90,844	82,763
Interest expense:			
Interest on member deposits		27,327	20,650
Other		4,298	3,270
		31,625	23,920
Net interest income		59,219	58,843
Loan impairment income	9	42	42
Other income	19	19,955	18,242
		79,216	77,127
Operating expenses:			
Chequing, electronic and other services		4,362	4,026
Data processing		4,291	3,832
Depreciation and amortization		4,160	2,611
Employee salaries and benefits		37,944	35,451
Occupancy		3,172	4,954
Other operating and administrative		11,797	12,437
		65,726	63,311
Income from operations		13,490	13,816
Provision for (recovery of) income taxes	16		
Current income tax		2,288	2,637
Deferred income tax		198	(87)
		2,486	2,550
Net income from continuing operations		11,004	11,266
Discontinued operations, net of tax			
Earnings from discontinued operations	25	16,763	2,307
Net income for the year		27,767	13,573
Other comprehensive loss, net of tax:			
Items that were or may be reclassified to net income:			
Change in unrealized losses on cash flow hedges		(1,287)	(1,043)
Reclassification of unrealized losses on cash flow hedges		729	562
		(558)	(481)
Total comprehensive income		$ 27,209	$ 13,092

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

COASTAL COMMUNITY CREDIT UNION

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

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

	Available for sale investments	Cash flow hedges	Total accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, December 31, 2017	$ 1,464	$ 428	$ 1,892	$ 131,770	$ 133,662
Adjustment as at January 1, 2018, IFRS 9 adoption	(1,464)	-	(1,464)	1,464	-
Net income	-	-	-	13,573	13,573
Other comprehensive loss	-	(481)	(481)	-	(481)
Balance, December 31, 2018	-	(53)	(53)	146,807	146,754
Net income	-	-	-	27,767	27,767
Other comprehensive loss	-	(558)	(558)	-	(558)
Balance, December 31, 2019	$ -	$ (611)	$ (611)	$ 174,574	$ 173,963

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

COASTAL COMMUNITY CREDIT UNION

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

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

	2019	2018
Cash provided by (used in):		
Operating activities:		
Receipts:		
Interest on loans to members	$ 88,037	$ 79,679
Fees and commissions	17,597	17,584
Other interest income	2,455	1,943
Dividends	401	333
Other non-interest income	2,594	431
	111,084	99,970
Disbursements:		
Interest paid to members	(28,352)	(21,417)
Distributions to members	(56)	(45)
Operating expenses	(65,578)	(53,178)
Income taxes	(1,322)	(3,400)
	(95,308)	(78,040)
Net increase in loans to members	(58,899)	(177,508)
Net increase in member deposits	109,086	137,681
Cash provided by (used in) operating activities	65,963	(17,897)
Investing activities:		
Net increase in investments	(13,007)	(19,433)
Disposal of discontinued operation, net of cash disposed of	(4,342)	2,307
Net increase in premises and equipment	(1,409)	(2,255)
Net decrease in intangible assets	7,788	(19)
Cash used in investing activities	(10,970)	(19,400)
Financing activities:		
Net decrease in members' shares	(192)	(257)
Net decrease in borrowings	(29,991)	50,049
Cash provided by (used in) financing activities	(30,183)	49,792
Increase in cash and cash equivalents	24,810	12,495
Cash and cash equivalents, beginning of year	45,147	32,652
Cash and cash equivalents, end of year	$ 69,957	$ 45,147

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

1. Reporting entity:

Coastal Community Credit Union (the Credit Union) is incorporated under the Credit Union Incorporation Act (British Columbia). The operation of the Credit Union is subject to the Financial Institutions Act (British Columbia). The Credit Union is located in Canada and its registered office is 59 Wharf Street, Nanaimo, British Columbia. The Credit Union predominately serves members on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 25, 2020.

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).

(b) Basis of measurement:

These consolidated financial statements were prepared on the historical cost basis, except for financial assets held at fair value through profit or loss (FVTPL) and 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. Financial information is presented in thousands of dollars.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

3. Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its subsidiaries after the elimination of inter-company transactions and balances, as well as the Credit Union's proportionate share of profit or loss from an equity investment. The Credit Union is a financial institution and these consolidated results incorporate the following integrated business lines:

- The Credit Union, providing full service retail and commercial lending and deposit products;
- The wholly owned subsidiary Coastal Community Financial Management Inc. (CCFMI), providing financial planning advice, products and services, and life insurance;
- For the period January 1, 2019 through March 31, 2019, the results of Coastal Community Insurance Services (2007) Ltd. (CCIS) and its subsidiary Van Isle Insurance Services Ltd. (Note 25). CCIS offers full service general insurance including home, business, auto, RV and travel insurance; and
- For the period April 1, 2019 through December 31, 2019, 50% equity interest in 1200089 B.C. Ltd., a joint venture that owns CCIS and Interior Savings Insurance Services Inc. (Note 27).

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 SPE's 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.

4. Significant accounting policies:

a) Financial instruments:

(*i*) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, 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.

4. Significant accounting policies (continued):

a) Financial instruments (continued):

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

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

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

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

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 an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

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.

Contractual cash flow characteristics assessment

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

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

(*ii*) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets. There were no changes to any of the Credit Union's business models for the year ended December 31, 2019.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment:

The expected credit loss ("ECL") model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The 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).

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).

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment:

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.

Credit-impaired and restructured financial assets

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

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

Presentation of impairment

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

Write-off

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

(*iv*) Derecognition of financial instruments:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

4. Significant accounting policies (continued):

(b) Hedge accounting:

The new hedge accounting model under IFRS 9 *Financial Instruments* 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. The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB through a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting requirements until an amended standard is effective. The Credit Union has elected to continue applying hedge accounting under IAS 39, but has adopted the new hedge accounting disclosures required by the related amendments to IFRS 7, *Financial Instruments: Disclosures*.

(c) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Land is carried at cost less any accumulated impairment losses. Depreciation is recognized in net income and is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful lives
Buildings	25 years
Leasehold improvements	Lesser of 10 years and term of lease
Furniture and equipment	5 to 10 years
Computer equipment	2 years

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

(d) Intangible assets:

Intangible assets include computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over the estimated useful lives as follows:

Asset	Useful lives
Banking system	5 to 10 years
Computer software	2 years

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

4. Significant accounting policies (continued):

(d) Intangible assets (continued):

Goodwill is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, excluding identifiable intangible assets which are recognized separately. Goodwill is not amortized, but is subject to a fair value impairment test at least annually. Other intangible assets, such as customer lists, are amortized using a straight-line basis over their useful lives, not exceeding ten years. The amortization of intangible assets is recorded in operating expenses.

(e) Derecognition of financial assets and liabilities:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

(f) Impairment of non-financial assets:

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

Impairment charges are included in net income.

(g) Income taxes:

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

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

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

4. Significant accounting policies (continued):

(g) Income taxes (continued):

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

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

(h) Member 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 measured at amortized cost, using the effective interest rate method.

(i) Derivative financial instruments and hedging:

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

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets when they have a positive fair value, and as liabilities when they have a negative fair value, in both cases shown on the consolidated statement of financial position.

Hedge accounting is applied to financial assets and financial liabilities only when all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecasted transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

4. Significant accounting policies (continued):

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

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of variable rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in net income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net income.

If the Credit Union closes out its hedge position early, the cumulative unrealized gain or loss recognized in other comprehensive income is reclassified to net income using the effective interest method.

(j) Pension plans:

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting, as assets and liabilities are pooled and not tracked separately by employer group. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense on an accrual basis. The Credit Union also participates in a defined contribution plan as described in note 17.

(k) Accounts payable and other payables:

Liabilities for trade creditors and other payables are classified as amortized cost and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(l) Provisions:

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

(m) Members' shares:

Members' shares are classified as liabilities according to their terms. Members' shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

4. Significant accounting policies (continued):

(n) Revenue recognition:

Interest income and expense for interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of comprehensive income using the effective interest method. The effective interest method calculates the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Revenue from commissions and 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.

Other interest revenue is recorded using the effective interest rate method. Dividends on equity instruments are recognized when the Credit Union's right to receive payment is established.

(o) Leased assets:

Policy applicable prior to January 1, 2019:

The Credit Union has adopted IFRS 16 *Leases* ("IFRS 16") with a date of initial application of January 1, 2019. The details of the changes in accounting policies are disclosed below and the details of the transition to IFRS 16 are disclosed in note 26. The Credit Union's accounting policies for leases up to December 31, 2018 were in accordance with IAS 17 *Leases* ("IAS 17").

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

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

4. Significant accounting policies (continued):

(p) Foreign currency translation:

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

(q) Joint ventures

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

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

The Credit Union's earnings includes its share of the joint venture's earnings. Distributions received from a joint venture reduce the carrying amount of the investment. All other net asset changes are recognized in equity. The financial statements of the joint venture are prepared for the same reporting period as the Credit Union.

(*i*) Impairment of investment in joint venture:

An investor assesses whether there is an indication that its net investment in the joint venture is impaired. IFRS provides potential indicators, including significant financial difficulty of the investee, and significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If objective evidence of impairment exists, the investor performs an impairment test. The net investment is tested as one single asset under IFRS, by comparing its carrying amount to the recoverable amount (the higher of value in use and fair value less costs to sell.) This includes any fair value adjustments and goodwill arising from the acquisition of the investment. Impairment testing for joint ventures requires significant judgments and estimates to be made.

4. Significant accounting policies (continued):

(r) Discontinued operations:

A discontinued operation is a component of the Credit Union's business, the operations and cash flows of which can be clearly distinguished from the rest of the Credit Union and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

5. Change in accounting policies:

IFRS 16 *Leases*:

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

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

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

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

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

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

5. Change in accounting policies (continued):

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

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

(c) Transition impact from adopting IFRS 16:

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

On initial application, the Credit Union elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of $12,393 were recorded as at January 1, 2019, with no impact on retained earnings for leases previously recognized as operating leases under IAS 17.

(d) Use of exemptions and practical expedients – IFRS 16:

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

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

The weighted average incremental borrowing rate is disclosed in note 26.

6. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(Expressed in thousands of dollars, unless otherwise indicated)

6. Critical accounting estimates and judgments (continued):

(a) 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.

(b) Use of estimates - Fair value of financial instruments:

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

The methods and assumptions applied, and the valuation techniques used, in determining the fair value of financial instruments are disclosed in notes 7, 14 and 21.

7. Investments:

	2019	2018
Term deposits with Central 1	$ 191,329	$ 187,651
Equity instruments, classified as FVTPL:		
Central 1 shares	10,948	10,638
Other	865	865
Other investments, classified as amortized cost:		
Principal and interest reinvestment account pledged as collateral on CMB obligation	990	385
Accrued interest and dividends	2,207	1,593
	$ 206,339	$ 201,132

(Expressed in thousands of dollars, unless otherwise indicated)

7. Investments (continued):

Credit Unions in British Columbia must maintain liquid investments with Central 1 at a minimum of 8% of their deposit and debt liabilities less cash on hand. At maturity, deposits with Central 1 are reinvested at market rates for various terms. See note 22 for the average yield on the accounts.

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 Central 1 Board of Directors. In addition, the member credit unions are subject to additional capital calls at the discretion of the Central 1 Board of Directors.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. 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 that transactions occur at par value on a regular and recurring basis.

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

Class E shares are recorded at their cost of $0.01 per share as this is the best representation of fair value. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Class F shares are recorded at their cost of $1 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.

Other equity instruments are recorded at cost. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, cost is the best representation of fair value.

8. Loans to members:

	2019	2018
Residential mortgages	$ 1,737,723	$ 1,723,050
Personal loans	79,910	88,355
Commercial loans	576,103	523,467
	2,393,736	2,334,872
Accrued interest receivable	5,052	4,730
Allowance for impaired loans (note 9)	(5,261)	(5,338)
Loans to members	$ 2,393,527	$ 2,334,264

8. Loans to members (continued):

At December 31, 2019, the Credit Union had $157,869 (2018 - $160,833) of residential mortgages which had been securitized in the Canada Mortgage Bonds program and are included in the consolidated statement of financial position as the securitization transactions do not meet the requirements for derecognition. Residential mortgages that have been securitized through the Canada Mortgage Bonds program and pledged as collateral for secured borrowings are disclosed in note 13.

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maximum term of ten years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the member's credit worthiness.

The interest rate offered on fixed rate loans varies with the type of security offered and the member’s credit worthiness.

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 consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

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, and charges on specific equipment, investments, and personal guarantees.

(b) Average yields to maturity:

See note 22 for the average yields on loans to members.

(c) Credit quality and credit risk exposures:

The following tables set out information about the credit quality of the Credit Union’s loans measured at amortized cost and other credit risk exposures, by category of loss allowance at December 31, 2019. The amounts in the tables represent the carrying amounts of loans and committed amounts under loan commitments and letters of credit.

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans to members (continued):

(c) Credit quality and credit risk exposures (continued):

Risk Level	Stage 1	Stage 2	Stage 3	2019	2018
RESIDENTIAL MORTGAGES					
Very low	$ 30,526	$ -	$ -	$ 30,526	$ 26,831
Low	251,195	-	-	251,195	221,980
Medium	1,137,440	51,759	-	1,189,199	1,148,097
High	220,676	33,346	-	254,022	281,226
Very High	13,469	189,161	-	202,630	208,159
Default	-	43,965	-	43,965	50,769
Total	1,653,306	318,231	-	1,971,537	1,937,062
Loss allowance	(629)	(1,536)	-	(2,165)	(2,435)
	$ 1,652,677	$ 316,695	$ -	$ 1,969,372	$ 1,934,627

Risk Level	Stage 1	Stage 2	Stage 3	2019	2018
PERSONAL LOANS					
Very low	$ 12,038	$ 3	$ -	$ 12,041	$ 11,893
Low	40,253	-	-	40,253	37,497
Medium	68,038	3,123	-	71,161	73,204
High	8,110	2446	18	10,574	13,382
Very High	478	7,551	2	8,031	8,948
Default	-	2,092	38	2,130	2,492
Total	128,917	15,215	58	144,190	147,416
Loss allowance	(117)	(368)	(58)	(543)	(617)
	$ 128,800	$ 14,847	$ -	$ 143,647	$ 146,799

Risk Level	Stage 1	Stage 2	Stage 3	2019	2018
COMMERCIAL LOANS					
Very low	$ 7,001	$ 503	$ -	$ 7,504	$ 5,942
Low	38,582	1,106	-	39,688	22,359
Medium	84,779	11,445	2	96,226	68,474
High	136,530	211,999	-	348,529	351,134
Very High	109,812	60,757	565	171,134	144,157
Default	3,525	12,301	6	15,832	27,366
Total	380,229	298,111	573	678,913	619,432
Loss allowance	(1,574)	(859)	(120)	(2,553)	(2,286)
	$ 378,655	$ 297,252	$ 453	$ 676,360	$ 617,146

8. Loans to members (continued):

(d) Fair value:

See note 21 for the fair value of loans to members.

The estimated fair value of variable rate loans approximates 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. Level 2 inputs are used to measure the fair value.

(e) Concentration of risk:

There are no individual members or related groups of members with loans exceeding 10% of members' equity.

The majority of member loans are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Allowance for credit losses:

Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, December 31, 2018	$ 687	$ 1,748	$ -	$ 2,435
Provisions for credit losses:				
Transfers to Stage 1	278	(278)	-	-
Transfers to Stage 2	(393)	393	-	-
Transfers to Stage 3	-	-	-	-
Originations	132	205	-	337
Maturities	(86)	(557)	-	(643)
Remeasurements	11	25	-	36
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 629	$ 1,536	$ -	$ 2,165
PERSONAL LOANS				
Balance, December 31, 2018	$ 163	$ 330	$ 124	$ 617
Provisions for credit losses:				
Transfers to Stage 1	49	(49)	-	-
Transfers to Stage 2	(102)	127	(25)	-
Transfers to Stage 3	(6)	(28)	34	-
Originations	10	21	-	31
Maturities	(15)	(90)	(88)	(193)
Remeasurements	18	57	13	88
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 117	$ 368	$ 58	$ 543
COMMERCIAL LOANS				
Balance, December 31, 2018	$ 1,351	$ 810	$ 125	$ 2,286
Provisions for credit losses:				
Transfers to Stage 1	84	(84)	-	-
Transfers to Stage 2	102	(102)	-	-
Transfers to Stage 3	-	-	-	-
Originations	272	94	-	366
Maturities	(136)	(124)	-	(260)
Remeasurements	(99)	265	(5)	161
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 1,574	$ 859	$ 120	$ 2,553
TOTAL LOANS TO MEMBERS				
Balance, December 31, 2018	$ 2,201	$ 2,888	$ 249	$ 5,338
Provisions for credit losses:				
Transfers to Stage 1	411	(411)	-	-
Transfers to Stage 2	(393)	418	(25)	-
Transfers to Stage 3	(6)	(28)	34	-
Originations	414	320	-	734
Maturities	(237)	(771)	(88)	(1,096)
Remeasurements	(70)	347	8	285
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 2,320	$ 2,763	$ 178	$ 5,261

(Expressed in thousands of dollars, unless otherwise indicated)

9. Allowance for credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, January 1, 2018	$ 527	$ 2,493	$ -	$ 3,020
Provisions for credit losses:				
Transfers to Stage 1	376	(376)	-	-
Transfers to Stage 2	(410)	410	-	-
Transfers to Stage 3	-	-	-	-
Originations	174	285	-	459
Maturities	(59)	(672)	-	(731)
Remeasurements	79	(392)	-	(313)
Net write-offs	-	-	-	-
Balance, December 31, 2018	$ 687	$ 1,748	$ -	$ 2,435
PERSONAL LOANS				
Balance, January 1, 2018	$ 145	$ 376	$ 61	$ 582
Provisions for credit losses				
Transfers to Stage 1	96	(96)	-	-
Transfers to Stage 2	(67)	72	(5)	-
Transfers to Stage 3	(15)	(76)	91	-
Originations	14	22	-	36
Maturities	(11)	(42)	(35)	(88)
Remeasurements	1	101	23	125
Net write-offs	-	(27)	(11)	(38)
Balance, December 31, 2018	$ 163	$ 330	$ 124	$ 617
COMMERCIAL LOANS				
Balance, January 1, 2018	$ 1,030	$ 786	$ 123	$ 1,939
Provisions for credit losses:				
Transfers to Stage 1	57	(57)	-	-
Transfers to Stage 2	(46)	46	-	-
Transfers to Stage 3	-	-	-	-
Originations	373	108	-	481
Maturities	(52)	(123)	(3)	(178)
Remeasurements	(11)	50	5	44
Net write-offs	-	-	-	-
Balance, December 31, 2018	$ 1,351	$ 810	$ 125	$ 2,286
Total loans to members				
Balance, January 1, 2018	$ 1,702	$ 3,655	$ 184	$ 5,541
Provisions for credit losses:				
Transfers to Stage 1	529	(529)	-	-
Transfers to Stage 2	(523)	528	(5)	-
Transfers to Stage 3	(15)	(76)	91	-
Originations	561	415	-	976
Maturities	(122)	(837)	(38)	(997)
Remeasurements	69	(241)	28	(144)
Net write-offs	-	(27)	(11)	(38)
Balance, December 31, 2018	$ 2,201	$ 2,888	$ 249	$ 5,338

(Expressed in thousands of dollars, unless otherwise indicated)

9. Allowance for credit losses (continued):

Analysis of loans that are individually impaired or potentially impaired based on age of repayments outstanding:

	2019		2018	
	Carrying value	Stage 3	Carrying value	Stage 3
Period of delinquency:				
Less than 30 days	$ 4	$ 4	$ -	$ -
30 to 90 days	543	-	11	11
Over 90 days	680	-	1,322	36
Total loans in arrears	1,227	4	1,333	47
Total loans not in arrears	2,392,510	174	2,333,540	202
	$ 2,393,737	$ 178	$ 2,334,873	$ 249

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses:

Significant increase in credit risk

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assesses at each reporting date whether there has been a significant increase in credit risk (“SICR”) for a financial asset. In assessing whether a SICR has occurred, the Credit Union considers quantitative factor, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when the risk rating of a loan has increased significantly at the reporting date compared to the origination date. For residential mortgages, personal loans and small business loans, SICR is assessed based on the credit score of the member.

For large business commercial loans, SICR is assessed based on the debt-service, working capital and debt-to-equity ratios.

For all loans to members, a SICR is considered to have occurred when the financial assets are more than 30 days past maturity and outstanding.

As permitted by IFRS 9, loans to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, the Credit Union has grouped its financial assets into segments on the basis of shared credit risk characteristics for each component of the ECL calculation.

9. Allowance for credit losses (continued):

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses (continued):

Probability of default:

The 12-month PDs for residential mortgages, personal loans are based on historical credit score data for Canadian credit unions. The 12-month PDs for commercial loans are based on Moody's corporate default data.

The lifetime PDs for all loans to members are calculated based on the 12-month PDs for the financial assets and the expected remaining life of the financial assets, assuming a constant default rate during the lifetime of the financial assets.

Loss given default:

The LGD reflects the Credit Union's estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is estimated based on the historical loss experience of the Credit Union taking into account the loan product, the net amount written off, and the gross exposure.

Significant increase in credit risk (continued)

Forward looking information and macroeconomic factors:

The forward looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. In determining the FLI input to the ECL calculation, management makes forecasts of multiple probability-weighted-forward looking and macroeconomic scenarios. The forward looking and macroeconomic factor considered in determining the FLI inputs to the Credit Union's ECL calculation was the unemployment rate.

Exposure at default:

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan.

The starting point for determining EAD is the principal and interest payments of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on the Credit Union's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

Credit-impaired financial assets:

When identifying loans to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, the Credit Union determines whether indicators of a borrower's unlikeliness to pay exist.

The Credit Union the quantitative thresholds of contractually 90 days in arrears for identifying loans to members that are credit-impaired.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Allowance for credit losses (continued):

(b) Key assumptions in determining the allowance for credit losses:

Analysis of loans with repayments past due but not regarded as individually impaired:

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 3,191	$ 234	$ 315	$ 3,740
Over 90 days	1,585	58	600	2,243
Balance, December 31, 2019	$ 4,776	$ 292	$ 915	$ 5,983

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 3,215	$ 381	$ 44	$ 3,640
Over 90 days	1,612	181	19	1,812
Balance, December 31, 2018	$ 4,827	$ 562	$ 63	$ 5,452

(Expressed in thousands of dollars, unless otherwise indicated)

10. Premises, equipment and intangible assets:

	Premises and equipment							Intangible assets
Cost:	ROU*	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2017	$ -	$ 3,056	$ 11,979	$ 12,653	$ 9,477	$ 20,090	$ 57,255	$ 30,293
Additions	-	-	-	1,750	1,423	1,302	4,475	339
Transfers	-	-	-	(1,264)	(462)	(260)	(1,986)	-
Disposals	-	-	-	(178)	(1,746)	(1,870)	(3,794)	(142)
Balance, December 31, 2018	-	3,056	11,979	12,961	8,692	19,262	55,950	30,490
Adoption of IFRS 16	12,393	-	-	-	-	-	12,393	-
Additions	828	-	7	1,718	1,083	916	4,552	1,755
Transfers	-	-	(2)	(1,083)	(340)	(613)	(2,038)	(599)
Disposals	-	-	-	(723)	(5,629)	(9,072)	(15,424)	(22,192)
Balance, December 31, 2019	$ 13,221	$ 3,056	$ 11,984	$ 12,873	$ 3,806	$ 10,493	$ 55,433	$ 9,454

	Premises and equipment							Intangible assets
Accumulated depreciation and amortization:	ROU	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2017	$ -	$ -	$ 6,634	$ 8,717	$ 8,810	$ 17,741	$ 41,902	$ 20,840
Amortization	-	-	310	742	717	909	2,678	339
Transfers	-	-	-	-	(12)	(17)	(29)	29
Disposals	-	-	-	(172)	(1,745)	(1,766)	(3,683)	(105)
Balance, December 31, 2018	-	-	6,944	9,287	7,770	16,867	40,868	21,103
Amortization	1,633	-	311	728	652	715	4,039	206
Transfers	-	-	-	-	134	(134)	-	-
Disposals	-	-	-	(684)	(5,592)	(8,915)	(15,191)	(13,289)
Balance, December 31, 2019	$ 1,633	$ -	$ 7,255	$ 9,331	$ 2,964	$ 8,533	$ 29,716	$ 8,020
Net book value:								
Balance, December 31, 2019	$ 11,588	$ 3,056	$ 4,729	$ 3,542	$ 842	$ 1,960	$ 25,717	$ 1,434
Balance, December 31, 2018	-	3,056	5,035	3,674	922	2,395	15,082	9,387

*Right-of-Use Asset under IFRS 16

(Expressed in thousands of dollars, unless otherwise indicated)

11 Other assets:

	2019	2018
Accounts receivable	$ 1,267	$ 2,496
Prepaid expenses	4,215	4,146
Deferred broker fee expense	2,676	3,190
	$ 8,158	$ 9,832

12. Member deposits:

	2019	2018
Demand	$ 1,336,521	$ 1,285,562
Term	751,174	703,663
Registered plans	264,951	254,331
Other	13	17
	2,352,659	2,243,573
Accrued interest payable	13,860	10,585
	$ 2,366,519	$ 2,254,158

(a) Terms and conditions:

Demand deposits are due on demand. Interest is calculated daily and paid on the accounts monthly.

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

Registered plans can be fixed or variable rate with terms and conditions similar to those 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.

(b) Average yields to maturity:

See note 22 for the average yields on member deposits.

12. Member deposits (continued):

(c) Fair value:

See note 21 for the fair value of member deposits.

The estimated fair value of demand deposits and variable rate deposits approximates book value, as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and options. Level 2 inputs are used to measure the fair value.

(d) Concentration of risk:

There are no member deposits held by an individual or a related group of members which exceed 2% of member deposits. The majority of member deposits are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

13. Borrowings:

The Credit Union maintains operating lines of credit with Central 1 and another financial institution.

The Credit Union's Board of Directors has approved an overall borrowing limit of $268,100 with Central 1 (2018 - $254,100). As of December 31, 2019, $103,400 (2018 - $122,400) of this limit was authorized which includes a $400 US dollar line of credit (2018 - $400). The authorized credit facility is secured by a registered Commercial Security Agreement.

The other facility is authorized to a maximum of $50,000 (2018 - $50,000) and is secured by a first charge against specific insured residential mortgages to a maximum of 110% of the outstanding balance.

At December 31, 2019, none of these credit facilities were drawn (2018 - $27,002; interest rate 2.52%; repayable within 12 months).

During the year, the Credit Union participated in the Canada Mortgage Bond program by transferring $15,520 (2018 - $79,843) in Mortgage-Backed Securities into the program. At December 31, 2019, the carrying amount of secured borrowings was $157,595 (2018 - $160,586). The carrying amount of the assets held as security was $157,869 (2018 - $160,833), which comprises of residential mortgages. The Credit Union receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in note 22(e)(*ii*).

(Expressed in thousands of dollars, unless otherwise indicated)

14. Derivative financial instruments:

	2019			2018		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk:						
Pay fixed/receive floating interest rate swaps	$ 562	$ 1,473	$ 175,000	$ 2,205	$ 953	$ 277,500
Accrued interest	235	68	-	370	50	-
Total fair value before adjustments	$ 797	$ 1,541	$ 175,000	$ 2,575	$ 1,003	$ 277,500
Adjustment for master netting agreements	$ (797)	$ (797)	$ -	$ (1,003)	$ (1,003)	$ -
	$ -	$ 744	$ 175,000	$ 1,572	$ -	$ 277,500

(Expressed in thousands of dollars, unless otherwise indicated)

15. Other liabilities:

	2019	2018
Accounts payable and accruals	$ 20,045	$ 23,596
Deferred fee income	1,378	1,223
Lease liabilities	11,767	-
Other	1,181	690
	$ 34,371	$ 25,509

For additional details regarding lease liabilities, see Note 26.

16. Income taxes:

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

	2019	2018
Current tax expense:		
Based on current year taxable income	$ 2,280	$ 2,641
Adjustments for under (over) provision in prior periods	8	(4)
	2,288	2,637
Deferred tax recovery:		
Origination and reversal of temporary differences	198	(87)
	$ 2,486	$ 2,550

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

	2019	2018
Current tax:		
Change in unrealized losses on cash flow hedges	$ (263)	$ (214)
Reclassification of unrealized losses on cash flow hedges	149	115
	$ (114)	$ (99)

(Expressed in thousands of dollars, unless otherwise indicated)

16. Income taxes (continued):

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2018 - 27%) are as follows:

	2019	2018
Income before income taxes	$ 29,584	$ 13,816
Expected taxes based on the statutory rate	7,988	3,730
Reduction due to credit union additional deduction	(3,058)	(1,332)
Non-deductible portion of expenses and other items	(2,444)	152
	$ 2,486	$ 2,550

The movement in 2019 deferred tax liabilities and assets are:

2019	Opening balance	Recognized in net income	Transition to IFRS 16	Components of Discontinued Operations	Closing balance
Deferred tax liabilities:					
Premises, equipment and intangibles	$ -	$ -	$ -	$ -	$ -
Other	-	-	2,248	-	2,248
	-	-	2,248	-	2,248
Deferred tax assets:					
Loan provisions	903	(36)	-	-	867
Other	307	86	2,000	393	2786
	1,210	50	2,000	393	3,653
Net deferred tax asset	$ (1,210)	$ (50)	$ 248	$ (393)	$ (1,405)

The movement in 2018 deferred tax liabilities and assets are:

2018	Opening balance	Recognized in net income	Closing balance
Deferred tax liabilities:			
Premises, equipment and intangibles	$ 165	$ (165)	$ -
Other	340	(340)	-
	505	(505)	-
Deferred tax assets:			
Loan provisions	912	(9)	903
Other	307	-	307
	1,219	(9)	1,210
Net deferred tax asset	$ (714)	$ (496)	$ (1,210)

(Expressed in thousands of dollars, unless otherwise indicated)

16. Income taxes (continued):

	2019	2018
Deferred tax liabilities:		
Deferred tax liabilities to be settled within 12 months	$ -	$ -
Deferred tax liabilities to be settled after more than 12 months	2,248	-
	2,248	-
Deferred tax assets:		
Deferred tax assets to be settled within 12 months	953	946
Deferred tax assets to be settled after more than 12 months	2,700	264
	3,653	1,210
Net deferred tax asset	$ (1,405)	$ (1,210)

17. Pension plans:

The Credit Union and its employees contribute and participate in two pension plans offered and administered by Central 1.

(a) Group registered retirement savings plan:

Employer contributions for the majority of employees are made to a group retirement savings plan at a percentage of annual salary. Employer contributions made during the year totaled $3,437 (2018 - $3,245). Employees contributed a total of $747 (2018 - $705) during the year.

(b) Defined benefit pension plan:

The defined benefit pension plan is a multi-employer defined benefit plan with several active contributors from various credit unions. The Credit Union requires employees to make contributions, while the Credit Union assumes the remaining costs required to pay the employees' pension. The Plan is governed by a 12-member Board of Trustees which is responsible for overseeing the investment management of the Plan assets. The administration of the benefits is managed by Morneau Sheppel through the Credit Union Pension & Benefits Trust Member Service Centre. The Plan at December 31, 2019 has about 3,600 active employees and approximately 1,150 retired plan members. Total plan assets are $836 million.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation was performed as at December 31, 2018, indicating a going concern surplus of $31.6 million, and a solvency deficiency of $99.5 million. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. Employer contributions made during the year totaled $187 (2018 - $193). Employees contributed a total of $77 (2018 - $81) during the year.

The next actuarial valuation is scheduled for December 31, 2021 with results available in mid-2022.

(Expressed in thousands of dollars, unless otherwise indicated)

18. Members' shares:

			2019
	Authorized units		Outstanding
Class A membership equity	Unlimited	$	2,619
Class B investment equity	140		1,114
		$	3,733

			2018
	Authorized units		Outstanding
Class A membership equity	Unlimited	$	2,714
Class B investment equity	156		1,211
		$	3,925

Members' shares are classified as a liability and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(a) Terms and conditions:

(*i*) Class A Membership equity shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold a minimum of $5 and a maximum of $1,000 in membership shares. These membership shares have voting rights and are redeemable at par only when a membership is withdrawn or terminated. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC). These shares are classified as a liability because they are available for redemption at the option of the member.

(*ii*) Class B Investment equity shares:

Investment shares are voting as a separate class, can be issued only to members of the Credit Union and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are classified as a liability because they are available for redemption at the option of the member. Investment shares are closed to new purchases at this time.

(Expressed in thousands of dollars, unless otherwise indicated)

18. Members' shares (continued):

(a) Terms and conditions (continued):

(*iii*) Unissued shares:

The Credit Union has authorized, but has not issued or has outstanding, share classes as follows: Class C to Class P Equity shares, Class Q to Class Y Preferred Equity shares and Class Z Non-Equity shares. Class C to J equity shares are only issued to a CCCU member, Class K to P equity shares are issued to either a CCCU member or a person who is not a CCCU member. Each class consists of an unlimited number of shares containing various rights and restrictions as approved at the 2012 annual general meeting of the Credit Union.

(b) Distributions to members:

	2019	2018
Dividends on membership shares	$ 23	$ 25
Dividends on investment shares	28	28
	$ 51	$ 53

Distributions to members are recognized in net income in other operating and administrative expense.

19. Other income:

	2019	2018
Building and property income	$ 680	$ 628
Dividends on FVTPL investments	764	401
Insurance administration fees	966	685
Insurance and financial commissions	5,666	4,906
Member account service fees	5,524	5,344
Member loan fees	2,598	2,437
Mortgage payout fees	1,213	838
Other service income	2,142	2,780
Safety deposit box fees	221	223
Rent recovery	181	-
	$ 19,955	$ 18,242

(Expressed in thousands of dollars, unless otherwise indicated)

20. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and their close family members.

		2019		2018
Compensation:				
Salaries and other short-term employee benefits	$	2,412	$	2,353
Total pension and other post-employment benefits		178		170

		2019		2018
Loans to key management personnel:				
Aggregate value of loans advanced	$	4,129	$	3,876
Aggregate value of unadvanced loans		698		693
Total value of lines of credit advanced		95		203
Unused value of lines of credit		357		250

Loans must satisfy all normal lending criteria as set out in the Credit Union's Investment and Lending Policy and Lending Services Manual. All loans are subject to the same approval process as afforded regular member loans and in addition, the approval of staff and related party loans are to be in accordance with established processes.

		2019		2018
Deposits from key management personnel:				
Aggregate value of deposits	$	8,515	$	8,774

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

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the financial reporting 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 other financial assets and liabilities are assumed to approximate their carrying values, primarily due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. Fair values have not been determined for any 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 at the financial reporting date and may not be reflective of future fair value.

Assets and liabilities that are measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

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 or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

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

The following table reconciles the Credit Union's Level 3 fair value instruments which consist of Central 1 Class E shares. During 2018, Central 1 redeemed 18,056 of the Credit Union's Class E shares at a value of $100 per share. No transfers were made into or out of Level 1 and Level 2 for the year ended December 31, 2019.

	2019	2018
Balance at beginning of year	$ 1	$ 1,806
Redemption	-	(1,805)
Balance at end of year	$ 1	$ 1

(Expressed in thousands of dollars, unless otherwise indicated)

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

	2019		2018	
	Level 1	Level 2	Level 1	Level 2
Financial investments FVTPL:				
Equity instruments:				
Central 1 shares	$ -	$ 11,644	$ -	$ 10,970
Other membership shares	-	865	-	865
Financial assets at fair value:				
Interest rate swaps	-	-	-	1,572
Financial assets at amortized cost:				
Cash and cash equivalents	-	69,957	-	45,147
Term deposits with Central 1	-	192,839	-	188,911
Principal and interest reinvestment account pledged as collateral on CMB obligation	-	991	-	385
Loans to members	-	2,393,527	-	2,334,264
Total assets	$ -	$ 2,669,823	$ -	$ 2,582,114
Financial liabilities at amortized cost:				
Member deposits	$ -	$ 2,366,519	$ -	$ 2,254,158
Borrowings	-	157,595	-	187,588
Other liabilities	-	32,941	-	24,260
Financial liabilities at fair value:				
Interest rate swaps	-	744	-	-
Total liabilities	$ -	$ 2,557,799	$ -	$ 2,466,006

(Expressed in thousands of dollars, unless otherwise indicated)

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

The following table discloses the carrying amount and fair value by classification of the Credit Union's financial instruments, including derivatives. Differences between the carrying value and fair value of the Credit Union's financial instruments are due primarily to changes in interest rates. The Credit Union normally expects to hold the instruments to maturity, so carrying values have not been adjusted to reflect the differences. The table does not include assets and liabilities that do not meet the definition of a financial instrument:

2019	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 69,957	$ 69,958	$ 1
Investments	206,339	206,960	621
Loans to members	2,393,527	2,405,193	11,666
Other assets	1,266	1,266	-
Member deposits	(2,366,519)	(2,368,369)	(1,850)
Borrowings	(157,595)	(161,324)	(3,729)
Derivative instruments	(744)	(744)	-
Other liabilities	(32,941)	(32,941)	-
Members' shares	(3,733)	(3,733)	-
Net financial instruments	$ 109,557	$ 116,266	$ 6,709

2018	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 45,147	$ 45,147	$ -
Investments	201,132	200,833	(299)
Derivative instruments	1,572	1,572	-
Loans to members	2,334,264	2,322,951	(11,313)
Other assets	2,496	2,496	-
Member deposits	(2,254,158)	(2,249,001)	5,157
Borrowings	(187,588)	(190,641)	(3,053)
Other liabilities	(24,260)	(24,260)	-
Members' shares	(3,925)	(3,925)	-
Net financial instruments	$ 114,680	$ 105,172	$ (9,508)

22. Financial instrument risk management:

(a) General objectives, policies and processes:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management (ERM) framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. The Board has established the Audit and Risk Committee, comprised of five Directors, to oversee the financial reporting and audit and risk management processes. The Committee receives quarterly risk reporting from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(b) Credit risk:

Credit risk is the risk of a financial loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

(*i*) Risk measurement:

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 the value of collateral available to secure the loan.

(*ii*) Objectives, policies and processes:

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 overall credit risk policies are complied with at the business and transaction level. Credit risk policies establish the minimum requirements for management of credit risk for a variety of transactions and portfolios and include the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications that set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

(Expressed in thousands of dollars, unless otherwise indicated)

22. Financial instrument risk management (continued):

(b) Credit risk (continued):

(*ii*) Objectives, policies and processes (continued):

Reports summarizing delinquency, write-offs, and allowances are reviewed and approved quarterly by the Investment and Lending Committee of the Board of Directors.

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.

(*iii*) Exposures to credit risk:

	2019	2018
On statement of financial position exposure:		
Loans to members	$ 2,398,788	$ 2,339,602
Term deposits with Central 1	192,839	189,296
Central 1 shares	11,644	10,971
	2,603,271	2,539,869
Off statement of financial position exposure:		
Undisbursed loans	216,794	187,877
Unutilized lines of credit	173,305	172,516
Letters of credit	5,752	3,915
	395,851	364,308
Maximum exposure to credit risk	$ 2,999,122	$ 2,904,177

For details of inputs, assumptions and estimation techniques for measuring expected credit losses, see note 9.

(c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

(*i*) Risk measurement:

The Financial Institutions Act (FIA) requires credit unions to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective Credit Union specific and market conditions and the related behaviour of its members and counterparties.

22. Financial instrument risk management (continued):

(c) Liquidity risk (continued):

(*ii*) Objectives, policies and processes:

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows.
- Monitoring the maturity profiles of financial assets and liabilities.
- Maintaining diversified funding sources which include committed borrowing facilities as explained in note 13.
- Monitoring the liquidity ratios monthly.

Management annually reviews its liquidity plan for various scenarios.

The Board of Directors receives quarterly liquidity reports. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates and currency rates. See notes 22(e) and 22(f) for more details on interest rate risk and currency risk.

(e) 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 this risk through its traditional deposit taking and lending banking activities.

The Credit Union's goal is to manage the interest rate risk of the consolidated statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

22. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

(i) Risk measurement:

Interest rate risk is measured by its impact to earnings (earnings-at-risk or EaR) and its impact to the fair value of equity (economic value of equity or EVE). The EaR metric measures the impact changes in interest rates have on the 12-month financial margin forecast. The EVE metric measures the longer-term impact that interest rates have on the equity of the Credit Union. The amount of interest rate risk that the Credit Union will undertake depends on income and capital positions, and the risk appetite of the Board of Directors.

(ii) Objectives, policies and processes:

The objective for managing interest rate risk is to comply with the maximum EaR and EVE limits as established in the Investment and Lending Policy. The Asset Liability Committee (ALCO) reviews monthly simulations of the impact on EaR and EVE for various interest rate scenarios. The Investment and Lending Committee reviews the simulation model results quarterly.

The Investment and Lending Policy is reviewed annually by the Investment and Lending Committee with updates being recommended to the Board of Directors for approval. For the year ended December 31, 2019, the Credit Union was in compliance with its interest rate risk policy limits.

The following schedule shows the Credit Union’s sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as variable, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest rate sensitive have been grouped together, regardless of maturity.

(Expressed in thousands of dollars, unless otherwise indicated)

22. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

	Variable rate	Less than 1 year	Over 1 to 5 years	Over 5 years	Non-rate sensitive	2019 Total
Assets:						
Cash and cash equivalents	$ -	$ 16,301	$ -	$ -	$ 53,656	$ 69,957
Effective interest rate	-	*1.75%*	-	-		*.41%*
Investments	-	57,638	134,682	-	14,019	206,339
Effective interest rate	-	*1.59%*	*1.80%*	-		*1.62%*
Loans to members	554,241	416,092	1,423,134	270	(210)	2,393,527
Effective interest rate	*5.13%*	*3.29%*	*3.33%*	*6.29%*		*3.74%*
Other assets	-	-	-	-	67,102	67,102
Effective interest rate	-	-	-	-		-
	$ 554,241	$ 490,031	$ 1,557,816	$ 270	$ 134,567	$ 2,736,925
Asset yield	5.13%	3.04%	3.19%	6.29%		3.40%
Liabilities:						
Member deposits	$ 661,574	$ 1,101,236	$ 589,842	$ 8	$ 13,859	$ 2,366,519
Effective interest rate	*.78%*	*.77%*	*2.44%*	*3.00%*		*1.18%*
Borrowings	-	23,765	133,830	-	-	157,595
Effective interest rate	-	*2.71%*	*2.73%*	-		*2.73%*
Other liabilities	-	-	-	-	38,104	38,104
Effective interest rate	-	-	-	-		-
Derivative financial instruments	744	-	-	-	-	744
Effective interest rate	-	-	-	-		-
Members' equity	-	-	-	-	173,963	173,963
Effective interest rate	-	-	-	-		-
	$ 662,318	$ 1,125,001	$ 723,672	$ 8	$ 225,926	$ 2,736,925
Total liability cost	.78%	.81%	2.49%	3.00%		1.18%
Interest rate swaps (notional amount):						
Asset	$ -	$ 175,000	$ -	$ -	$ -	$ 175,000
Liability	-	(30,000)	(145,000)	-	-	(175,000)
2019 net mismatch	$ (108,077)	$ (489,970)	$ 689,144	$ 262	$ (91,359)	$ -
2018 net mismatch	$ (67,298)	$ (412,701)	$ 573,281	$ 39	$ (93,321)	$ -

(Expressed in thousands of dollars, unless otherwise indicated)

22. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

The expected timing and amount of interest payments related to the hedged portion of the Credit Union's variable rate deposits are as follows:

December 31, 2019	< 1 year	1 - 5 years	Total
Assets	$ -	$ -	$ -
Liabilities	31	828	859
Net cash outflow	$ 31	$ 828	$ 859

December 31, 2018	< 1 year	1 - 5 years	Total
Assets	$ 1,038	$ 199	$ 1,237
Liabilities	-	-	-
Net cash inflow	$ 1,038	$ 199	$ 1,237

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

The expected change to net interest income as a result of an immediate change in interest rates is as follows:

	2019	2018
1 per cent increase in rates	$ 817	$ 2,786
1 per cent decrease in rates	(1,555)	(2,575)

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

(f) Currency risk:

Currency risk is the impact on the Credit Union from the difference in the balances of foreign currency denominated assets and liabilities and from foreign currency transactions with members.

The Credit Union's currency risk is related to USD, GBP and Euro member accounts and transactions.

22. Financial instrument risk management (continued):

(f) Currency risk (continued):

(*i*) Risk measurement:

The Credit Union’s foreign currency asset and liability balances are measured and monitored daily. Foreign exchange rates charged to members and currency purchase costs are monitored daily.

(*ii*) Objectives, policies and processes:

The Credit Union manages currency risk by limiting the unhedged foreign exchange exposures to the limits established in the Investment and Lending Policy. Foreign exchange risk is mitigated by investing the USD, GBP and Euro deposits in investments denominated in the same currencies. As a result, there would be no significant impact to net income if there was an increase or decrease in foreign exchange rates.

Management reviews its foreign exchange plan annually. The Investment and Lending Committee receives quarterly foreign exchange reports. For the year ended December 31, 2019, the Credit Union's exposures to foreign exchange risk were within policy.

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

23. Capital management:

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

Capital requirements are regulated by the BC Financial Services Authority (BCFSA). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained.

The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk weighted asset levels. At December 31, 2019, the Credit Union has met its minimum regulatory requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

24. Commitments:

(a) Credit:

The Credit Union made commitments to members for loans that had not been disbursed, unutilized portions of lines of credit and unexpired letters of credit as follows:

	2019	2018
Undisbursed loans	$ 216,794	$ 187,877
Unutilized lines of credit	173,305	172,516
Letters of credit	5,752	3,915

(b) Contractual:

The Credit Union has a banking system hosting agreement that renews annually each September with annual hosting costs of $392. The Credit Union is also committed to annual banking system software maintenance costs of approximately $798 to 2021.

(c) Other provisions:

The Credit Union is subject to litigation. Provisions are recorded for management's best estimate of the Credit Union's liability related to legal disputes for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether claims will be settled in or out of court or if the Credit Union will be successful in defending any actions.

25. Discontinued Operations:

On April 1, 2019, the Credit Union sold its insurance operations for non-cash proceeds of $29,243. This sale resulted from management's decision to streamline insurance operations with another credit union. No impairment loss was recognized on the sale of the disposal group.

	2019	2018
Earnings from discontinued operations:		
Income	$ 3,608	$ 12,442
Expenses	2,774	10,889
Income from operations before taxes and extraordinary items	834	1,553
Gain on disposition	16,103	1,200
Income before income taxes	16,937	2,753
Provision for income taxes	174	446
Discontinued operations, net of tax	$ 16,763	$ 2,307

(Expressed in thousands of dollars, unless otherwise indicated)

25. Discontinued Operations (continued):

(a) Gain on disposition of subsidiary:

On April 1, 2019, the Credit Union disposed of its wholly owned subsidiary, Coastal Community Insurance Services (2007) Ltd. ("CCIS"). 1200089 B.C. Ltd. acquired the net assets of CCIS and Interior Savings Insurance Services Ltd. on the same date. 1200089 B.C. Ltd. is a joint venture, held 50% by the Credit Union and 50% by Interior Savings Credit Union ("ISCU"). As part of the joint venture transaction, an equalization payment of $500 was made from the shareholders of the Credit Union to ISCU.

Proceeds of disposition consist of share capital representing 50% ownership of 1200089 B.C. Ltd.

The Credit Union's former subsidiary CCIS continues to operate as a full-service insurance agency in the Vancouver Island and Gulf Islands of British Columbia.

		2019
Proceeds of disposition, represented by investment in joint venture	$	29,243
CCIS net assets derecognized		(12,640)
Cash paid to ISCU		(500)
Gain on disposition	$	16,103

26. Lease obligations:

(a) The Credit Union as a lessee – right-of-use assets:

The Credit Union leases a number of branch and office premises. These leases typically run for a period of five years, with an option to renew the lease after that date.

The movement of right-of use assets during the year ended December 31, 2019 is as follows:

Balance at January 1, 2019	$	12,393
Additions to right-of-use assets		828
Depreciation		(1,633)
Balance at December 31, 2019	$	11,588

Prior to the adoption of IFRS 16, the total lease payments of $2,232 were expensed during the year ended December 31, 2018 and the future minimum leases payments under non-cancellable operating leases as at December 31, 2018 were as follows:

Less than one year	$	2,258
Between one and five years		5,300
More than five years		2,179
	$	9,738

(Expressed in thousands of dollars, unless otherwise indicated)

26. Lease obligations (continued):

(b) The Credit Union as a lessee – lease liabilities:

The following table provides a reconciliation between operating lease commitments as at December 31, 2018 and lease liabilities recognized pursuant to adoption of IFRS 16 on January 1, 2019:

Operating lease commitment at December 31, 2018	$	9,738
Discounted using the incremental borrowing rate at January 1, 2019		2,655
Lease liabilities recognized as at January 1, 2019		12,393
Recognition exemption for:		
Short-term leases		-
Leases of low-value assets		-
Existing service contracts with no embedded leases under IAS 17		-
Scope changes due to IFRS 16		-
Lease liabilities at January 1, 2019	$	12,393

(c) Lease liabilities:

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

Less than one year	$	1,767
Between one and five years		7,842
More than five years		4,355
Total undiscounted lease obligations	$	13,964
Lease liabilities included in statement of financial position		
Current	$	1,339
Non-current		10,428
Total	$	11,767

The Credit Union has used a weighted average incremental borrowing rate of 3.76% to discount its lease obligations.

(Expressed in thousands of dollars, unless otherwise indicated)

27. Investment in joint venture:

Effective April 1, 2019, the Credit Union held an equity interest in the joint venture 1200089 B.C. Ltd. The joint venture is held 50% by the Credit Union and 50% by Interior Savings Credit Union (“ISCU”).

		2019
Interest in joint venture – April 1, 2019	$	29,243
Inter-company eliminations and amortization		(385)
Share of total comprehensive income		823
Carrying value of interest in joint venture – December 31, 2019	$	29,681
Percentage ownership interest		50%
Assets	$	18,679
Intangible assets and goodwill		30,867
Liabilities		(9,154)
Net assets (100%)		40,392
Credit Union’s share of net assets (50%)		20,196
Commission income	$	18,993
Operating expenses		(16,747)
Income tax expense		(600)
Profit and total comprehensive income (100%)		1,646
Credit Union’s share of profit and total comprehensive income (50%)		823
Dividends received by the Credit Union	$	-

28. Subsequent event:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. In addition, the Bank of Canada cut interest rates by a total of 1% while the Federal Reserve cut interest rate by 1.5%. The immediate impact to the Credit Union is that the interest rate cut will reduce the Credit Union’s interest income. Other possible impacts from the COVID-19 outbreak could include credit deterioration and a slowdown in loan originations. As of the March 23, 2020, it is too early to predict the full outcome of this situation. The Credit Union will continue to monitor the situation and act in the most prudent way ensuring the safety of all its members and employees.