Financial Statements

Tandia Financial Credit Union Limited

December 31, 2018

Contents

Grant Thornton

Independent auditor's report

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To the Members of
Tandia Financial Credit Union Limited:

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLP

Mississauga, Canada
February 20, 2019

Chartered Professional Accountants
Licensed Public Accountants

Tandia Financial Credit Union Limited
Statement of Financial Position

(In thousands)

December 31	**2018**	2017
Assets		
Cash and cash equivalents (Note 5)	**$ 14,421**	$ 9,585
Investments (Note 6)	**77,033**	80,166
Loans to members (Note 7)	**1,018,270**	982,779
Other assets (Note 10)	**5,684**	3,245
Prepaid securitization fees	**1,763**	2,006
Derivative financial instruments (Note 12)	**205**	291
Property and equipment (Note 9)	**7,849**	9,082
Intangible asset (Note 11)	**175**	267
Deferred income taxes (Note 17)	**52**	214
	$ 1,125,452	$ 1,087,635
Liabilities		
Secured borrowings (Note 8)	**$ 246,231**	$ 265,408
Note payable	**-**	2,367
Payables and accruals	**1,683**	1,418
Income taxes payable	**1,034**	238
Deposits of members (Note 14)	**807,129**	756,816
Derivative financial instruments (Note 12)	**427**	775
Shares (Note 15)	**2,119**	2,083
	1,058,623	1,029,105
Equity		
Shares (Note 15)	**28,956**	28,398
Retained earnings	**23,494**	18,120
Accumulated other comprehensive income	**13**	13
Contributed surplus	**14,366**	11,999
	66,829	58,530
	$ 1,125,452	$ 1,087,635

Commitments (Note 21)

On behalf of the board

______________________ Director ______________________ Director

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Comprehensive Income

(In thousands)

Year Ended December 31		2018		2017
Financial income				
Interest on member loans	$	**29,884**	$	25,973
Interest on securitized loans		**7,622**		6,759
Other interest revenue		**1,602**		1,382
		39,108		34,114
Financial expense				
Interest on member deposits		**11,461**		9,231
Securitizations expense		**5,504**		4,460
Other interest expense		**245**		510
		17,210		14,201
Financial margin		**21,898**		19,913
Other income (Note 18)		**9,508**		5,777
		31,406		25,690
Provision for impaired loans (Note 7)		**448**		300
Operating margin		**30,958**		25,390
Operating expenses				
Salaries and benefits		**13,698**		13,397
Computer, office and other equipment		**2,275**		2,087
Occupancy		**2,168**		2,039
Administration		**1,532**		1,279
Advertising and communications		**1,307**		1,039
Member security		**1,013**		755
Other		**876**		940
		22,869		21,536
Net income before taxes		**8,089**		3,854
Income taxes (Note 17)		**1,587**		252
Net income for the year		**6,502**		3,602
Other comprehensive income (net of tax)				
Items that may subsequently be reclassified to profit or loss				
Change in unrealized gains on available-for-sale investments		**-**		(1,202)
Total other comprehensive income for the year		**-**		(1,202)
Total comprehensive income for the year	$	**6,502**	$	2,400

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Changes in Members' Equity

(In thousands)
Year Ended December 31, 2018

	Shares	Retained earnings	Accumulated other compre-hensive income	Contributed surplus	Total
Balance at December 31, 2016	$ 27,454	$ 15,615	$ 1,215	$ 11,999	$ 56,283
Net income	-	3,602	-	-	3,602
Distributions to members (Note 16)	-	(1,097)	-	-	(1,097)
Acquisition of profit shares	311	-	-	-	311
Issue of profit shares	37	-	-	-	37
Issue of investment shares	780	-	-	-	780
Redemption of profit shares	(184)	-	-	-	(184)
Change in unrealized gains on available-for-sale investments	-	-	(1,202)	-	(1,202)
Balance at December 31, 2017	28,398	18,120	13	11,999	58,530
Net income	**-**	**6,502**	**-**	**-**	**6,502**
Distributions to members (Note 16)	**-**	**(1,128)**	**-**	**-**	**(1,128)**
Issue of profit shares	**3**	**-**	**-**	**-**	**3**
Issue of investment shares	**734**	**-**	**-**	**-**	**734**
Redemption of profit shares	**(179)**	**-**	**-**	**-**	**(179)**
Change in contribution surplus from business combination	**-**	**-**	**-**	**2,367**	**2,367**
Balance at December 31, 2018	**$ 28,956**	**$ 23,494**	**$ 13**	**$ 14,366**	**$ 66,829**

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited
Statement of Cash Flows

(In thousands)

Year Ended December 31		2018		2017
Increase (decrease) in cash and cash equivalents				
Operating				
Net income	$	**6,502**	$	3,602
Provision for impaired loans		**448**		300
Gain on sale on land and building		**(4,589)**		-
Depreciation and amortization		**1,017**		919
Deferred income taxes		**162**		(122)
Income taxes recoverable		**795**		18
Fair value of interest rate swap contracts		**(263)**		107
Changes in members' activities:				
Increase in loans to members (net)		**(36,033)**		(88,199)
Increase in deposits of members (net)		**50,370**		34,601
Other non-cash items (Note 22)		**(1,931)**		1,729
		16,478		(47,045)
Financing				
Distributions to members		**(1,128)**		(1,097)
(Decrease) increase in secured borrowings		**(19,177)**		46,865
Increase in shares (net)		**595**		639
		(19,710)		46,407
Investing				
Cash resources acquired upon business combination		**-**		5,145
Proceeds from disposal of investments (net)		**3,134**		4,011
Proceeds on sale of land and building		**5,700**		-
Distributions received from CUCO Co-op investment		**-**		129
Purchase of property and equipment		**(766)**		(905)
		8,068		8,380
Net increase in cash and cash equivalents		**4,836**		7,742
Cash and cash equivalents				
Beginning of year		**9,585**		1,843
End of year	$	**14,421**	$	9,585
Interest received	$	**38,920**	$	33,999
Interest paid	$	**15,873**	$	14,683
Income taxes paid	$	**639**	$	135
Patronage dividends paid	$	**18**	$	15

See accompanying notes to the financial statements.

1. Governing legislation and nature of operations

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act and its operations are subject to the Financial Institutions Act of Ontario. The Credit Union serves members in southern Ontario. The Credit Union's head office is located at 75 James Street South, Hamilton, Ontario.

The Credit Union exists to help members meet their financial needs in their local communities. The Credit Union's principal activities are the provision of deposit-taking and other financial services on a co-operative basis.

These financial statements have been approved and authorized for issue by the Board of Directors on February 20, 2019.

2. Basis of presentation and compliance

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

In 2018 the Credit Union has adopted new guidance for the recognition of revenue from contracts with customers as disclosed in Note 3. This guidance was applied using a modified retrospective (cumulative catch-up) approach under which changes having a material effect on the consolidated statement of financial position as January 1, 2018 are presented together as a single adjustment to the opening balance of retained earnings. Accordingly, the Credit Union is not required to present a third statement of financial position as at that date.

Further, the Credit Union has adopted new guidance for accounting for financial instruments as disclosed in Note 3. This guidance was applied using the transitional relief allowing the entity not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognized in opening retained earnings.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with Central 1 Credit Union (Central 1), net of bank indebtedness and short term deposits with original maturities of three months or less from the date of acquisition.

Financial Instruments

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

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

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

Under IFRS 9 all financial instruments are initially measured at fair value which is consistent with IAS 39. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Classification and measurement of financial assets and financial liabilities

IFRS 9 eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

3. Summary of significant accounting policies (continued)

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and whether its contractual cash flow characteristics represent solely payments of principal and interest (“SPPI”). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.

Financial assets at amortized cost

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

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

After initial recognition, these are measured at amortized cost using the effective interest method.

From January 1, 2018, the Credit Union measures loans to members, cash and cash equivalents, liquidity reserves at amortized cost.

Before January 1, 2018 all loans to members, cash and cash equivalents and liquidity reserves were been classified as loans and receivables. Loans and receivables are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans and receivables are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

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

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

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

3. Summary of significant accounting policies (continued)

Class A, Class E & Class F Central 1 shares classified as AFS under IAS 39 are classified as FVTPL under IFRS 9. Portfolio investments classified as held-to-maturity under IAS 39 are classified as FVTPL under IFRS 9. Consistent with IAS 39, The Credit Union's derivative financial instruments measured at FVTPL

Financial assets at fair value through other comprehensive income (FVOCI)

The Credit Union accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Credit Union does not have any financial assets categorized as FVOCI.

Available-for-sale financial investments (Policy applicable before January 1, 2018)

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Before January 1, 2018 the Credit Union's shares held with Central 1 and other investments were classified as available for sale. These share investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Share investments whose fair value can be estimated reliably are measured at fair value with any changes to fair value recorded in other comprehensive income. Impairment charges are recognized in net earnings.

Held-to-maturity financial investments (Policy applicable before 1 January 2018)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. Before January 1, 2018 the Credit Union holds portfolio investments designated into this category. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

3. Summary of significant accounting policies (continued)

Recognition and derecognition

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

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

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

Financial liabilities

IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39, all fair value changes on liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, those fair value changes are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income ("OCI") and (ii) the remaining amount of change in the fair value is presented in earnings or loss.

The Credit Union's financial liabilities include secured borrowings, deposits of members, payables and other liabilities, shares and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(In thousands)

3. Summary of significant accounting policies (continued)

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

	IAS 39 Carrying value as at Dec 31, 2017	Reclassification	Transition adjustments	IFRS 9 Carrying value as at Jan 1,2018
Financial assets				
Available for sale				
Central 1 Credit Union Shares	$ 6,220	$ (6,220)	$ -	$ -
Other investments	128	(128)	-	-
Corporate bonds	3,775	(3,775)	-	-
Corporate equities	1,548	(1,548)	-	-
Amortized cost				
Cash and cash equivalents	-	9,585	-	9,585
Loans to members	-	982,779	-	982,779
Liquidity reserves	-	66,468	-	66,468
FVPTL				
Derivative financial instruments	291	-	-	291
Corporate bonds	-	3,775	-	3,775
Corporate equities	-	1,548	-	1,548
Central 1 Credit Union Shares	-	6,220	-	6,220
Other investments	-	128	-	128
Portfolio Investments	-	2,027	-	2,027
Held to maturity				
Portfolio investments	2,027	(2,027)	-	-
Loans and receivables				
Cash and cash equivalents	9,585	(9,585)	-	-
Loans to members	982,779	(982,779)	-	-
Liquidity reserves	66,468	(66,468)	-	-
Total financial assets	**$ 1,072,821**	**$ -**	**$ -**	**$ 1,072,821**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

Impairment of financial assets (Policy applicable from January 1, 2018)

IFRS 9 introduces an expected credit loss impairment model for all financial assets not measured at FVTPL. The application of an ECL model represents a significant change from the incurred loss model ("ILM") under IAS 39. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information ("FLI") is incorporated into the estimation of ECL allowances, which involves significant judgment. In contrast, the ILM incorporated a single best estimate, the time value of money and information about past events and current conditions.

The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are

3. Summary of significant accounting policies (continued)

due and the cash flows that the Credit Union expects to receive. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

ECL stage development

The model has three stages:

(Stage 1) On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the reporting date.

(Stage 2) If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, the Credit Union compares the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of its initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days or more past due on its contractual payment obligations or the financial instrument has had an unfavorable movement in internal risk ratings. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union places the financial instrument in the Stage 1 category and reverts to recognizing 12 months of ECL.

(Stage 3) When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears is automatically considered impaired, which is consistent with the Credit Union's policy under IAS 39. Any financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

Due to the inclusion of relative credit deterioration criteria and consideration of FLI, lifetime credit losses are generally recognized earlier under IFRS 9. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

(In thousands)

3. Summary of significant accounting policies (continued)

Changes in the loss allowance, including the movement between 12 months and lifetime expected credit losses, is recorded in the statement of comprehensive income.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery. When financial instruments are secured, this is generally after all collateral has been realized or transferred to the Credit Union, or in certain circumstances, when the net realizable value of any collateral and other available information suggests that there is no reasonable expectation of further recovery. In events where a bankruptcy or consumer proposal occurs, management will file all required documentation with the Trustee and realize on any available security with the unrecoverable balance being immediately written off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for losses.

Impairment of financial assets (Policy applicable before January 1, 2018)
In the prior year, the impairment of financial assets was based on the incurred loss model. The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

Reconciliation of allowances under IAS 39 to IFRS 9

The Credit Union's financial instruments specific allowances for impaired loans to members recognized under IAS 39 have been replaced by Stage 3 allowances under IFRS 9, while the collective allowances for non-impaired loans to members have been generally replaced by either Stage 1 or Stage 2 allowances under IFRS 9.

	December 31, 2017 IAS 39			Jan 1, 2018 IFRS 9			
	Specific Allowance	Collective Allowance	Total	Stage 1	Stage 2	Stage 3	Total
Personal	389	227	616	346	36	179	561
Commercial	-	1,183	1,183	281	600	31	912
Residential	-	-	-	265	61	-	326
	389	1,410	1,799	892	697	210	1,799

3. Summary of significant accounting policies (continued)

Derivative financial instruments
Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Hedges

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with the entity's risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Credit Union applies the new hedge accounting requirements in IFRS 9 prospectively. All hedging relationships that were hedging relationships under IAS 39 at the 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at January 1, 2018 and are therefore regarded as continuing hedging relationships.

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

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

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

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

- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The hedged item is reliably measurable; and
- The hedging relationship meets all of the hedge effectiveness requirements described above at inception and on an ongoing basis. The Credit Union has chosen to test the effectiveness of its hedges on a monthly basis.

3. Summary of significant accounting policies (continued)

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position. The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

For fair value hedges that meet the hedging documentation criteria, the hedged asset is adjusted for fair value changes attributable to the risk being hedged and the hedging instrument is measured at fair value. Gains and losses resulting from changes in the fair value are recorded in the statement of comprehensive income as other income.

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the accumulated other comprehensive income to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss.

Other non-hedge derivatives
The Credit Union classifies certain financial assets upon initial recognition at fair value through profit or loss. Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits, foreign exchange forward contracts and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Foreign exchange contracts are used to hedge the Credit Union's net US dollar liability position.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The adoption of IFRS 15 did not have a significant impact on the timing or amount of revenue recognized by the Credit Union in any year.

3. Summary of significant accounting policies (continued)

Loans to members
Loans are initially measured at fair value and subsequently re-measured at their amortized cost, net of allowance, using the effective interest rate method.

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

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

Bad debts written off
Bad debts are written off from time to time as determined by management and approved by the Chief Executive Officer, and reported to the Board of Directors, when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

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

Interest income and expense
Interest income and expense is recognized in the statement of comprehensive income for all interest-bearing financial instruments classified as held to maturity, available for sale, loans and receivables and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

3. Summary of significant accounting policies (continued)

In calculating the effective interest, the Credit Union estimates cash flows (using projections based on its experience of members' behavior) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

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

Buildings	20 to 40 years
Equipment and furniture	3 to 10 years
Electronic equipment	5 years
Capital and leasehold improvements	5 to 10 years
Vehicles	5 years

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets consist of the fair value of core deposit intangibles representing the cost savings inherent in acquiring a deposit portfolio with a lower cost of funding versus going into the market for the funds. Intangible assets with a limited life are amortized to income on a straight-line basis over the period which the assets are anticipated to provide economic benefit, which is currently 3 years. Residual values and useful lives are reviewed at each reporting date.

Leased assets

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

Deposits

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

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

Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, the shares are classified as equity, as per IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Patronage distributions are recognized in net income or members' equity when circumstances indicate the Credit Union has a constructive obligation that it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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

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

3. Summary of significant accounting policies (continued)

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

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

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

IFRS 16 'Leases'
IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Credit Union has decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Credit Union:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Credit Union has reassessed these leases and concluded they will be recognized on the statement of financial position as a right-of-use asset
- believes that the most significant impact will be that the Credit Union will need to recognize a right of use asset and a lease liability for the office buildings currently treated as operating leases.

At December 31, 2018 the future minimum lease payments amounted to $3,200,000. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense

The Credit Union is planning to adopt IFRS 16 on January 1, 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative information is not restated. Choosing this transition approach results in further policy decisions the Credit Union need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Credit Union is currently assessing the impact of applying these other transitional reliefs.

4. Significant management judgment in applying accounting policies and estimation uncertainty

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

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

Estimates

Impairment
An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

The actual results may vary, and may cause significant adjustments to the Credit Union's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets
Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2018, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Business combinations
Management applies valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. Management's estimates were based on observable market data when available and its best estimate to determine the fair values of all assets acquired and liabilities assumed. Actual results may vary from management's estimate.

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

4. Significant management judgment in applying accounting policies and estimation uncertainty (continued)

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

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

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

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

Judgments

Allowance for credit losses
In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant.

Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

(In thousands)

5. Cash and cash equivalents

		2018		2017
Cash, current accounts, items in transit net of bank indebtedness	$	**14,417**	$	9,581
Net term deposits callable or maturing in three months or less		**4**		4
	$	**14,421**	$	9,585

The Credit Union maintains its current accounts and term deposits with Central 1.

6. Investments

		2018		2017
Liquidity reserves	$	**66,969**	$	66,468
Portfolio investments		**-**		2,027
Central 1 Credit Union shares		**5,823**		6,220
Corporate bonds		**2,808**		3,775
Corporate equities		**1,305**		1,548
Other investments		**128**		42
	$	**77,033**	$	80,166

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets as at the conclusion of each month. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within three years. At maturity, these deposits are reinvested at market rates for various terms.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. The Credit Union’s allocation of Central 1 shares is based on asset size relative to other Class “A” members. Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. The Credit Union does not intend to dispose of any Central 1 shares in the near future. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

The portfolio investments were comprised of mortgage backed securities purchased in 2016. These investments matured during 2018.

(In thousands)

6. Investments (continued)

The corporate bonds and corporate equities investments are held with Bank of Nova Scotia and the Royal Bank of Canada, have varying maturity dates, and are classified as FVTPL.

Other investments are comprised of an investment portfolio and certain other assets and liabilities of the ABCP LP by CUCO Co-op as well as Ficanex Partnership Units and are classified as FVTPL.

On June 18, 2011, Credit Unions voted on the purchase of the investment portfolio and certain other assets and liabilities of the ABCP LP by CUCO Co-op. As of December 31, 2018, the Credit Union holds 911,440,540 Class B Investment Shares, which is 2.6128% of the total Class B Investment Shares outstanding.

7. Loans to members

	2018	2017
Residential mortgage loans bear interest at an average annual rate of 3.35% and are receivable in blended principal and interest instalments for a maximum amortization period of 35 years. Some mortgages are open and at the option of the borrower may be paid off at any time without notice or penalty. Principal amount due within one year is estimated at $ 265,323.	**$ 677,072**	$ 670,911
Personal loans and lines of credit bear interest at an average annual rate of 5.43% and are receivable in blended principal and interest instalments for a maximum amortization period of 15 years. Principal amount due within one year is estimated at $ 14,925.	**44,577**	46,968
Commercial mortgage loans bear interest at an average annual rate of 4.82% and are receivable in blended principal and interest instalments for a maximum amortization period of 20 years. Principal amount due within one year is estimated at $ 101,067.	**297,158**	265,472
Accrued interest receivable	**1,415**	1,227
	1,020,222	984,578
Less: Expected credit loss	**1,952**	-
Less: Allowance for impaired loans	**-**	1,799
	$ 1,018,270	$ 982,779

(In thousands)

7. Loans to members (continued)

Concentration of risk

The Credit Union has an exposure to groupings of individual loans or related groups of member loans which exceed 10% of members' equity. There are 11 loan connections with balances outstanding greater than 10% of members' equity ranging from $ 5,065,000 to $ 11,553,000.

The Credit Union's allowance for impaired loans was calculated in accordance with By-Law No. 6 of the Deposit Insurance Corporation of Ontario (DICO).

Allowance for Expected Credit Loss

	Beginning Balance	Provision	Write-offs Less Recoveries	**IFRS 9 2018** Ending Balance
Personal	$ 561	$ 279	$ (295)	**$ 545**
Residential	326	(114)	-	**212**
Commercial	912	283	-	**1,195**
	$ 1,799	$ 448	$ (295)	**$ 1,952**

Allowance for impaired loans

	Beginning Balance	Provision	Write-offs Less Recoveries	**IAS 39 2017** **Ending Balance**
Specific	$ 391	$ 183	$ (185)	**$ 389**
Collective	1,181	229	-	**1,410**
	$ 1,572	$ 412	$ (185)	**$ 1,799**

	Beginning Balance	Provision	Write-offs Less Recoveries	**IAS 39 2017** **Ending Balance**
Personal	$ 444	$ 173	$ (185)	**$ 432**
Commercial	1,128	239	-	**1,367**
	$ 1,572	$ 412	$ (185)	**$ 1,799**

(In thousands)

7. Loans to members (continued)

The following tables reconcile the opening and closing allowance for loans to members, by stage, for each major product category. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding re-measurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period, including those assets that were derecognized following a modification of terms.
- De-recognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.
- Re-measurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended December 31 2018, there were no significant changes to the models used to estimate expected credit losses.

Allowance for credit losses

Personal		Performing Stage 1		Performing Stage 2		Performing Stage 3		**IFRS 9 2018** Ending Balance
Balance, beginning of period	$	346	$	36	$	179	**$**	**561**
Purchases and Originations		-		-		-		**-**
Re-measurements		26		34		219		**279**
Write-offs		-		-		(295)		**(295)**
Balance, Ending of Period	$	372	$	70	$	103	**$**	**545**

Residential		Performing Stage 1		Performing Stage 2		Performing Stage 3		**IFRS 9 2018** Ending Balance
Balance, beginning of period	$	265	$	61	$	-	**$**	**326**
Re-measurements		(108)		(6)		-		**(114)**
Write-offs		-		-		-		**-**
Balance, Ending of Period	$	157	$	55	$	-	**$**	**212**

(In thousands)

7. Loans to members (continued)

Commercial		Performing Stage 1		Performing Stage 2		Performing Stage 3		IFRS 9 2018 Ending Balance
Balance, beginning of period	$	281	$	600	$	31	**$**	**912**
Purchases and Originations		-		-		-		**-**
Re-measurements		121		193		(31)		**283**
Write-offs		-		-		-		**-**
Balance, Ending of Period	$	402	$	793	$	-	**$**	**1,195**

There were no changes in stages during the year.

Key assumptions in determining the allowance for impaired loans collective provision

The measurement of ECL is a complex calculation that involves a large number of interrelated variables. The key drivers of changes in ECL include the following:

- Changes in the credit quality of the borrower or instrument, reflected in changes in internal or external risk ratings. The Credit Union's risk rating process assigns a score to each commercial and agriculture loan based on industry standards as outlined by the Deposit Insurance Corporation of Ontario ("DICO"). Residential mortgages and personal loans are assigned a risk rating collectively by product type and security. All commercial and revolving residential mortgages/personal loans are reviewed annually and their risk ratings updated accordingly;
- Changes in forward-looking macroeconomic conditions. Management utilizes statistically significant provincial data for unemployment rates and real estate rates and national data for real GDP, household debt levels and government of Canada 3-month bond rates;
- Changes in scenario design and the weights assigned to each scenario; and
- Migration between stages, which can be triggered by changes to any of the above inputs.

(In thousands)

7. Loans to members (continued)

At December 31st, the balances of loans in arrears within the portfolio (excluding accrued interest) were as follows:

2018

	Residential Mortgages	Personal Loans	Commercial Mortgages	Total
Current	**$ 657,998**	**$ 42,794**	**$ 293,477**	**$ 994,269**
Days in arrears:				
Less than 30 days	16,056	1,467	22	17,545
30-89 days	2,828	123	3,659	6,610
90-179 days	-	92		92
More than 180 days	190	101	-	291
Total	**$ 677,072**	**$ 44,577**	**$ 297,158**	**$ 1,018,807**

2017

	Residential Mortgages	Personal Loans	Commercial Mortgages	Total
Current	$ 655,390	$ 45,230	$ 262,849	$ 963,469
Days in arrears:				
Less than 30 days	12,595	1,246	2,294	16,135
30-89 days	2,546	117	-	2,663
90-179 days	190	167	329	686
More than 180 days	190	208	-	398
Total	**$ 670,911**	**$ 46,968**	**$ 265,472**	**$ 983,351**

8. Mortgage securitizations

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

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the statement of financial position.

	2018	2017
Carrying amounts of assets, included in loans to members	**$ 241,023**	$ 262,498
Carrying amount of associated liabilities, recognized as secured borrowings	**$ 246,231**	$ 265,408

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

(In thousands)

9. Property and equipment

	Land	Buildings	Equipment & Furniture	Electronic Equipment	Leasehold Improvements	Vehicles	Total
Cost							
Balance on December 31, 2016	$ 2,570	$ 4,358	$ 3,092	$ 3,808	$ 3,574	$ 28	$ 17,430
Additions	-	-	292	314	723	-	1,329
Disposals	-	-	(17)	(53)	(154)	-	(224)
Balance on December 31, 2017	2,570	4,358	3,367	4,069	4,143	28	18,535
Additions	-	-	150	485	131	-	766
Disposals	(920)	(888)	(169)	(98)	(1,090)	-	(3,165)
Balance on December 31, 2018	$ 1,650	$ 3,470	$ 3,348	$ 4,456	$ 3,184	$ 28	$ 16,136
Accumulated depreciation							
Balance on December 31, 2016	$ -	$ 960	$ 2,394	$ 2,951	$ 2,458	$ 14	$ 8,777
Depreciation expense	-	122	175	235	265	6	803
Disposals		-	(3)	(11)	(113)	-	(127)
Balance on December 31, 2017	-	1,082	2,566	3,175	2,610	20	9,453
Depreciation expense	-	88	198	301	296	6	889
Disposals	-	(737)	(169)	(98)	(1,051)	-	(2,055)
Balance on December 31, 2018	$ -	$ 433	$ 2,595	$ 3,378	$ 1,855	$ 26	$ 8,287
Net book value							
December 31, 2017	$ 2,570	$ 3,276	$ 801	$ 894	$ 1,533	$ 8	$ 9,082
December 31, 2018	**$ 1,650**	**$ 3,037**	**$ 753**	**$ 1,078**	**$ 1,329**	**$ 2**	**$ 7,849**

(In thousands)

10. Other assets

		2018		2017
Prepaid expenses	**$**	**1,292**	$	1,087
Other accounts receivable		**4,392**		2,158
	$	**5,684**	$	3,245

11. Intangible asset

The Credit Union has recorded an intangible asset for the core deposits obtained from the acquisitions of Toronto Catholic School Board Employees Credit Union in 2013, Prosperity ONE Credit Union in 2014 and MemberOne Credit Union in 2017. The intangible assets acquired from the 2013 and 2014 acquisitions were fully amortized as of December 31, 2016.

		Core Deposits
Cost		
Balance on December 31, 2018	$	1,535
Accumulated amortization		
Balance at December 31, 2016	$	1,261
Amortization expense		7
Balance on December 31, 2017		1,268
Amortization expense		92
Balance on December 31, 2018	$	1,360
Net book value		
December 31, 2017	$	267
December 31, 2018	**$**	**175**

12. Derivative financial instruments

a) Asset liability management

In the ordinary course of business, the Credit Union purchases derivative instruments from Central 1 and Concentra in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates; the purpose of these instruments is to provide a hedge against interest rate fluctuations by improving the Credit Union's matching of its asset and liability position.

b) Foreign exchange forward contracts

The Credit Union offers deposit products denominated in US dollars. In order to meet liquidity reserve requirements the Credit Union sells US dollars and purchases US dollar foreign exchange contracts to hedge the exchange risk.

The following table summarizes the notional amounts and fair value of the Credit Union's derivative portfolio as at December 31, 2018 and 2017.

(in thousands)						**December 31, 2018**
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Fair Value Assets**	**Fair Value Liabilities**
Pay fixed interest rate swaps	**$ -**	**$ 4,147**	**$ -**	**$ 4,147**	**$ -**	**$ 85**
Rec. fixed interest rate swaps		**-**	**-**	**-**	**-**	**-**
Bond forwards	**20,000**	**-**	**-**	**20,000**	**-**	**217**
Foreign exchange forward contracts	**2,000**	**-**	**-**	**2,000**	**80**	**-**
December 31, 2018 total	**$ 22,000**	**$ 4,147**	**$ -**	**$ 26,147**	**$ 80**	**$ 302**

(in thousands)						December 31, 2017
	Within 1 year	1 to 5 years	Over 5 years	Total	Fair Value Assets	Fair Value Liabilities
Pay fixed interest rate swaps	$ -	$ 3,336	$ 974	$ 4,310	$ -	$ 125
Rec. fixed interest rate swaps	50,000	-	-	50,000	-	304
Bond forwards	10,000	-	-	10,000	11	-
Foreign exchange forward contracts	2,447	-	-	2,447	-	66
December 31, 2017 total	$ 62,447	$ 3,336	$ 974	$ 66,757	$ 11	$ 495

(In thousands)

12. Derivative financial instruments (continued)

Index linked term deposits

The Credit Union offers deposit products linked to changes in the stock exchange index. The Credit Union hedges the underlying risk of these products by entering into an interest rate contract with an approved counterparty.

Consequently, the Credit Union has entered into a hedge agreement with Central 1 to offset the exposure associated with this product, whereby the Credit Union pays Central 1 a fixed rate of interest for three or five years on the face value of the Index-Linked Term Deposits sold. At the end of the term, Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the terms and conditions of the index linked contract. The Credit Union has sold $ 2,905,000 (2017 - $ 4,062,000) of various Index-Linked Term Deposit products to its members.

As at December 31, 2018, the hedge agreements had fair values of $125,000 (2017 – $ 356,000) which have been recorded as both an asset and liability on the statement of financial position.

13. External borrowings

Assets have been pledged as security for $ 68,510,000 (2017 - $ 49,703,000) of authorized credit facilities at Central 1 by an assignment of book debts and a general security agreement. As at December 31, 2018, the Credit Union had utilized $ Nil (2017 - $ Nil) of the line of credit and $ Nil (2017 - $ Nil) of the term loans.

14. Deposits of members

	2018	2017
Term and other deposits	**$ 340,127**	$ 286,900
Registered retirement savings plan deposits	**113,944**	119,281
Registered retirement income fund deposits	**51,582**	46,132
Other registered deposits	**6,231**	5,593
Chequing and savings	**290,169**	295,171
Accrued interest on deposits	**5,076**	3,739
	$ 807,129	$ 756,816

The average composite interest rate in force at December 31, 2018 was 1.54% (2017 – 1.31%).

(In thousands)

15. Shares

	2018		2017	
	Liability	**Equity**	Liability	Equity
Membership shares	**$ 721**	**$ -**	$ 734	$ -
Profit shares	**253**	**2,120**	239	2,296
Investment shares	**1,145**	**26,836**	1,110	26,102
	$ 2,119	**$28,956**	$ 2,083	$ 28,398

These shares are not covered by deposit insurance.

Membership shares
Membership shares, which are classified as a liability, represent a residual interest in the equity of the Credit Union. Membership shares are redeemable upon the request of the member and approval of the directors.

Shares are subscribed for at a par value of $ 5 per share, but payment may be made in instalments. A member is not liable to the Credit Union for amounts subscribed for in excess of the amount actually paid. Members over the age of 18 are required to retain a minimum of 5 shares as a condition of membership. There were 29,570 members with membership shares at December 31, 2018 (2017 – 30,039).

Profit shares
The Credit Union is authorized to issue an unlimited number of Class A non-voting, non-cumulative, non-participating, non-transferable, redeemable profit shares. These shares have been distributed to the membership based on average loan and deposit balances outstanding.

Profit shares are a special class of patronage shares created by the Credit Union. The Credit Union by-law restricts aggregate annual redemptions to a maximum of ten percent of the number of Class A shares issued and outstanding at the end of the immediately preceding fiscal year. There were approximately 2,373,000 profit shares issued and outstanding at December 31, 2018 (2017 – 2,535,000).

15. Shares (continued)

Investment shares

The Credit Union is authorized to issue an unlimited number of Class B non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 2,000 shares per member required to a maximum of 100,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of the Credit Union. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that the Credit Union is in compliance with Section 84 of the Credit Union and Caisses Populaires Act, 1994. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 Basis Points the simple average of the Credit Union's posted non-callable five-year term deposit rates as of the end of each quarter of the Credit Union's fiscal year. There were approximately 5,435,000 investment shares issued and outstanding at December 31, 2018 (2017 – 5,286,000).

The Credit Union is authorized to issue an unlimited number of Class B – Series 2 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 185,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of the Credit Union. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that the Credit Union is in compliance with Section 84 of the Act. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 Basis Points the simple average of the Credit Union's posted non-callable five-year term deposit rates as of the end of each quarter of the Credit Union's fiscal year. There were approximately 6,338,000 investment shares issued and outstanding at December 31, 2018 (2017 – 6,162,000).

(In thousands)

15. Shares (continued)

The Credit Union is authorized to issue an unlimited number of Class B – Series 2016 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 250,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of the Credit Union. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that the Credit Union is in compliance with Section 84 of the Act. An appropriate rate has been defined by the directors as a rate which is the greater of 4.10% or that rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada for fiscal years ending before December 31, 2012. For fiscal years ending after that date, the Board had defined an appropriate rate to be equal to or great than the rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada. There were approximately 16,208,000 investment shares issued and outstanding at December 31, 2018 (2017 – 15,764,000).

16. Distributions to members	**2018**	2017
Investment and profit share dividends	**$ 1,128**	$ 1,097

(In thousands)

17. Income taxes

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

	2018	2017
Current tax expense		
Based on current year taxable income	**$ 1,301**	$ 418
Deferred tax benefit		
Origination and reversal of temporary differences	**-**	(122)
Tax rate changes	**(6)**	-
Other	**292**	(44)
	286	(166)
Total income tax expense	**$ 1,587**	$ 252

	2018	2017
Deferred tax assets (liabilities) relate to:		
Non-deductible allowance for doubtful accounts	**$ 325**	$ 336
Contributed surplus and core deposits	**(91)**	(95)
Property and equipment	**(221)**	(27)
Other reserves	**39**	-
Total deferred tax assets (liabilities)	**$ 52**	$ 214

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 18.5% (2017 – 19.5%) are as follows:

	2018	2017
Net income for the year	**$ 8,089**	$ 3,854
Expected taxes based on the statutory rate of 18.5% (2017 – 19.5%)	**1,496**	752
Distributions to members charged against retained earnings	**(209)**	(214)
Non-taxable dividend received	**-**	(233)
Other non-deductible portion of expenses	**5**	4
Rate differences	**6**	-
Contributed surplus and other	**(3)**	(13)
Other	**292**	(44)
Total income tax expense	**$ 1,587**	$ 252

(In thousands)

18. Other income

		2018		2017
Service charges, commissions and other	**$**	**3,596**	$	4,445
Gain on sale of land and building		**4,589**		-
Wealth management		**1,323**		1,332
	$	**9,508**	$	5,777

19. Related party transactions

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

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures.*

		2018		2017
Compensation				
Salaries and other short-term employee benefits	**$**	**1,706**	$	1,631
Total pension and other post-employment benefits		**89**		87
	$	**1,795**	$	1,718
Loans to key management personnel				
Aggregate value of loans balance	**$**	**594**	$	644
Interest received on loans advanced		**76**		68
Total value of lines of credit advanced		**2,675**		2,528
Unused value of lines of credit		**932**		764

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

		2018		2017
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**2,758**	$	2,581
Total interest paid on term and saving deposits		**27**		11

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

(In thousands)

20. Other required disclosures

The following disclosures are required under the Credit Union and Caisses Populaires Act, 1994.

The Credit Union and Caisses Populaires Act, 1994 requires disclosure of the five highest paid officers and employees of the Credit Union over $ 150,000. The names, positions and remuneration paid during 2018 of those officers and employees are as follows:

Name	Title	Salary & Variable Compensation	Benefits	Total Remuneration
Richard Davies	President & CEO	$ 452,000	$ 69,000	$ 521,000
Kathy Clark	SVP, Sales/Service & Operations	236,000	27,000	263,000
Sandy Alward	SVP, Finance	231,000	26,000	257,000
Sarnjit Nijjar	SVP Credit Services	221,000	26,000	247,000
Cathie Vaillancourt	Sr Wealth Advisor	93,000	112,000	205,000

The aggregate remuneration paid to directors was $ 126,000 in 2018 (2017 - $ 125,000).

At December 31, 2018 loans to directors and officers of the Credit Union amounted to $ 3,269,000 (2017 - $ 3,172,000). All such loans were granted in accordance with normal lending terms, except for certain loans to officers at reduced rates.

21. Commitments

Lease commitments and banking system support contract
The Credit Union is committed to the use of an outside data processing service until December 31, 2021. Charges for these services are based on usage.

The Credit Union rents space for its branches under long term leases.

The future minimum commitments in each of the next five years are as follows:

2019	$ 1,175
2020	754
2021	391
2022	234
2023	66
2024 and thereafter	116

Mortgage and loan commitments
The Credit Union has made commitments to disburse mortgages and loans of $ 7,260,000 (2017 – $ 2,783,000) subsequent to the year end.

Total unextended lines of credit at year end are $ 256,155,000 (2017 - $ 247,490,000). Total letters of credit at year end are $ 4,089,000 (2017 - $ 3,112,000).

(In thousands)

22. Cash flow support

	2018	2017
Changes in other non-cash items:		
Change in other assets	$ (2,439)	$ 2,242
Change in prepaid securitization fees	243	(519)
Change in payables and accruals	265	6
	$ (1,931)	$ 1,729

23. Regulatory capital

The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at the following minimum levels:

% leverage ratio assets	% risk capital ratio weighted assets
4.00	8.00

The Credit Union is in compliance with the Act and regulations regarding regulatory capital.

	2018	2017
Tier 1 Capital		
Membership shares	$ 721	$ 734
Profit shares	2,120	2,296
Investment shares	26,836	26,102
Contributed surplus	14,366	11,999
Retained earnings	23,494	18,120
Total tier 1 capital	67,537	59,251
Tier 2 Capital		
10% of redeemable profit shares	253	239
10% of redeemable investment shares	1,145	1,110
Allowance for credit losses (stage 1 & 2)	1,849	-
Collective provision	-	1,410
Accumulated other comprehensive income	13	13
Total tier 2 capital	3,260	2,772
Total regulatory capital	$ 70,797	$ 62,023
% of total assets	6.3	5.7
% of total risk-weighted assets	13.2	12.6

(In thousands)

23. Regulatory capital (continued)

The Credit Union manages its capital under guidelines established by the Deposit Insurance Corporation of Ontario. The regulatory capital guidelines measure capital in relation to assets and risk-weighted assets. The Credit Union has capital policies, procedures and controls which it utilizes to achieve its goals and objectives including: providing sufficient capital to maintain the confidence of investors and depositors, and being an appropriately capitalized Credit Union, as measured internally, defined by regulatory authorities and compared with the Credit Union's peers.

24. Financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for property and equipment or any other asset that is not a financial instrument.

	Book Value	Estimated Fair Value	Fair Value Over (Under) Book Value
Balance at December 31 2018			
Financial assets			
Fair value through profit or loss			
Derivative financial instruments	$ 205	$ 205	$ -
Corporate bonds	2,808	2,808	-
Corporate equities	1,305	1,305	-
Central 1 Credit Union Shares	5,823	5,823	-
Other Investments	128	128	-
Amortized cost			
Cash and cash equivalents	$ 14,421	$ 14,421	$ -
Loans to members	1,018,270	1,004,388	(13,882)
Liquidity reserves	66,969	67,437	468
Financial liabilities			
Amortized cost			
Deposits of members	$ 807,129	$ 801,890	$ (5,239)
Shares	2,119	2,119	-
Secured borrowings	246,231	246,231	-
Fair value through profit or loss			
Derivative financial instruments	$ 427	$ 427	$ -

(In thousands)

24. Financial instruments (continued)

Balance at December 31 2017	Book Value	Estimated Fair Value	Fair Value Over (Under) Book Value
Financial assets			
Available for sale			
Central 1 Credit Union shares	$ 6,220	$ 6,220	$ -
Other Investments	128	128	-
Fair value through profit or loss			
Derivative financial instruments	291	291	-
Held to maturity			
Corporate bonds	3,775	3,775	-
Canadian equities	1,548	1,548	-
Portfolio Investments	2,027	2,027	-
Loans and receivables			
Cash and cash equivalents	9,585	9,585	-
Loans to members	982,779	975,378	(7,401)
Liquidity reserves	66,468	66,461	(7)
Financial liabilities			
Other liabilities			
Deposits of members	$ 756,816	$ 758,100	$ 1,284
Shares	2,083	2,083	-
Secured borrowings	265,408	265,408	-
Fair value through profit or loss			
Derivative financial instruments	$ 775	$ 775	$ -

24. Financial instruments (continued)

The differences between the book and fair values of the Credit Union's loans, deposits and of other financial instruments are due primarily to changes in interest rates. The carrying value of the Credit Union's loans to and deposits of members are not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

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

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

The level, within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of financial instruments:

(a) The fair value of cash and cash equivalents and external borrowings is assumed to approximate their book values, due to their short term nature. These assets and liabilities are classified as Level 1 financial instruments as they are valued using quoted market prices in active markets.

(b) The estimated fair value of loans carried at amortized cost reflects changes in market price that have occurred since the loans were originated. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at current market interest rates for loans with similar credit risks. Fixed rate loans and deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. For floating-rate loans, changes in interest rates have minimal impact on fair value since loans reprice to the market frequently. On that basis, fair value is assumed to approximate carrying value. Floating-rate loans are classified as Level 2 financial instruments.

(c) The estimated fair value of fixed rate investments and fixed rate deposits is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. Fixed rate deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. Fixed rate investments are classified as Level 2 financial instruments as they are valued using observable inputs other than quoted market prices. For deposits with no defined maturities, fair value is considered to approximate carrying value, and these deposits are classified as Level 2 financial instruments.

24. Financial instruments (continued)

(d) The estimated fair value of the investment in the CUCO Co-op is determined on a periodic basis by the CUCO Co-operative Association based on the determined or estimated characteristics of the notes, including the interest rate, maturity date, and credit rating. The CUCO Co-operative Association estimates the yield that a potential investor would require in order to purchase each note. This information is used to calculate a net present value for each class of notes. The investment in the CUCO Co-op is classified as a Level 3 financial instrument as it is valued using unobservable inputs.

(e) The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. These are classified as a Level 2 financial instrument as it is valued using observable inputs.

(f) There have been no reclassifications between Level 2 and Level 3 during the year. A sensitivity analysis is not provided for Level 3 loans and deposits as their fair value would only change as a result of credit risk inputs and these inputs are not expected to be significant.

25. Financial instrument risk management

Market risk

Market risk is the potential for profit or loss from changes in the value of financial instruments. The value of a financial instrument can be affected by changes in interest rates, foreign exchange rates, equity and commodity prices and credit spreads.

The Credit Union is exposed to market risk in the investment portfolio as well as through non-trading activities.

Market risk in investment activities is managed by the senior management of the Credit Union and the Asset Liability Committee. Every investment transaction is guided by policy and regulatory limitations.

Market risk exposure exists in non-trading Credit Union transactions with members which primarily includes deposit taking and lending. These are also referred to as “asset and liability” positions.

Asset and liability management deals with managing the market risks of the traditional Credit Union activities. Market risks primarily include interest rate risk and foreign currency risk.

25. Financial instrument risk management (continued)

Foreign currency risk

The Credit Union is subject to currency risk through its U.S. dollar denominated operating activities. Changes in the exchange rate may result in a decrease or increase in the gain or loss on foreign exchange. Activities that expose the Credit Union to currency risk are measured, monitored and controlled daily to minimize risk.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $ 150,000 in U.S. funds.

For the year ended December 31, 2018, the Credit Union's exposure to foreign exchange risk is within policy.

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

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Credit Union incurring a financial loss. The credit exposure is mitigated through the use of Board approved credit policies governing the Credit Union’s credit portfolio and with credit practices that limit transactions according to the borrowers’ credit quality. A substantial portion of the Credit Union’s loans to members are secured by residential properties. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

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

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund obligations as they come due. Demand for cash can result from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Senior management manages liquidity risk and monitors the cash and funding needs on a daily basis.

The Credit Union has set a minimum liquidity ratio of 6%.

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

(In thousands)

25. Financial instrument risk management (continued)

Structural risk

Structural risk is defined as the risk that the Credit Union's ability to meet business objectives will be adversely affected by volatility in market rates. The Credit Union manages structural risk using an Earnings at Risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Structural risk is monitored through the Structural Risk Management Policy with the objective of ensuring that the Credit Union manages its cash flows in a manner that contributes adequately to earnings and limits the risk to the financial margin and equity of the Credit Union. The objectives are also to ensure product terms, pricing and balance sheet mix, to balance member product demands with the need to protect the equity of the Credit Union, and to ensure that financial derivative instruments be used only to limit interest rate risk and not be used for speculative or investment purposes.

The Credit Union uses income simulation modelling to measure exposure to changes in interest rates over short term periods. Earnings at risk are calculated by forecasting the net interest margin for the next 12 month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast. The resulting change in the forecast as a result of interest rate shocks is then compared to the most likely forecast to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with 50 or 100 basis point volatility. At December 31, 2018, the Credit Union was in compliance with all limits set by the Structural Risk Management Policy.

Asset/Liability Management Limits	Maximum Change Limit	Projected Change to Earnings	Status
Most Likely Shocked + 100 basis points	$ (1,957,000)	$ 2,035,000	Compliant
Most Likely Shocked + 50 basis points	(1,957,000)	752,000	Compliant
Most Likely Forecast Scenario	Nil	Nil	Compliant
Most Likely Shocked - 50 basis points	(1,957,000)	(1,160,000)	Compliant
Most Likely Shocked - 100 basis points	(1,957,000)	(1,872,000)	Compliant

(In thousands)

26. Interest rate sensitivity

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

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

At December 31, 2018, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of $4,237,000 (2017 - $ 54,310,000) maturing at various times through to 2023.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

	Interest Sensitive Balances			Non-Interest Sensitive	(000's) Total
	Within 3 months	4 Months to 1 year	Over 1 to 5 years		
Assets					
Cash and cash equivalents	$ 14,421	$ -	$ -	$ -	**$ 14,421**
Yield					
Investments	1,841	3,734	65,507	5,951	**77,033**
Yield	*5.87%*	*4.23%*	3.77%		
Loans					
Fixed	25,378	83,270	617,444	-	**726,092**
Yield	*3.88%*	*3.59%*	*3.37%*		
Floating	290,763	-	-	1,415	**292,178**
Yield	*5.14%*				
Other	-	-	-	15,728	**15,728**
	$ 332,403	$ 87,004	$ 682,951	$ 23,094	**$ 1,125,452**
Liabilities					
Deposits					
Fixed	$ 34,228	$ 194,301	$ 230,750	$ 5,076	**$ 464,355**
Yield	*1.91%*	*2.35%*	*2.37%*		
Floating	342,774	-	-	-	**342,774**
Yield	*0.68%*				
Other	246,231	-	-	5,263	**251,494**
Yield	*1.87%*				
Equity	-	-	-	66,829	**66,829**
Yield					
	$ 623,233	$ 194,301	$ 230,750	$ 77,168	**$ 1,125,452**
Interest sensitivity position 2018	$ (290,830)	$ (107,297)	$ 452,201	$ (54,074)	$ **-**
Interest sensitivity position 2017	$ (337,441)	$ 27,111	$ 356,802	$ (46,472)	$ **-**