FIRST WEST CREDIT UNION **2018 ANNUAL REPORT**

Financial Statements

FIRSTWEST
CREDIT UNION

Management's Responsibility

The accompanying statements of First West Credit Union have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this annual report is consistent with the information in the financial statements, unless otherwise noted.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's board of directors, acting through its Audit and Risk Management Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our internal auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations. The Provincial Superintendents of Financial Institutions may conduct an examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit and Risk Management Committee to discuss their audit and matters arising therefrom.

Launi Skinner	Thomas Webster
Chief Executive Officer	Chief Financial Officer

Independent Auditors' Report

To the Members of First West Credit Union:

Opinion

We have audited the consolidated financial statements of First West Credit Union (the "Entity"), which comprise:

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

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

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

Basis for Opinion

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

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

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

Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 5 to the financial statements which indicates that First West Credit Union has changed its accounting policies for accounting for financial instruments in 2018 due to the adoption of IFRS 9 – Financial Instruments.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these 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 15, 2019

FIRST WEST CREDIT UNION

Consolidated Statement of Financial Position

(Expressed in thousands of dollars)

December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Assets			
Cash resources	8	$ 222,414	$ 88,516
Derivative assets	9	8,414	13,615
Loans to members	10	8,585,619	8,229,577
Investments	11	1,117,996	1,219,429
Premises and equipment	12	63,205	65,002
Intangible assets	13	35,854	39,283
Deferred tax assets	24	6,937	5,948
Other assets	14	242,645	208,380
		$ 10,283,084	$ 9,869,750
Liabilities and Members' Equity			
Deposits from members	15	$ 9,018,703	$ 8,773,030
Borrowings	16	471,412	375,481
Derivative liabilities	9	18,169	22,593
Deferred tax liabilities	24	9,992	10,316
Other liabilities	17	93,508	77,420
		9,611,784	9,258,840
Members' equity:			
Equity shares	18	31,325	32,865
Contributed surplus		163,651	163,651
Retained earnings		489,394	428,129
Accumulated other comprehensive income ("AOCI")		(13,070)	(13,735)
		671,300	610,910
Commitments and contingencies	26		
		$ 10,283,084	$ 9,869,750

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Wayne Becker

DIRECTOR

Renee Wasylyk

DIRECTOR

Consolidated Statement of Profit or Loss

(Expressed in thousands of dollars)

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

	Notes	2018	2017
Interest income:			
Loans		$ 316,475	$ 272,461
Cash resources and investments		14,279	23,072
		330,754	295,533
Interest expense:			
Deposits		124,006	101,689
Borrowings		10,462	8,657
		134,468	110,346
Net interest income	19	196,286	185,187
Provision for credit losses	10	7,000	6,700
		189,286	178,487
Fee and commission income	20	90,791	85,562
Other income	21	32,505	27,495
		312,582	291,544
Personnel expenses	22	142,700	146,589
Depreciation and amortization		13,304	14,444
Other expenses	23	85,569	78,242
		241,573	239,275
Profit before income tax expense		71,009	52,269
Income tax expense	24	13,106	10,105
Profit for the year		$ 57,903	$ 42,164

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Expressed in thousands of dollars)

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

	2018	2017
Profit for the year	$ 57,903	$ 42,164
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified to profit or loss:		
Hedging reserve (cash flow hedges):		
Net unrealized gain (loss),		
(net of income taxes of $1,115 (2017 - $4,782))	5,447	(28,907)
Fair value reserve (available-for-sale financial assets):		
Net change in fair value		
(net of income taxes of $nil (2017 - $1,193))	-	5,774
Total other comprehensive income (loss), net of income taxes	5,447	(23,133)
Comprehensive income	$ 63,350	$ 19,031

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

(Expressed in thousands of dollars)

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

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings (loss)	2018 Total
Balance at December 31, 2017	$ 32,865	$ (18,512)	$ 4,777	$ 163,651	$ 428,129	$ 610,910
Adjustment on initial application of IFRS 9, net of tax (see note 5)	-	-	(4,782)	-	4,372	(410)
Balance at January 1, 2018	32,865	(18,512)	(5)	163,651	432,501	610,500
Profit for the year	-	-	-	-	57,903	57,903
Other comprehensive income (loss), net of income taxes:						
Hedging reserve (cash flow hedges): Effective portion of changes in fair value	-	5,447	-	-	-	5,447
Total other comprehensive income	-	5,447	-	-	-	5,447
Comprehensive income	-	5,447	-	-	57,903	63,350
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(1,010)	(1,010)
Redemptions of equity shares	(1,540)	-	-	-	-	(1,540)
Total distribution to members	(1,540)	-	-	-	(1,010)	(2,550)
Balance at December 31, 2018	$ 31,325	$ (13,065)	$ (5)	$ 163,651	$ 489,394	$ 671,300

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings (loss)	2017 Total
Balance at December 31, 2016	$ 34,883	$ 10,395	$ (997)	$ 163,651	$ 386,778	$ 594,710
Profit for the year	-	-	-	-	42,164	42,164
Other comprehensive income (loss), net of income taxes:						
Hedging reserve (cash flow hedges): Effective portion of changes in fair value	-	(28,907)	-	-	-	(28,907)
Fair value reserve (available-for-sale financial assets): Net change in fair value	-	-	5,774	-	-	5,774
Total other comprehensive income	-	(28,907)	5,774	-	-	(23,133)
Comprehensive income	-	(28,907)	5,774	-	42,164	19,031
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(813)	(813)
Redemptions of equity shares	(2,018)	-	-	-	-	(2,018)
	(2,018)	-	-	-	(813)	(2,831)
Balance at December 31, 2017	$ 32,865	$ (18,512)	$ 4,777	$ 163,651	$ 428,129	$ 610,910

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of dollars)

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

	Notes	2018	2017
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 57,903	$ 42,164
Adjustments for:			
Provision for credit losses	10	7,000	6,700
Depreciation and amortization		13,304	14,444
Net interest income		(196,286)	(185,187)
Income tax expense	24	13,106	10,105
Other		6,147	(31,433)
Changes in:			
Derivative assets		3,472	9,309
Derivative liabilities		(4,424)	21,392
Loans to members		(362,315)	(738,795)
Other assets		(34,265)	(32,157)
Deposits from members		232,797	335,233
Other liabilities		3,774	5,884
Interest received		331,756	295,683
Interest paid		(121,658)	(113,478)
Dividends paid		(1,217)	(813)
Income tax paid		(3,007)	(1,450)
Net cash flows used in operating activities		(53,913)	(362,399)
Cash flows from investing activities:			
Acquisition of investments		(30,377)	(120,608)
Proceeds from sale of investments		130,990	130,078
Acquisition of:			
Premises and equipment, net		(7,351)	(6,040)
Disposal/ (Acquisition) of intangibles, net		93	(1,840)
Net cash flows provided by investing activities		93,355	1,590
Cash flows from financing activities:			
Proceeds from borrowings		212,463	-
Repayment of borrowings		(116,467)	(27,857)
Redemption of equity shares		(1,540)	(2,018)
Net cash flows provided by (used in) financing activities		94,456	(29,875)
Net increase (decrease) in cash resources		133,898	(390,684)
Cash resources, beginning of year		88,516	479,200
Cash resources, end of year	8	$ 222,414	$ 88,516

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2018

1. Reporting entity:

First West Credit Union (the "Credit Union") is domiciled in Canada and its head office is located at 6470 - 201 Street, Langley, British Columbia. The Credit Union is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) (the "Act"). The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2018 comprise the Credit Union and its subsidiaries (hereinafter together referred to as the "Credit Union" and individually as "Credit Union entities"). The Credit Union primarily is involved in retail and commercial banking, insurance brokerage, leasing services, asset management services, and other integrated financial products and services.

2. Basis of preparation:

(a) Statement of compliance:

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

The Credit Union has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* with an initial application date of January 1, 2018. Details of the significant accounting policies, including changes during the year, are included in notes 4 and 5.

The consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2019.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

(*i*) financial instruments measured at fair value; and

(*ii*) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional currency:

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

3. Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

3. Use of estimates and judgments (continued):

(a) Expected credit losses on loans to members – applicable from January 1, 2018:

The Credit Union regularly reviews its loan portfolio to assess for impairment. Under IFRS 9, the "incurred loss" model in IAS 39 was replaced with an "expected credit loss" ("ECL") model. 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 loans require recognition of lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

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

(b) Impairment losses on loans to members – applicable prior to January 1, 2018:

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be specifically identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(c) Income taxes:

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate applicable to credit unions under the Income Tax Act. An estimate of deposit, share and income growth based on the modeling of the Credit Union's business plan inclusive of economic indicators provides the basis in determining the applicability of the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, profit or loss would be affected in the subsequent year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(d) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, in areas such as credit risk and correlations, the Credit Union uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the Credit Union's financial investments are provided in note 29.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union and its subsidiaries: First West Insurance Services Ltd., FW Wealth Management Ltd., First West Leasing Ltd., FWCU Capital Corp., 619547 BC Ltd., and 637506 BC Ltd. In addition, the Credit Union accounts for and through one of its wholly-owned subsidiaries a 50% interest in Bulkley Valley Insurance Services Ltd. as joint operators. All inter-corporate transactions and balances have been eliminated in preparing the consolidated financial statements.

(*i*) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Credit Union. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Credit Union takes into consideration potential voting rights that currently are exercisable.

The Credit Union measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Credit Union elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Credit Union incurs in connection with a business combination are expensed as incurred.

(*ii*) Subsidiaries:

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Foreign currency:

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Interest:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the

4. Significant accounting policies (continued):

(c) Interest (continued):

expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash

flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and basis points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

(*i*) interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

(ii) interest on available-for-sale investment securities (prior to January 1, 2018) or investment securities measured at FVOCI (from January 1, 2018) calculated on an effective interest basis;

(*iii*) the ineffective portion of fair value changes in qualifying hedging derivatives designated as cash flow hedges of variability in interest cash flows;

(*iv*) interest and expense on settlement of derivative contracts; and

(*v*) fair value changes on other derivatives held for risk management purposes.

(d) Fees and commissions:

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized in the period the related performance obligations are satisfied.

For performance obligations that are satisfied over time, revenue is recognized over the period that the services are performed. For performance obligations that are satisfied at a point in time, revenue is recognized when the member obtains control of the promised good or service.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Dividends:

Dividend income is recognized when the right to receive income is established. Dividends are reflected as other income based on the classification of the underlying equity investment.

(f) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

4. Significant accounting policies (continued):

(g) Income taxes (continued):

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(h) Financial assets and financial liabilities:

(*i*) Recognition:

The Credit Union initially recognizes loans, deposits, and borrowings on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(*ii*) Classification:

Financial assets – Policy applicable from January 1, 2018:

On initial recognition, a financial asset is classified as measured at:

– amortized cost;

– fair value through other comprehensive income (“FVOCI”); or

– fair value through profit or loss (“FVTPL”)

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

– The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”).

4. Significant accounting policies (continued):

(h) Financial assets and financial liabilities (continued):

(*ii*) Classification (continued):

Financial assets – Policy applicable from January 1, 2018 (continued):

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

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 other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Policy applicable from January 1, 2018 (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 business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice;

– how the performance of the portfolio is evaluated and reported to the Credit Union's management;

– the strategy of how the risks that affect the performance model are managed;

– frequency, volume and timing of sales in prior periods and the expectations about future sales activities are considered as part of the overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved.

Assessment of whether contractual cash flows are SPPI:

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Credit Union considers:

– contingent events that would change the amount and timing of cash flows;

– prepayment and extension terms; and

– terms that may adjust the contractual coupon rate.

Reclassifications:

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

4. Significant accounting policies (continued):

(h) Financial assets and financial liabilities (continued):

(*ii*) Classification (continued):

Financial assets – Policy applicable before January 1, 2018:

The Credit Union classifies its financial assets in one of the following categories:

– loans and receivables;

– held-to-maturity ("HTM") ;

– available-for-sale ("AFS");

– fair value through profit or loss ("FVTPL") within the category as:

- Held-for-trading; and
- designated at FVTPL.

Financial liabilities

The Credit union classifies its financial liabilities, other than financial guarantees and loan commitments, as other financial liability (prior to January 1, 2018), measured at amortized cost (from January 1, 2018) or fair value through profit or loss.

For classification of financial assets and liabilities, see notes 4(i), 4(k), 4(l) and 4(p).

(*iii*) Derecognition:

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

The Credit Union periodically transfers loans to Special Purpose Entities ("SPE's") through securitizations or through transfers to independent third parties. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivables to a transferee, the Credit Union fails de-recognition of the transferred receivables and records a secured borrowing with respect to any consideration received.

(*iv*) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(*v*) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

4. Significant accounting policies (continued):

(h) Financial assets and financial liabilities (continued):

(*v*) Amortized cost measurement (continued):

Financial instruments classified as loans and receivables and HTM (prior to January 1, 2018) are measured at amortized cost.

(*vi*) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants on the measurement date.

Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions used in valuation techniques include risk free and benchmark interest rates, credit spreads and discount rates.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate swaps and equity linked options that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the uncertainty associated with determining fair values.

For more complex instruments, the Credit Union uses proprietary valuation models, which are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Instruments involving significant unobservable inputs include certain mortgage investments and shares for which there is no active market and retained interest in securitizations.

Management judgment and estimation are required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Financial instruments classified at FVTPL are measured at fair value, with fair value changes recognized immediately in profit or loss.

Financial instruments classified as AFS (prior to January 1, 2018) are non-derivative instruments and are measured at fair value. Foreign exchange gains or losses on AFS debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss. Other fair value changes are recognized in OCI. When the investment is sold, the gain or loss accumulated in accumulated other comprehensive income is reclassified to profit or loss.

For financial assets classified as measured at FVOCI (from January 1, 2018), or an irrevocable election has been made, changes in fair value is recognized in OCI. For equity instruments measured at FVOCI, the amounts recognized in OCI are never reclassified to profit and loss. For debt instruments measured at FVOCI, gains or losses are reclassified to profit or loss.

4. Significant accounting policies (continued):

(h) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment:

Policy applicable from January 1, 2018:

The Credit Union recognizes a loss allowance for ECL at each reporting date for all financial assets that are measured at amortized cost and debt instruments measured at FVOCI.

Loss allowances are measured on either of the following bases:

– 12-month ECL: these are losses that result from possible default events within the 12 months after the reporting date; and

– lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition.

Assessment of significant increase in credit risk:

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

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"). In assessing whether a SICR has occurred, the Credit Union considers quantitative factors, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds, the backstop criterion for the portfolio has been met, or other portfolio specific considerations.

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans to members, the backstop criterion is met when an account is 30 days past due and will be transferred to Stage 2.

Assessment of significant increase in credit risk (continued):

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.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has

4. **Significant accounting policies (continued):**

(h) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Policy applicable from January 1, 2018 (continued):

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

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

Probability of default:

ECLs for Stage 1 assets and lifetime ECLs for Stage 2 and Stage 3 assets are calculated using the 12-month PDs and lifetime PDs, respectively and are determined as follows:

- Residential mortgages, personal loans and lines of credit - based on borrower credit scores, and the average historical default rate, for the relevant PD segment.
- Commercial mortgages, loans and lines of credit - based on the current internal risk ratings assigned to the assets and the historical default rates provided for the relevant PD segment.

Loss given default:

The LGD reflects the Credit Union's estimate of cash shortfalls in the event of default. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward looking information and macroeconomic factors:

The forward looking information ("FLI") component represents management's estimate of the impacts on the ECLs of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECLs. During 2018, the base case scenario was assigned an 80% probability of occurring and the two less likely scenarios, upside and downside, were assigned a 10% probability of occurring. Multiple scenarios are forecasted to ensure that estimates of ECLs are unbiased.

The forward looking and macroeconomic factors considered in determining the FLI inputs to the ECL calculation on initial application of IFRS 9 at January 1, 2018 and December 31, 2018 were gross domestic product, interest rates, retail sales, housing starts, net operating surplus, consumer price index, debt ratio, house pricing index and unemployment rate.

4. Significant accounting policies (continued):

(h) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Policy applicable from January 1, 2018 (continued):

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 amortization schedule (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.

Time value of money:

The 12-month and lifetime ECLs at the reporting date represent the present value of the expected cash shortfalls resulting from the probability of defaults occurring over the relevant period after the reporting date. The cash shortfalls have been discounted to the reporting date using the effective interest rate of the underlying loans.

Credit-impaired 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.

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.

In addition to qualitative considerations, the Credit Union applies the following quantitative thresholds for identifying loans to members that are credit-impaired:

– commercial mortgages, loans and lines of credit with an internal risk rating of R9 – R10 (risk rated poor); or

– the borrower is more than 90 days past due on any credit obligation.

Write-off policy:

When a financial asset is credit-impaired and the Credit Union has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof, the carrying amount of the unrecoverable portion is written off, constituting a derecognition event.

Policy applicable prior to January 1, 2018:

At each reporting date the Credit Union assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is

4. **Significant accounting policies (continued):**

(h) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Policy applicable prior to January 1, 2018: (continued):

(are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days.

The Credit Union considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and HTM investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans to members and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Credit Union uses statistical modeling of historical trends of default experience, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Credit Union considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and HTM investment securities that are not individually significant are collectively assessed for impairment by grouping together loans to members and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Credit Union uses statistical modelling of historical trends of default experience, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

4. **Significant accounting policies (continued):**

(h) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Policy applicable prior to January 1, 2018 (continued):

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Credit Union writes off certain loans to members when they are determined to be uncollectible (see note 10).

(i) Cash resources:

Cash resources comprise unrestricted balances held with Central 1 Credit Union ("Central 1") and highly liquid financial assets with original maturities of less than three months from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash resources are carried at amortized cost in the consolidated statement of financial position.

(j) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other indices. In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps, caps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset and liability management program.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives embedded in other financial liabilities or host contracts are treated as separate derivatives when the following conditions are met:

– their economic characteristics and risks are not closely related to those of the host contract;

– a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

4. Significant accounting policies (continued):

(j) Derivatives and hedge accounting (continued):

– the combined contract is not held for trading or designated at fair value through profit or loss.

Where an embedded derivative is separable from the host contract but the fair value, as at the acquisition or reporting date, cannot be reliably measured separately, the entire combined contract is measured at fair value. All embedded derivatives are presented on a combined basis with the host contracts although they are separated for measurement purposes when conditions requiring separation are met. Subsequent changes in fair value of embedded derivatives are recognized in non-interest income.

All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value. The determination of the fair value of derivatives includes consideration of credit risk, estimated funding costs and ongoing direct costs over the life of the instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent only on observable market data, otherwise, they are deferred and amortized over the life of the related contract, or until the valuation inputs become observable.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes qualitative and quantitative assessments, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. The Credit Union makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(*i*) Cash flow hedges:

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the amount recognized in accumulated other comprehensive income is reclassified through other comprehensive income to profit or loss as a reclassification adjustment in the same period the previously hedged cash flows affect profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other accumulated comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(k) Loans to members:

Loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment. Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance for impaired loans plus accrued interest.

(l) Investments:

Investments are initially measured at fair value plus, in case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification.

4. Significant accounting policies (continued):

(m) Premises and equipment:

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

Asset	Rate
Buildings	40 years
Other equipment	3 to 10 years
Leasehold improvements	Lease term

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

(n) Intangible assets:

Intangible assets consist of computer software, goodwill, ICBC licenses and customer lists. Goodwill, ICBC licenses and customer lists arose from the acquisition of the Credit Union's subsidiaries. Intangible assets are initially recorded at cost. Intangible assets with finite lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Goodwill	Indefinite
ICBC licenses	Indefinite
Software	3 to 10 years
Customer list	7 to 10 years

Intangible assets are assessed for impairment when impairment indicators are identified. When an impairment-triggering event has occurred, any excess of carrying value over fair value is charged to profit or loss in the period in which impairment is determined.

(o) 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. When the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

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

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

(p) Deposits from members and borrowings:

Deposits from members and borrowings are the Credit Union's sources of primary funding.

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

4. **Significant accounting policies (continued):**

(p) Deposits from members and borrowings (continued):

Deposits from members and borrowings are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(q) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with that contract.

(r) Employee benefits:

The Credit Union operates various pension plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit pension plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability is recognized in the Credit Union's consolidated statement of financial position. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income as they are incurred.

(*ii*) Post-employment health care benefits:

The Credit Union operates a number of post-employment health care benefit plans. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

(*iii*) Defined contribution pension plans:

For defined contribution plans, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(*iv*) Participation in multi-employer pension plans:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by Central 1. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union's opinion, there is no reasonable way to allocate any defined benefit

4. Significant accounting policies (continued):

(r) Employee benefits (continued):

(*iv*) Participation in multi-employer pension plans (continued):

obligations. The Plan has informed the Credit Union that they are not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, the Credit Union's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 25.

5. Changes in accounting policies

(a) New accounting standards effective January 1, 2018:

(i) IFRS 9 – Financial instruments:

On January 1, 2018, the Credit Union adopted IFRS 9 which replaced IAS 39. The application of IFRS 9 impacted the classification and measurement of the Credit Union's financial assets and the methods used by the Credit Union in assessing and calculating impairment losses on financial assets.

The new hedge accounting model under IFRS 9 is being addressed by the IASB through a separate project and will become effective at a later date. As permitted by IFRS 9, the Credit Union has elected to continue applying hedge accounting under IAS 39 until an amended hedge accounting model under IFRS 9 becomes effective. However, the Credit Union has adopted the new hedge accounting disclosures required by the related amendments to IFRS 7, Financial Instruments: Disclosures.

As permitted by IFRS 9, the Credit Union has applied IFRS 9 retrospectively effective January 1, 2018 without restating prior periods. The difference between the previous carrying amounts of the Credit Union's financial assets and financial liabilities at January 1, 2018 as determined under IAS 39 and the carrying amounts of the financial assets and financial liabilities as determined under IFRS 9 has been recognized as adjustments to opening retained earnings and the fair value reserve component of equity at January 1, 2018.

5. Changes in accounting policies (continued):

(a) New accounting standards effective January 1, 2018 (continued):

(i) IFRS 9 – Financial instruments (continued):

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

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

At January 1, 2018	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets				
Cash resources				
Cash and current accounts	Loans and receivables	Amortized cost	$ 10,727	$ 10,727
Term deposits with original maturity up to 3 months	Held-to-maturity	Amortized cost	77,789	77,789
Derivative assets	FVTPL	FVTPL	13,615	13,615
Accounts receivable	Loans and receivables	Amortized cost	190,172	190,172
Loans to members	Loans and receivables	Amortized cost	8,229,577	8,229,167
Investments				
Central 1 Credit Union shares	Available-for-sale	FVTPL	42,332	42,332
Term deposits callable or maturing in three months or more	Held-to-maturity	Amortized cost	819,777	819,777
Principal and interest reinvestment accounts	Available-for-sale	FVTPL	196,690	196,690
Investment in pooled funds	Available-for-sale	FVTPL	151,441	151,441
Other equity investments	Available-	FVOCI	3,961	3,961
	for-sale	FVTPL	678	678
			$ 9,736,759	$ 9,736,349
Financial liabilities				
Deposits from members	Amortized cost	Amortized cost	8,773,030	8,773,030
Borrowings	Amortized cost	Amortized cost	375,481	375,481
Derivative liabilities	FVTPL	FVTPL	22,593	22,593
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	58,171	58,171
			$ 9,229,275	$ 9,229,275

5. Changes in accounting policies (continued):

(a) New accounting standards effective January 1, 2018 (continued):

(i) IFRS 9 – Financial instruments (continued):

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

	IAS 39 carrying amount Dec. 31, 2017	Adjustment for reclassification	Adjustment for remeasurement	Adjustment for impairment	Adjustment for tax	IFRS 9 carrying amount Jan. 1, 2018
Assets						
Cash resources	$ 88,516	$ -	$ -	$ -	$ -	$ 88,516
Derivative assets	13,615	-	-	-	-	13,615
Loans to members[1]	8,229,577	-	-	(410)	-	8,229,167
Investments	1,214,879	-	-	-	-	1,214,879
Accounts receivable	190,172	-	-	-	-	190,172
Total financial assets	$ 9,736,759	$ -	$ -	$ (410)	$ -	$ 9,736,349
Liabilities						
Deposits from members	$ 8,773,030	$ -	$ -	$ -	$ -	$ 8,773,030
Borrowings	375,481	-	-	-	-	375,481
Derivative liabilities	22,593	-	-	-	-	22,593
Accounts payable and accrued liabilities	58,171	-	-	-	-	58,171
Total financial liabilities	$ 9,229,275	$ -	$ -	$ -	$ -	$ 9,229,275
Retained earnings[1][2]	$ 428,129	$ 4,782	$ -	$ (410)	$ -	$ 432,501
Fair value reserve in AOCI[2]	4,777	(4,782)	-	-	-	(5)

(1) Financial assets measured at amortized cost required an adjustment to reflect the new ECL model under IFRS 9 from the previous incurred loss model under IAS 39. The adjustment on transition was a reduction of $410 thousand for loans to members.

(2) Certain equity investments previously classified as available-for-sale under IAS 39 have been reclassified to FVTPL under IFRS 9.

5. Changes in accounting policies (continued):

(a) New accounting standards effective January 1, 2018 (continued):

(i) IFRS 9 – Financial instruments (continued):

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

The following tables reconcile the closing allowance for credit losses on financial assets recognized in accordance with IAS 39 at December 31, 2017 and the opening allowance for ECL on financial assets determined in accordance with IFRS 9 at January 1, 2018:

	IAS 39 Impairment allowance Dec. 31, 2017	Adjustment for remeasurement or reclassification	IFRS 9 ECL Jan 1, 2018	Stage 1	Stage 2	Stage 3
Loans to members	$ 23,961	$ 410	$ 24,371	$ 6,928	$ 14,017	$ 3,426

(ii) IFRS 15, Revenue from contracts with customers:

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. As such, the Credit Union has updated its accounting policy for "fees and commissions income" to reflect the new model for revenue recognition. The standard replaces IAS 18, Revenue, IAS 11, Contracts, and related interpretations. The Credit Union has adopted IFRS 15 with a date of initial application of January 1, 2018. The application of IFRS 15, retrospectively, did not have any impact on the Credit Union's accounting for fee and commissions income.

(b) New accounting standards and interpretations not yet effective:

(i) IFRS 16 Leases:

IFRS 16, *Leases*, was released in January 2016 and replaces current guidance in IAS 17. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors the accounting is similar to IAS 17. The standard is effective for accounting periods beginning on or after January 1, 2019. The estimated impact of adopting IFRS 16 on January 1, 2019 will be the addition of a "right- of-use asset" and "lease obligation" of $67,235 on the consolidated statement of financial position.

The Credit Union plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

6. Financial risk management:

(a) Introduction and overview:

The Credit Union is exposed to the following risks from holding financial instruments: credit risk, liquidity risk, market risk, operational risk and capital risk. The following is a description of those risks and how the Credit Union manages them.

6. Financial risk management (continued):

(b) Credit risk:

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in note 10; but also from interest rate swaps (derivatives) as described in note 9.

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic and industry factors.

Management of credit risk:

Credit risk is managed in accordance with our lending policy approved by the Board of Directors. Risk limits and credit authorities are delegated to the Credit Risk Committee, comprised of executive and senior credit management staff, which in turn delegates appropriate limits to lending staff. Credit exposures in excess of certain levels require approval from the Credit Risk Committee.

The Risk, Investment and Loan Committee ("RIL") of the board meets quarterly to review portfolio credit quality, industry and member concentrations, and adequacy of loan allowances. Policies relating to single member limits and industry and geographic concentration are approved by the Board.

The Credit Union's Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and reviews branch credit decisions to ensure compliance to policy. The Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Loan exposures are managed and monitored through facility limits for individual borrowers, credit type, industry exposure and a credit review process. These reviews ensure the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure:

The following tables set out information about the credit quality of the Credit Union's loans to members measured at amortized cost, by category of loss allowance at December 31, 2018. The amounts in the table represent the carrying amounts of loans to members, excluding accrued interest.

At December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,651,268	$ 346	$ 188	$ 1,651,802
Credit score 710 – 799 (good – very good)	1,719,586	206	366	1,720,158
Credit score 650 – 709 (fair – good)	663,430	7,746	594	671,770
Credit score 600 – 649 (poor)	163,306	98,226	116	261,648
Credit score < 600 (less than satisfactory)	68,648	302,487	4,492	375,627
Deferred fees	7,333	703	10	8,046
Loss allowance	(1,922)	(5,920)	(303)	(8,145)
	$ 4,271,649	$ 403,794	$ 5,463	$ 4,680,906
Personal:				
Credit score > 800 (excellent)	$ 407,039	$ 465	$ -	$ 407,504
Credit score 710 – 799 (good – very good)	330,981	695	-	331,676
Credit score 650 – 709 (fair – good)	121,366	3,871	94	125,331
Credit score 600 – 649 (poor)	29,278	16,961	30	46,269
Credit score < 600 (less than satisfactory)	11,681	43,253	925	55,859
Deferred fees	-	-	-	-
Loss allowance	(3,123)	(8,308)	(448)	(11,879)
	$ 897,222	$ 56,937	$ 601	$ 954,760
Commercial:				
R1 – R2 (excellent - good)	$ 114,867	$ 4	$ 13	$ 114,884
R3 (satisfactory)	2,313,366	515	155	2,314,036
R4 – R6 (less than satisfactory)	324,959	109,081	68	434,108
R7 – R8 (Unsatisfactory)	-	74,281	342	74,623
R9 – R10 (credit-impaired)	-	-	8,856	8,856
Deferred fees	(1,620)	(108)	(7)	(1,735)
Loss allowance	(1,248)	(5,529)	(1,642)	(8,419)
	$ 2,750,324	$ 178,244	$ 7,785	$ 2,936,353

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

The following table presents the maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments. For financial assets recognized on the balance sheet, the maximum exposure to credit risk without taking account of any collateral held, equals their carrying amount. For loan commitments and other credit-related commitments that are irrevocable, the maximum exposure to credit risk without taking account of any collateral held, is the full amount of the committed facilities.

	2018	2017
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	$ 8,614,062	$ 8,253,538
Derivatives (net)	8,414	13,615
Term deposits and other securities	1,238,881	1,292,673
Accounts receivable	223,335	190,172
	10,084,692	9,749,998
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	109,735	84,779
Unadvanced loans and lines of credit	1,804,578	1,682,370
	1,914,313	1,767,149
Maximum exposure	$ 11,999,005	$ 11,517,147

Collateral and other credit enhancements:

It is our lending policy to assess the member's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the member's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

Concentrations of credit risk:

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region. This risk may indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk is mitigated through the Credit Union's diversified geographic service area including the Lower Mainland, Fraser Valley, Thompson-Okanagan, Okanagan-Similkameen, Southern Vancouver Island and North Western British Columbia areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 12% (2017 - 8.5%) of its residential mortgages insured against credit loss.

6. Financial risk management (continued):

(b) Credit risk (continued):

Comparative information for 2017 under IAS 39:

Credit quality of financial assets neither past due nor impaired:

The credit quality of the portfolio of loans that were neither past due nor impaired can be assessed by reference to the categories below, on which the following information is based:

	2017
Satisfactory risk	$ 7,870,825
Special mention	200,161
	$ 8,070,986

Satisfactory risk includes commercial facilities demonstrating financial conditions, risk factors and the capacity to repay ranging from satisfactory to excellent and retail facilities that are maintained within and outside of generally applicable product parameters without being impaired.

Special mention includes facilities that require varying degrees of special attention due to terms and conditions of credit that are not met.

Loans past due but not impaired:

Examples of exposures considered past due but not impaired include loans to members that have missed the most recent payment date but on which there is no evidence of impairment or they are fully secured by cash collateral. Loans past due greater than 60-days are included on the watch list.

The aging analysis below includes past due loans to members on which a collective allowance has been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

	2017
Past due up to 29 days	$ 129,786
Past due 30 to 59 days	6,344
Past due greater than 60 days	17,466
	$ 153,596

(c) Liquidity risk:

Liquidity risk is the risk of the Credit Union being unable to meet its obligations associated with its financial liabilities that are settled by cash or other financial assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

Liquidity risk is managed in accordance with our liquidity policy approved by the Board of Directors. The liquidity policy of the Credit Union is that liquidity is managed on both an operational and strategic level on a total basis. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. Contingency liquidity is managed by having a plan in place that can be invoked very quickly, as well as having a diversity of funding sources arranged that can be accessed when needed. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The liquidity deposits

6. Financial risk management (continued):

(c) Liquidity risk (continued):

must be held on deposit with the Central 1 Credit Union as per the Credit Union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits from members and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2018 the Credit Union's liquidity exceeds minimum statutory requirements by $397.3 million (2017 - $325.2 million).

(d) Market risk:

The principal market risk to which the Credit Union is exposed to, is the risk of loss from fluctuations in the future cash flows of a financial instrument because of changes in interest rates.

Interest rate risk arises when the market values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This interest rate risk includes yield curve risk, basis risk, optionality risk and interest rate path risk.

The primary objectives of the Credit Union's market risk management process include: maximize earnings and return on capital within acceptable and controllable levels of the above risks; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain policies and procedures that are consistent with the short- and long-term strategic goals of the Board of Directors.

Risk measurement:

The Credit Union's risk position is measured based upon the potential impact of changes in market conditions. The Asset Liability Committee ("ALCO") is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Responsibilities include:

(*i*) approval and review of pricing, investment, liquidity, derivative, foreign exchange and asset-liability policies;

(*ii*) review of deviations between actual performance and projected plans;

(*iii*) review of the management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and securitization activities;

(*iv*) approval of Asset-Liability and hedging strategies to manage interest rate risk in order to achieve policies;

(*v*) evaluation of the current interest rate risk position and the potential effect on its Asset Liability Management ("ALM") strategy; and

(*vi*) review and monitoring of key risk modeling assumptions.

The Credit Union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12-months based on:

(*i*) the current asset and liability structure;

(*ii*) scheduled maturity and re-pricing of the assets and liabilities;

(*iii*) several hundred randomly generated interest rate paths composed around a base rate forecast;

(*iv*) a volatility % of randomly generated key rates; and

(*v*) assumptions regarding member behaviour and changes in composition of assets and liabilities.

Growth assumptions are based on business plans. Member behaviour assumptions to assess embedded options in deposit and loan portfolios are based on analysis of trend information and management judgment.

6. Financial risk management (continued):

(d) Market risk (continued):

Risk measurement (continued):

The Credit Union will assess the results of the monthly forecast simulations. The maximum allowable risk exposure will be as follows:

Earnings at risk:

Earnings at risk is defined as the percentage of the reduction in the financial margin given a 1% increase and decrease in interest rates. A reduction in financial margin is not to exceed 10% of the next 12-months' financial margin resulting from this test.

Duration of equity:

The effective duration of equity is defined as the percentage change in the market value of equity (including retained earnings, equity shares and derivatives) given a 1% range change in interest rates. The 1% change will consist of a 50 bp shock up and a 50 bp shock down. Given this 1% change, the effective duration of equity will not exceed a maximum of 10%.

The following table shows the results of these forecast simulations as at December 31, 2018:

	Policy limit	2018	Impact	2017	Impact
Earnings at risk	10%	1.6 %	$ (3,164)	(1.6) %	$ (3,141)
Duration of equity	+/-10%	3.7 %	-	4.3 %	-

As at December 31, 2018 and 2017, the Credit Union was within policy limits.

(e) Capital management:

The Credit Union is regulated under the Act and is required to maintain a capital level at a minimum of 8% of risk-weighted assets.

When determining the sufficiency of capital, the Credit Union includes in its calculation amounts permitted by the Act including:

(*i*) retained earnings and contributed surplus;

(*ii*) equity shares;

(*iii*) system capital; and

(*iv*) other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority.

Total capital above is reduced by:

(*i*) goodwill and other intangible assets;

(*ii*) investments with banks/trusts and other;

(*iii*) securitization deferred payment accounts; and

(*iv*) investment in Venture Capital Corporations.

6. Financial risk management (continued):

(e) Capital management (continued):

As at December 31, 2018 and 2017, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2018	2017
Primary capital	$ 677,102	$ 622,229
Secondary capital	111,300	79,260
Deductions from capital	(28,311)	(26,693)
Total capital	$ 760,091	$ 674,796

The Credit Union management ensures compliance with capital adequacy through the following:

(*i*) identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;

(*ii*) developing and submitting to the Board of Directors for its consideration and approval appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;

(*iii*) regularly measuring and monitoring capital requirements and capital position, and ensuring the Credit Union meets and will continue to meet its capital requirements;

(*iv*) managing the capital in accordance with the capital management policies;

(*v*) establishing appropriate and effective procedures and controls for managing the capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;

(*vi*) providing the Board of Directors with appropriate reports on the capital position and on the procedures and controls for managing the capital; and

(*vii*) providing the Board of Directors with appropriate reports that will enable it to assess whether the institution has an ongoing effective capital management process.

Stress testing of the capital level is performed at minimum on an annual basis. The tests include a variety of scenarios that vary the growth and income assumptions. They include a test for the current year as well as for the plan period. A sufficient number of scenarios are performed to ensure that sensitivity levels can be reasonably assessed and planned for.

A three year capital plan is reviewed and approved by the Board of Directors annually.

Distributions of capital, such as share dividends, are only made after targets in the capital plan have been met. Each distribution must be approved by the Board of Directors.

The RIL is responsible for developing and conducting an annual review of capital management procedures relative to the policy requirements established. The RIL reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the RIL, reviews any written correspondence from the Financial Institutions Commission ("FICOM") regarding capital management matters, and investigates and responds as appropriate.

7. Financial assets and liabilities:

The table below set out the classifications and carrying amounts of the Credit Union's financial assets and liabilities:

2018	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ 125,349	$ 97,065	$ -	$ -	$ 222,414
Derivative assets	8,414	-	-	-	8,414
Loans to members	-	8,585,619	-	-	8,585,619
Accounts receivable	-	223,335	-	-	223,335
Term deposits and other	163,615	795,197	2,500	2,484	963,796
Investment in pooled funds	149,736	-	-	-	149,736
Derivative liabilities	-	-	-	-	-
Deposits from members	-	9,018,703	-	-	9,018,703
Borrowings	-	471,412	-	-	471,412
Accounts payable and accrued liabilities	-	71,210	-	-	71,210

Comparative information for 2017 under IAS 39:

2017	FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
Cash resources	$ -	$ 77,789	$ 10,727	$ -	$ -	$ 88,516
Derivative assets	13,615	-	-	-	-	13,615
Loans to members	-	-	8,229,577	-	-	8,229,577
Accounts receivable	-	-	190,172	-	-	190,172
Term deposits and other	-	819,777	-	244,203	-	1,063,980
Investment in pooled funds	-	-	-	150,899	-	150,899
Derivative liabilities	22,593	-	-	-	-	22,593
Deposits from members	-	-	-	-	8,773,030	8,773,030
Borrowings	-	-	-	-	375,481	375,481
Accounts payable and accrued liabilities	-	-	-	-	58,171	58,171

8. Cash resources:

	2018	2017
Cash and current accounts	$ 97,065	$ 10,727
Term deposits and accrued interest	125,349	77,789
	$ 222,414	$ 88,516

9. Derivatives:

	Fair value			
	2018		2017	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 2,971	$ 18,169	$ 977	$ 22,593
Pay fixed swaps	-	-	-	-
	2,971	18,169	977	22,593
Other derivatives:				
Equity linked options	6,182	-	11,648	-
Accrued interest	(739)	-	990	-
Total fair value	$ 8,414	$ 18,169	$ 13,615	$ 22,593

9. Derivatives (continued):

	Notional amount			
	Within 1 year	Over 1 year	2018	2017
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 450,000	$ 1,345,000	$ 1,795,000	$ 1,865,000
Pay fixed swaps	-	165,000	165,000	-
	450,000	1,510,000	1,960,000	1,865,000
Other derivatives:				
Equity linked options	36,187	173,133	209,320	158,033
Total notional amount	$ 486,187	$ 1,683,133	$ 2,169,320	$ 2,023,033

The following table summarizes the time periods in which the hedged cash flows are expected to occur and affect profit or loss:

2018	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 114,255	$ 40,815	$ 73,440	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 114,255	$ 40,815	$ 73,440	$ -

2017	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 129,176	$ 40,561	$ 88,615	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 129,176	$ 40,561	$ 88,615	$ -

During the year the Credit Union recognized a gain (loss) of $72 (2017 - $107) for ineffectiveness in cash flow hedges, which is recognized in net interest income in the statement of profit or loss.

10. Loans to members:

(a) Loans to members measured at amortized cost as at December 31:

	2018	2017
Residential mortgages	$ 4,689,051	$ 4,400,651
Personal:		
Personal loans	80,198	101,446
Personal lines of credit	886,441	902,724
Commercial:		
Commercial mortgages	2,666,887	2,579,863
Commercial loans	137,195	122,265
Commercial lines of credit	140,690	133,716
Accrued interest	13,600	12,873
	8,614,062	8,253,538
Allowance for expected credit losses (2017: Allowance for impairment)	(28,443)	(23,961)
	$ 8,585,619	$ 8,229,577

(b) Reconciliation of allowance for ECL under IFRS 9 for the year ended December 31, 2018:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance at January 1, 2018	$ 1,749	$ 4,215	$ 255	$ 6,219
Net remeasurement	89	27	110	226
Originations	484	1,741	-	2,225
Derecognitions and maturities	(226)	(514)	(119)	(859)
Transfers to Stage 1	52	-	-	52
Transfers to Stage 2	-	539	-	539
Transfers to Stage 3	-	-	173	173
Gross write-offs	(226)	(88)	(116)	(430)
Balance at December 31, 2018	$ 1,922	$ 5,920	$ 303	$ 8,145

10. Loans to members (continued):

(b) Reconciliation of allowance for ECL under IFRS 9 for the year ended December 31, 2018 (continued):

	Stage 1	Stage 2	Stage 3	Total
Personal:				
Balance at January 1, 2018	$ 3,661	$ 7,331	$ 501	$ 11,493
Net remeasurement	366	(84)	331	613
Originations	335	1,062	-	1,397
Derecognitions and maturities	(482)	(860)	(451)	(1,793)
Transfers to Stage 1	(117)	-	-	(117)
Transfers to Stage 2	-	1,652	-	1,652
Transfers to Stage 3	-	-	435	435
Gross write-offs	(639)	(793)	(369)	(1,801)
Balance at December 31, 2018	$ 3,124	$ 8,308	$ 447	$ 11,879
Commercial:				
Balance at January 1, 2018	$ 1,518	$ 2,471	$ 2,670	$ 6,659
Net remeasurement	160	701	(533)	328
Originations	323	1,864	1,047	3,234
Derecognitions and maturities	(328)	(400)	(1,198)	(1,926)
Transfers to Stage 1	(84)	-	-	(84)
Transfers to Stage 2	-	939	-	939
Transfers to Stage 3	-	-	(34)	(34)
Gross write-offs	(340)	(45)	(312)	(697)
Balance at December 31, 2018	$ 1,249	$ 5,530	$ 1,640	$ 8,419
Total loans to members:				
Balance at January 1, 2018	$ 6,928	$ 14,017	$ 3,426	$ 24,371
Net remeasurement	615	644	(92)	1,167
Originations	1,142	4,667	1,047	6,856
Derecognitions and maturities	(1,036)	(1,774)	(1,768)	(4,578)
Transfers to Stage 1	(149)	-	-	(149)
Transfers to Stage 2	-	3,130	-	3,130
Transfers to Stage 3	-	-	574	574
Gross write-offs	(1,205)	(926)	(797)	(2,928)
Balance at December 31, 2018	$ 6,295	$ 19,758	$ 2,390	$ 28,443

10. Loans to members (continued):

(c) Collateral held as security for credit-impaired loans under IFRS 9:

The fair value of the collateral held by the Credit Union as security for credit-impaired loans as at December 31, 2018 was $31,183. The Credit Union has estimated the fair value of the collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

Accrued interest of $190 has been accrued on the credit-impaired loans but an allowance for ECL of $190 has been established to reduce the carrying value of this accrual to its estimated net realizable value.

(d) Reconciliation of allowance for impairment under IAS 39 for the year ended December 31, 2017:

				2017
	Beginning balance	Provision	Write-offs	Ending balance
Residential mortgages	$ 3,324	$ 1,200	$ (461)	$ 4,063
Personal loans	3,584	800	(842)	3,542
Personal lines of credit	4,174	1,800	(1,076)	4,898
Commercial mortgages	5,203	1,500	(300)	6,403
Commercial loans	2,964	500	(637)	2,827
Commercial lines of credit	1,601	900	(273)	2,228
	$ 20,850	$ 6,700	$ (3,589)	$ 23,961
Percentage of total loans and accrued interest				0.29%

The allowance for impairment under IAS 39 consists of a specific and collective allowance of $2,326 and $21,635 respectively.

(e) Impaired loans and related allowances under IAS 39 as at December 31, 2017:

Under IAS 39, when impairment losses occur, we reduce the carrying amount of the loan by the loss amount through the use of a specific allowance account.

Individual accounts are treated as impaired when they are past due 90 days, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest, or earlier if there is objective evidence that an impairment loss has been incurred.

10. Loans to members (continued):

(e) Impaired loans and related allowances under IAS 39 as at December 31, 2017 (continued):

	Impaired loan balances	Specific allowances	2017 Carrying amount
Personal loans:			
Residential mortgages	$ 4,871	$ 290	$ 4,581
Loans and lines of credit	1,587	387	1,200
Commercial loans:			
Commercial mortgages	20,123	1,126	18,997
Commercial loans and lines of credit	2,374	573	1,801
	$ 28,955	$ 2,376	$ 26,579

(f) Collateral held as security for impaired loans under IAS 39 as at December 31, 2017:

The fair value of the collateral held by the Credit Union as security for impaired loans under IAS 39 was $47,705. The Credit Union has estimated the fair value of the collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

Accrued interest of $873 has been accrued on the impaired loans but a specific allowance of $873 has been established to reduce the carrying value of this accrual to its estimated net realizable value.

11. Investments:

	2018	2017
Central 1 Credit Union shares	$ 43,713	$ 42,332
Term deposits callable or maturing in three months or more	794,697	819,777
Leased vehicles net of accumulated amortization of $1,555 (2017 - $2,867)	4,464	4,545
Principal and interest reinvestment accounts	119,902	196,690
Investment in pooled funds	149,736	151,441
Other	5,484	4,644
	$ 1,117,996	$ 1,219,429

Investment in shares of Central 1 Credit Union are required by governing legislation and are a condition of membership in Central 1 Credit Union.

Amortization, for the year, in respect to leased vehicles amounted to $820 (2017 - $1,334).

12. Premises and equipment:

2018	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2017	$ 11,536	$ 31,282	$ 38,074	$ 37,485	$ 118,377
Acquisitions	102	2,548	1,235	3,498	7,383
Disposals	-	(40)	-	(202)	(242)
Balance, December 31, 2018	$ 11,638	$ 33,790	$ 39,309	$ 40,781	$ 125,518
Accumulated depreciation and impairment losses:					
Balance, December 31, 2017	$ -	$ 8,890	$ 19,660	$ 24,825	$ 53,375
Disposals	-	(40)	-	(170)	(210)
Depreciation	-	1,447	3,350	4,351	9,148
Balance, December 31, 2018	$ -	$ 10,297	$ 23,010	$ 29,006	$ 62,313
Carrying amounts:					
Balance, December 31, 2018	$ 11,638	$ 23,493	$ 16,299	$ 11,775	$ 63,205

2017	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2016	$ 11,816	$ 33,803	$ 34,348	$ 33,925	$ 113,892
Acquisitions	1,317	202	3,726	4,563	9,808
Disposals	(1,597)	(2,723)	-	(1,003)	(5,323)
Balance, December 31, 2017	$ 11,536	$ 31,282	$ 38,074	$ 37,485	$ 118,377
Accumulated depreciation and impairment losses:					
Balance, December 31, 2016	$ -	$ 7,752	$ 16,573	$ 20,914	$ 45,239
Disposals	-	(368)	-	(1,186)	(1,554)
Depreciation	-	1,506	3,087	5,097	9,690
Balance, December 31, 2017	$ -	$ 8,890	$ 19,660	$ 24,825	$ 53,375
Carrying amounts:					
Balance, December 31, 2017	$ 11,536	$ 22,392	$ 18,414	$ 12,660	$ 65,002

13. Intangible assets:

2018	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2017	$ 12,510	$ 15,680	$ 2,205	$ 24,179	$ 54,574
Acquisitions	-	-	-	264	264
Disposals	(595)	-	-	-	(595)
Balance, December 31, 2018	$ 11,915	$ 15,680	$ 2,205	$ 24,443	$ 54,243
Accumulated amortization and impairment losses:					
Balance, December 31, 2017	$ 1,532	$ -	$ 1,323	$ 12,436	$ 15,291
Disposals	(238)	-	-	-	(238)
Amortization	-	-	220	3,116	3,336
Balance, December 31, 2018	$ 1,294	$ -	$ 1,543	$ 15,552	$ 18,389
Carrying amounts:					
Balance, December 31, 2018	$ 10,621	$ 15,680	$ 662	$ 8,891	$ 35,854

2017	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2016	$ 12,510	$ 15,680	$ 2,205	$ 25,050	$ 55,445
Acquisitions	-	-	-	1,902	1,902
Disposals	-	-	-	(2,773)	(2,773)
Balance, December 31, 2017	$ 12,510	$ 15,680	$ 2,205	$ 24,179	$ 54,574
Accumulated amortization and impairment losses:					
Balance, December 31, 2016	$ 1,532	$ -	$ 1,103	$ 11,948	$ 14,583
Disposals	-	-	-	(2,711)	(2,711)
Amortization	-	-	220	3,199	3,419
Balance, December 31, 2017	$ 1,532	$ -	$ 1,323	$ 12,436	$ 15,291
Carrying amounts:					
Balance, December 31, 2017	$ 10,978	$ 15,680	$ 882	$ 11,743	$ 39,283

14. Other assets:

	2018	2017
Accounts receivable	$ 28,304	$ 28,740
Financing lease receivables	195,031	161,432
Prepaid expenses	19,310	18,208
	$ 242,645	$ 208,380

15. Deposits from members:

	2018	2017
Demand	$ 3,259,348	$ 3,179,227
Term	4,499,854	4,400,873
Registered savings plans	1,198,144	1,144,397
Class A membership shares	5,932	5,984
Accrued interest and dividends	55,425	42,549
	$ 9,018,703	$ 8,773,030

Credit Union Deposit Insurance Corporation ("CUDIC") guarantees all credit union deposits, with the exception of Class A shares which are not guaranteed.

Under agreements with trustees of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

Class A membership shares are preferred and redeemable, and accordingly are classified as deposits. An unlimited number of Class A voting shares are authorized with a par value of $1.

Class A shares shall be entitled to dividends at such rate, payable at such time or times, and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine.

The following table summarizes the time periods in which deposits from members are contractually payable by the Credit Union:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Greater than 3 years	Total
2018	$ 3,692,261	$ 430,750	$ 3,137,707	$ 1,656,393	$ 101,592	$ 9,018,703
2017	3,618,344	480,799	2,934,495	1,565,447	173,945	8,773,030

16. Borrowings:

	2018	2017
Money market loan	$ -	$ -
Other revolving facilities	49,656	-
	49,656	-
Obligation under CMB program (note 27)	421,587	375,247
Accrued interest	169	234
	$ 471,412	$ 375,481

16. Borrowings (continued):

The Credit Union has three approved lines of credit totaling $585 million. Security for the first line of credit is an assignment of loans to members, accounts receivable and a demand debenture to the lender. For the second line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 105% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 110% of the approved credit facility.

Changes in borrowings arising from financing activities:

The following table summarizes the changes in borrowings arising from financing activities for the year ended December 31, 2018:

	December 31, 2017	Cash flow changes	Non-cash changes Accrued interest	December 31, 2018
Other revolving facilities	$ -	$ 49,656	$ 42	$ 49,698
Obligations under the CMB Program	375,481	46,340	(107)	421,714
	$ 375,481	$ 95,996	$ (65)	$ 471,412

17. Other liabilities:

	2018	2017
Accounts payable and accrued liabilities	$ 71,210	$ 58,171
Deferred revenue	22,298	19,249
	$ 93,508	$ 77,420

18. Equity shares:

The Credit Union has authorized Class B, C, and D equity shares, which have a par value and redemption value of $1 each.

The rules of the Credit Union state that the annual redemption of Class B, C, and D shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class B, C, and D shares shall be entitled to dividends at such rate, payable at such time or times and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

Class B, C, and D equity shares are not guaranteed by CUDIC.

18. Equity shares (continued):

In May 2018, members passed a resolution to consolidate Class "B" Investment Equity Shares, Class "C" Investment Equity Shares and Class "D" Retirement Plan Equity Shares into a new class of shares known as Class "B" Equity Shares.

The Credit Union has issued:

	2018	2017
Non-voting investment equity shares:		
Class B	$ 31,325	$ 12,039
Class C	-	13,394
Non-voting retirement plan equity shares:		
Class D	-	7,432
	$ 31,325	$ 32,865

19. Net interest income:

	2018	2017
Interest income:		
Cash resources	$ 14,630	$ 10,627
Financial assets:		
Derivatives (net)	(1,105)	11,254
Available-for-sale	-	1,191
FVOCI	754	-
Loans to members	313,558	268,280
Assets pledged as collateral	2,917	4,181
	330,754	295,533
Interest expense:		
Deposits from members	124,006	101,689
Secured borrowings	9,045	7,841
Wholesale borrowings	1,417	816
	134,468	110,346
Net interest income	$ 196,286	$ 185,187

20. Fee and commission income:

		2018		2017
Insurance commissions and fees	$	32,872	$	31,458
Account service fees		16,237		15,149
Loan administration fees		15,229		17,957
Fees from fiduciary activities and mutual funds		22,297		18,506
Foreign exchange		4,156		2,492
	$	90,791	$	85,562

21. Other income:

		2018		2017
Leasing revenue	$	12,715	$	11,051
Other		19,790		16,444
	$	32,505	$	27,495

22. Personnel expenses:

		2018		2017
Salaries	$	114,024	$	116,531
Benefits		14,715		17,504
Pension		9,585		9,561
Other		4,376		2,993
	$	142,700	$	146,589

23. Other expenses:

		2018		2017
Administration	$	44,544	$	42,900
Data processing		20,420		16,266
Occupancy		20,605		19,076
	$	85,569	$	78,242

24. Income taxes:

		2018		2017
Current income tax	$	13,277	$	11,070
Deferred income tax		(171)		(965)
	$	13,106	$	10,105

Reconciliation of effective tax rate:

	2018	2017
Combined federal and provincial statutory tax rate	27.0 %	27.0 %
Credit Union preferred rate reduction	(8.1)%	(8.1)%
Over-provided in prior years	0.0 %	0.8 %
Other	(0.4)%	(0.4)%
	18.5 %	19.3 %

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

		2018		2017
Deferred tax assets:				
Allowance for impairment of loans	$	4,579	$	3,704
Other accrued expenses		1,763		2,099
Other		595		145
	$	6,937	$	5,948
Deferred tax liabilities:				
Intangible assets	$	4,086	$	4,132
Investments and other		2,298		3,334
Premises and equipment		3,608		2,850
	$	9,992	$	10,316

Deferred tax that is expected to reverse to the year 2028 has been measured using the effective rate that will apply for the period 20.86% (2017 – 21.00%). The weighted average applicable tax rate was 18.10% (2017 - 21.00%).

As at December 31, 2018, deferred tax liabilities for temporary differences of $36,376 (2017 - $26,964) were not recognized as the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

25. Pension and post-retirement benefits:

The Credit Union provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Credit Union employees upon or after retirement.

The Credit Union funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by the Credit Union at the time of entitlement. Contributions for the defined contribution plan are paid by the Credit Union on an annual basis.

Supplemental retirement plans:

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2018 (prior period was measured at December 31, 2017). The effective date of the last actuarial valuation report for funding purposes was December 31, 2018 and the effective date of the next required actuarial valuation report will be December 31, 2019.

Statement of profit or loss charge for (note 22):

		2018		2017
Pension benefits:				
Defined contribution and multi-employer plan expense	$	9,021	$	8,997
Defined benefit plan expense		564		564
	$	9,585	$	9,561

Participation in multi-employer plan (the "Plan"):

The Credit Union is one of several employers that participates in the BC Credit Union Employees' Pension Plan. The Plan is a multi-employer contributory defined benefit pension plan governed by a Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Plan, as at December 31, 2018, has about 3,500 active employees and approximately 760 retired plan members. Total plan assets are approximately $732.8 million.

Participation in multi-employer plan (the "Plan") (continued):

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, which was conducted as at December 31, 2015, indicated a going concern unfunded liability of $25.1 million and a solvency deficiency of $123.0 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. The Credit Union paid $2,765 for employer contributions to the plan in fiscal year 2018 (2017 - $2,973).

The next actuarial valuation is scheduled for December 31, 2018 with results available in mid-2019.

26. Commitments and contingencies:

(a) Premises, computer services and equipment:

The Credit Union has branch lease commitments for its premises extending through to 2023 and thereafter.

For computer services and equipment, the Credit Union has computer services and hardware operating leases through to 2023 and thereafter.

The following table summarizes the approximate operating lease payments over the next 5 years:

	Premises	Computer services and equipment
2019	$ 10,573	$ 10,260
2020	9,419	5,687
2021	7,812	2,762
2022	5,349	871
2023	3,742	433
Thereafter	6,990	-

(b) Legal proceedings:

The Credit Union has claims and legal proceedings brought against it that arise from usual business activities. The Credit Union contests the validity of these claims and proceedings. While the outcome of outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Credit Union's financial position.

27. Securitizations:

The Credit Union periodically enters into agreements with Central 1 and other third parties which may include securitization of residential mortgages into SPE's which issue bonds to third party investors at specified interest rates.

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

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was $189,347 (2017 - nil). The credit union also has recognized $189,347 (2017 - nil) of secured borrowing relating to securitization transactions as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans to members and they are pledged as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 1.74% (2017 - 1.73%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. CMB pools are at maturity with bullet payment.

27. Securitizations (continued):

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

Type of loan		Total principal		Principal amount over 60 days past due
Residential mortgages	$	309,964	$	-

The secured borrowings mature as follows:

Maturity		% Rate		Secured borrowings
March 1	2019	1.64	$	2,001
June 15	2019	1.87		27,483
June 15	2019	1.94		4,708
June 15	2019	1.91		10,512
June 15	2019	1.85		5,040
July 1	2019	1.83		4,114
October 1	2019	2.02		8,841
November 1	2019	1.93		2,443
December 1	2019	2.05		14,910
June 15	2020	1.59		36,518
June 15	2020	1.51		6,651
June 15	2020	1.52		30,414
June 15	2020	1.47		19,184
June 15	2021	2.14		3,740
June 15	2021	1.01		45,052
July 1	2021	1.79		7,557
July 1	2021	1.79		6,546
September 1	2021	1.79		15,080
September 1	2021	2.14		17,268
October 1	2021	1.60		25,916
December 1	2021	1.79		15,721
December 1	2021	1.69		9,735
January 1	2021	1.69		12,101
July 1	2022	2.19		12,106
October 1	2022	1.79		11,836
October 1	2022	2.19		14,191
December 1	2022	2.19		27,865
March 1	2023	1.94		12,552
October 1	2023	2.00		11,502
			$	421,587

28. Interest rate sensitivity:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates and are summed to show the interest rate sensitivity gap (mismatch).

	Within 3 months		4 – 12 months		Over 1 year			
2018	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 183,250	1.83	$ -		$ -	-	$ 39,164	$ 222,414
Loans	3,385,187	4.72	802,046	3.47	4,413,732	3.35	(15,346)	8,585,619
Other	688,964	1.88	111,071	1.83	253,836	1.87	421,180	1,475,051
	4,257,401	4.14	913,117	3.27	4,667,568	3.27	444,998	10,283,084
Liabilities:								
Member deposits	1,944,624	1.86	3,021,414	2.18	1,450,631	2.14	2,602,034	9,018,703
Borrowings and other	66,381	2.69	110,723	2.29	294,140	2.05	121,837	593,081
	2,011,005	1.89	3,132,137	2.18	1,744,771	2.12	2,723,871	9,611,784
Balance sheet mismatch	2,246,396		(2,219,020)		2,922,797		(2,278,873)	671,300
Derivatives, notional value:								
Asset	250,000	1.99	200,000	2.02	995,000	1.65	-	1,445,000
Liability	(1,445,000)	2.23	-		-		-	(1,445,000)
	(1,195,000)		200,000		995,000		-	-
Net mismatch	$ 1,051,396		$ (2,019,020)		$ 3,917,797		$ (2,278,873)	$ 671,300

28. Interest rate sensitivity (continued):

2017	Within 3 months Principal	Within 3 months %Rate	4 – 12 months Principal	4 – 12 months %Rate	Over 1 year Principal	Over 1 year %Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 63,321	1.08	$ -	-	$ -	-	$ 25,195	$ 88,516
Loans	3,335,763	4.00	753,607	3.42	4,151,865	3.16	(11,658)	8,229,577
Other	292,306	1.16	372,236	1.18	311,229	1.51	575,886	1,551,657
	3,691,390	3.62	1,125,843	2.68	4,463,094	3.04	589,423	9,869,750
Liabilities:								
Member deposits	1,814,682	1.38	2,869,604	1.65	1,509,504	1.73	2,579,240	8,773,030
Borrowings and other	4,632	2.09	130,349	2.25	239,704	1.89	111,125	485,810
	1,819,314	1.39	2,999,953	1.67	1,749,208	1.75	2,690,365	9,258,840
Balance sheet mismatch	1,872,076		(1,874,110)		2,713,886		(2,100,942)	610,910
Derivatives, notional value:								
Asset	-	-	220,000	2.17	1,245,000	1.63	-	1,465,000
Liability	(1,465,000)	1.45	-	-	-	-	-	(1,465,000)
	(1,465,000)		220,000		1,245,000		-	-
Net mismatch	$ 407,076		$ (1,654,110)		$ 3,958,886		$ (2,100,942)	$ 610,910

29. Fair values of financial instruments:

The following table presents approximate fair values of the Credit Union's financial instruments, including derivatives. The 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 statement of financial position date. Fair values of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short term nature. Fair values of derivative financial instruments have been determined based on market price quotations.

These fair values, presented for information only, reflect conditions that existed at the date of the statement of financial position.

	2018			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$ 222,414	$ 222,384	$ (30)	$ 88,516	$ 88,448	$ (68)
Loans	8,585,619	8,424,334	(161,285)	8,229,577	8,200,746	(28,831)
Investments	991,539	990,235	(1,304)	1,219,429	1,216,987	(2,442)
Other	483,511	483,553	42	332,228	332,228	-
			(162,577)			(31,341)
Liabilities:						
Deposits	9,018,703	9,002,714	15,989	8,773,030	8,765,907	7,123
Borrowing	471,412	466,990	4,422	375,481	371,873	3,608
Other	71,210	71,210	-	110,329	110,329	-
			20,411			10,731
Derivative contracts	8,414	8,414	-	13,615	13,615	-
Fair value difference		$	(142,166)		$	(20,610)

The fair value measurements are analyzed according to a fair value hierarchy with three levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in 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 fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

No transfer has been made into or out of Level 1 and Level 2 during the year.

29. Fair values of financial instruments (continued):

2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 2,971	$ -	$ 2,971
Equity linked options	-	6,182	-	6,182
Financial investments				
Shares	-	46,663	2	46,665
Other	-	149,736	-	149,736
	$ -	$ 205,552	$ 2	$ 205,554
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 18,169	$ -	$ 18,169

2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 977	$ -	$ 977
Equity linked options	-	11,648	-	11,648
Financial investments available-for-sale:				
Shares	-	40,760	6,726	47,486
Other	-	150,894	-	150,894
	$ -	$ 204,279	$ 6,726	$ 211,005
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	$ -	$ 22,593	$ -	$ 22,593

The following table reconciles the Credit Union's Level 3 fair value measurements from December 31, 2017 to December 31, 2018:

Fair value measurements using Level 3 inputs:	
Balance, December 31, 2017	$ 6,726
Transfers from Level 2	-
Gain included in OCI - Net change in fair value (unrealized)	-
Settlements	(6,724)
Transfers in (out)	-
Balance, December 31, 2018	$ 2

30. Other related party information:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, post-employment benefit plans, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Information and Digital Transformation Officer, Chief People and Culture Officer, Chief Credit Officer, Chief Brand Innovation Officer, Senior Vice President Risk, Senior Vice President Corporate Initiatives, President Envision Financial, President Valley First and the President Island Savings.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits:

The Credit Union provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2018 were loans of $3,748 (2017 - $3,457) and deposits of $2,508 (2017 - 1,488). No individual allowances for credit losses have been recognized with respect to these loans (2017 - nil).

(b) Key management compensation:

		2018		2017
Salaries and short-term employee benefits	$	6,192	$	5,137
Post-retirement and termination benefits		344		1,506
	$	6,536	$	6,643

At December 31, 2018, outstanding loans to directors, officers and employees of the Credit Union amounted to $246,341 (2017 - $248,487). All such loans were granted in accordance with normal lending terms. Employee loans are recorded at their fair value in the consolidated statement of financial position with the difference between market values and carrying values being recognized as personnel expenses in the consolidated statement of profit or loss.

The aggregate remuneration earned by directors of the Credit Union during 2018 was $561 (2017 - $552).

The Credit Union has included in accounts payable and other expenses a donation of $700 (2017 - $500) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

30. Other related party information (continued):

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2018	2017
First West Insurance Services Ltd.	100%	100%
FW Wealth Management Ltd.	100%	100%
First West Leasing Ltd.	100%	100%
FWCU Capital Corp.	100%	100%
619547 BC Ltd.	100%	100%
637506 BC Ltd.	100%	100%
Bulkley Valley Insurance Services Ltd.	50%	50%