Vancouver Firefighters Credit Union
Financial Statements
December 31, 2019

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Contents

For the year ended December 31, 2019

Management's Responsibility

To the Members of Vancouver Firefighters Credit Union:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 27, 2020

General Manager

Independent Auditor's Report

To the Members of Vancouver Firefighters Credit Union:

Opinion

We have audited the financial statements of Vancouver Firefighters Credit Union (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in members' equity and 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 the Credit Union as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Abbotsford, British Columbia

February 27, 2020

MNP LLP

Chartered Professional Accountants

Vancouver Firefighters Credit Union
Statement of Financial Position
As at December 31, 2019

	2019	*2018*
Assets		
Cash and cash equivalents *(Note 5)*	**3,302,739**	2,264,180
Member loans receivable *(Note 6)*	**14,153,765**	12,972,960
Investments and other assets *(Note 7)*	**988,977**	981,319
Equipment and leaseholds *(Note 8)*	**-**	1,291
Intangible assets *(Note 9)*	**128,119**	122,960
	18,573,600	16,342,710
Liabilities		
Member deposits *(Note 11)*	**16,508,172**	14,337,667
Accounts payable and accrued liabilities	**74,487**	71,781
Member shares *(Note 12)*	**51,947**	51,749
Income taxes payable	**1,177**	12,702
Deferred tax liabilities *(Note 13)*	**7,800**	10,800
	16,643,583	14,484,699

Commitments *(Note 16)*

Members' equity		
Retained earnings	**1,930,017**	1,858,011
	18,573,600	16,342,710

Approved on behalf of the Board

C. Stone

Director

Director

The accompanying notes are an integral part of these financial statements

Vancouver Firefighters Credit Union
Statement of Comprehensive Income
For the year ended December 31, 2019

	2019	*2018*
Interest income		
Member loans	**625,371**	586,603
Investments	**83,427**	69,953
	708,798	656,556
Interest expense		
Member demand deposits	**13,391**	12,124
Member term deposits	**150,613**	108,184
Registered saving plans	**4,665**	5,293
	168,669	125,601
Gross financial margin	**540,129**	530,955
Operating expenses		
Administration *(Schedule 1)*	**149,259**	149,352
Depreciation	**24,110**	21,228
Personnel	**224,598**	208,456
	397,967	379,036
Operating income	**142,162**	151,919
Provision for loan impairment *(Note 16)*	**15,000**	10,000
Income before distribution to members and income taxes	**127,162**	141,919
Distribution to members *(Note 12)*	**47,277**	44,031
Income before income taxes	**79,885**	97,888
Provision for (recovery of) income taxes *(Note 13)*		
Current	**10,879**	12,702
Deferred	**(3,000)**	(6,300)
	7,879	6,402
Comprehensive income	**72,006**	91,486

The accompanying notes are an integral part of these financial statements

	Retained earnings
Balance December 31, 2017	**1,766,525**
Comprehensive income	91,486
Balance December 31, 2018	**1,858,011**
Comprehensive income	72,006
Balance December 31, 2019	**1,930,017**

The accompanying notes are an integral part of these financial statements

Vancouver Firefighters Credit Union
Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Comprehensive income	**72,006**	91,486
Depreciation	**24,110**	21,228
Deferred income tax	**(3,000)**	(6,300)
Provision for loan impairment	**15,000**	10,000
Changes in non-cash working capital accounts		
Accrued interest on member loans	**(2,474)**	(1,592)
Income taxes payable	**(11,525)**	12,702
Accrued interest on member deposits	**18,997**	8,699
Accounts payable and accrued liabilities	**2,705**	9,268
	115,819	145,491
Financing activities		
Net change in member deposits	**2,151,508**	(446,923)
Net change in member shares	**198**	1,096
	2,151,706	(445,827)
Investing activities		
Net change in member loans receivable	**(1,193,330)**	350,176
Net change in investments and other assets	**(7,658)**	(10,218)
Purchases of intangible assets	**(27,978)**	-
	(1,228,966)	339,958
Increase in cash and cash equivalents	**1,038,559**	39,622
Cash and cash equivalents, beginning of year	**2,264,180**	2,224,558
Cash and cash equivalents, end of year	**3,302,739**	2,264,180

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Vancouver Firefighters Credit Union (the "Credit Union") was formed pursuant to the Credit Union and Caisses Populaires Act of British Columbia and operates one Credit Union branch. the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia ("the Act").

The Credit Union primarily serves members in the lower mainland area of British Columbia. The address of the Credit Union's registered office is Suite 2, 2801 Quebec Street, Vancouver, British Columbia, Canada.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

These financial statements for the year ended December 31, 2019 were approved by the Board of Directors on February 27, 2020.

2. Basis of preparation

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

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 that 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.

2. Basis for preparation *(Continued from previous page)*

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates;
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument;
- The correlation between credit risk on all lending facilities of the same borrower;
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features;
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes;
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date;
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements;
- Estimates of effective interest rates used in incorporating the time value of money.

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with economic variables, such as:

- Interest rates,
- Unemployment rates,
- Inflation,
- Loan to Value ratios.

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

3. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2019. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IAS 1 Presentation of financial statements
- IAS 16 Property, plant and equipment
- IAS 38 Intangible assets

3. Change in accounting policies *(Continued from previous page)*

Leases

Effective January 1, 2019 (hereafter referred to as the "date of initial application"), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives*, and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, if any. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards.

The application of the standard has resulted in a change in the Credit Union's accounting policy for recognition of leases.

Initial application of IFRS 16

There was no material impact on the financial statements from the modified retrospective application of IFRS 16 *Leases*.

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central 1 term deposits

Central 1 term deposits are accounted for at amortized cost. Prior to January 1, 2018, Central 1 term deposits were accounted for at fair value through profit and loss.

Central 1 shares and portfolio investments

Investments in securities are measured at fair value, with adjustments recognized in profit or loss. Prior to January 1, 2018, Central 1 shares and portfolio investments were accounted for at fair value through other comprehensive income.

Member loans receivable

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

4. Significant accounting policies *(Continued from previous page)*

Equipment and leaseholds

Equipment and leaseholds are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of equipment and leaseholds have different useful lives, they are accounted for as separate items of equipment and leaseholds. Depreciation is provided using the straight-line method at rates intended to amortize the cost of the assets over their estimated useful lives:

	Rate
Computer equipment	5 years
Furniture and equipment	3-15 years
Leaseholds	10 years

The useful lives of equipment and leaseholds are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of equipment and leaseholds are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings as other operating income or other operating costs, respectively.

Intangible assets

Amortization on limited life intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for intangibles with definite lives are as follows:

Computer software	10 years

The useful life of intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in profit or loss as other operating income or other operating costs, respectively.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. Significant accounting policies *(Continued from previous page)*

Member deposits

Member deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments.*

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in comprehensive income for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in comprehensive income.

4. Significant accounting policies *(Continued from previous page)*

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Classification is as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of member loans and Central 1 term deposits.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and charges in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of Central 1 shares and portfolio investments.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, and the significance and frequency of sales of the financial asset in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

4. Significant accounting policies *(Continued from previous page)*

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

4. Significant accounting policies *(Continued from previous page)*

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Financial instruments classified as other financial liabilities include all member deposits, member shares, borrowings, and accounts payable and accrued liabilities. All financial liabilities are initially measured at fair value. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Investment income

Investment income is recorded in profit or loss when the Credit Union's right to receive payments is established, it is probable that the economic benefits associated with the income will flow to the Credit Uñion, and the amount can be measured reliably.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

4. Significant accounting policies *(Continued from previous page)*

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

5. Cash and cash equivalents

	2019	*2018*
Cash	**2,891,890**	2,028,395
Term deposits maturing in less than three months	**410,849**	235,785
	3,302,739	2,264,180

The Credit Union must maintain, for liquidity purposes, deposits with Central 1 equal to at least 8% of deposits and borrowings, less any cash on hand. At December 31, 2019, the Credit Union's liquidity deposits equal 25% (2018 - 22%) of the Credit Union's total deposits and borrowings less any cash on hand. At December 31, 2019, the Credit Union's liquidity deposits exceed the minimum requirement by $2.9 million (2018 - $2.0 million).

6. Member loans receivable

Principal and allowance by loan type:

			2019
	Principal	**Allowance for loan impairment**	**Net carrying value**
Personal loans	3,167,217	65,000	**3,102,217**
Real estate secured	11,040,225	-	**11,040,225**
Accrued interest	11,323	-	**11,323**
Total	14,218,765	65,000	**14,153,765**

			2018
	Principal	Allowance for loan impairment	Net carrying value
Personal loans	2,992,606	50,000	2,942,606
Real estate secured	10,021,505	-	10,021,505
Accrued interest	8,849	-	8,849
Total	13,022,960	50,000	12,972,960

7. Investments and other assets

	2019	2018
Central 1 shares	**73,706**	65,918
Term deposits maturing beyond three months	**901,668**	901,838
Co-operative association shares	**12,028**	12,028
Prepaids	**1,575**	1,535
	988,977	981,319

8. Equipment and leaseholds

	Computer equipment	*Furniture and equipment*	*Leaseholds*	*Total*
Cost				
Balance at January 1, 2018	46,755	40,198	24,191	111,144
Disposals	(41,230)	-	-	(41,230)
Balance at December 31, 2018	5,525	40,198	24,191	69,914
Balance at January 1, 2019	5,525	40,198	24,191	**69,914**
Balance at December 31, 2019	5,525	40,198	24,191	**69,914**
Depreciation and impairment losses				
Balance at January 1, 2018	44,256	40,198	24,191	108,645
Depreciation	1,208	-	-	1,208
Disposals	(41,230)	-	-	(41,230)
Balance at December 31, 2018	4,234	40,198	24,191	68,623
Balance at January 1, 2019	4,234	40,198	24,191	**68,623**
Depreciation	1,291	-	-	**1,291**
Balance at December 31, 2019	5,525	40,198	24,191	**69,914**
Net book value				
At December 31, 2018	1,291	-	-	1,291
At December 31, 2019	-	-	-	-

9. Intangible assets

	Computer Software
Cost	
Balance at January 1, 2018	185,804
Balance at December 31, 2018	185,804
Balance at January 1, 2019	**185,804**
Additions	**27,978**
Balance at December 31, 2019	**213,782**
Depreciation and impairment losses	
Balance at January 1, 2018	42,823
Depreciation	20,021
Balance at December 31, 2018	62,844
Balance at January 1, 2019	**62,844**
Depreciation	**22,819**
Balance at December 31, 2019	**85,663**
Net book value	
At December 31, 2018	122,960
At December 31, 2019	**128,119**

10. Line of credit

The Credit Union has an approved borrowing limit of $500,000 (2018 - $500,000) with Central 1. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Central 1 and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment dates. As at December 31, 2019, the Credit Union has not utilized this facility.

11. Member deposits

	2019	*2018*
Savings	**1,856,408**	2,047,785
Plan 24	**5,612,710**	4,795,589
Term deposits	**8,144,715**	6,667,919
Registered savings plans	**809,325**	760,358
Accrued interest	**85,014**	66,016
	16,508,172	14,337,667

12. Member shares

Authorized:

Unlimited number of membership shares, at an issue price of $25
Unlimited number of personal shares, at an issue price of $1

Issued:

	2019	*2018*
Member shares classified as liability		
1,480 Membership shares (2018 - 1,482)	**37,291**	37,047
14,656 Personal shares (2018 - 14,702)	**14,656**	14,702
	51,947	51,749

Capital of the Credit Union is divided into two classes of shares: Membership and Personal. Both types of shares are as provided by the Credit Union Act and administered according to the terms of the Credit Union Bylaws which set out the rights, privileges, restrictions and conditions of those shares. Members are required to hold at least one membership share. During the year, the Board of Directors approved patronage of 6% (2018 – 6%) on membership shares and dividends of 1% (2018 – 1%) for a total distribution of $47,277 (2018 - $44,031).

13. Income tax

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

	2019	*2018*
Net income before tax	**79,885**	97,888
Distribution to members	**47,277**	44,031
	127,162	141,919
Income tax expense on the statutory rate	**34,334**	38,318
Preferred rate deduction	**(4,945)**	(5,292)
Items not deductible for tax purposes	**19,815**	17,444
Items deductible for tax purposes	**(27,445)**	(26,795)
Other	**(10,880)**	(10,973)
Income tax expense	**10,879**	12,702

13. Income tax *(Continued from previous page)*

The movement in 2019 deferred income tax assets and liabilities are:

	Jan 1, 2019	Recognized in comprehensive income	Dec 31, 2019
Deferred income tax assets:			
Allowance for impaired loans	1,900	2,900	**4,800**
Deferred income tax liabilities:			
Equipment and leaseholds & intangible assets	(12,700)	100	**(12,600)**
	(10,800)	3,000	**(7,800)**

The movement in 2018 deferred income tax assets and liabilities are:

	Jan 1, 2018	Recognized in comprehensive income	Dec 31, 2018
Deferred income tax assets:			
Allowance for impaired loans	1,200	700	1,900
Non-capital loss carry forward	300	(300)	-
	1,500	400	1,900
Deferred income tax liabilities:			
Equipment and leaseholds & intangible assets	(18,600)	5,900	(12,700)
	(17,100)	6,300	(10,800)

14. Related party transactions

Key management compensation of the Credit Union

Key management of the Credit Union are defined by IAS 24 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

Key management personnel ("KMP") remuneration includes the following expenses:

	2019	*2018*
Salaries and short-term employee benefits	**70,433**	70,874

14. Related party transactions *(Continued from previous page)*

Transactions with key management personnel

There are no loans that are impaired in relation to loan balances with Key Management Personnel (KMP).

There are no benefits or concessional terms and conditions applicable to the family members of Key Management Personnel. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

	2019	*2018*
Aggregate of loans to KMP	**2,220,319**	2,359,203
Less: Member shares included as liabilities	**(781)**	(756)
	2,219,538	2,358,447

	2019	*2018*
During the year the aggregate value of loans disbursed to KMP amounted to:		
Mortgages	**-**	800,000
Loans	**60,000**	48,000
	60,000	848,000

	2019	*2018*
Total interest and other revenue earned on loans to KMP	**70,185**	73,930
Total interest paid on deposits to KMP	**314**	507
Total value of member deposits from KMP	**165,550**	183,050

15. Capital management

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

The Credit Union is required under provincial legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets; each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2019, the Credit Union had a capital base approximating 28.74% (2018 - 32.07%) of the risk-weighted value.

The Credit Union employs a forward looking capital plan that is reviewed by management and the Board of Directors. The capital plan forecasts the Credit Union's capital position over a five year period. The capital plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's investment and lending policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's capital resources and objectives.

There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2019.

	2019	*2018*
Primary capital		
Retained earnings	**1,930,017**	1,858,011
Member shares	**37,291**	37,047
Deferred income tax liability	**7,800**	-
Dividends to be paid as primary capital	**372**	784
	1,975,480	1,895,842
Secondary capital		
Share of system retained earnings	**182,923**	167,986
Deductions from capital	**(128,119)**	(122,960)
Capital base	**2,030,284**	1,940,868

16. Financial instruments

The Credit Union as part of its operations carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable, investments in debt securities, and the Credit Union's lending activities.

16. Financial instruments *(Continued from previous page)*

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

16. Financial instruments *(Continued from previous page)*

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

16. Financial instruments *(Continued from previous page)*

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount represents the maximum exposure to credit risk for that class of financial asset.

				2019
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Personal loans				
Low risk	3,143,053	-	-	3,143,053
Medium risk	-	-	-	-
Default	-	-	24,164	24,164
Total gross carrying amount	3,143,053	-	24,164	3,167,217
Less: allowance for impaired loans	40,836	-	24,164	65,000
Total carrying amount of personal loans	3,102,217	-	-	3,102,217
Real estate secured				
Low risk	11,040,225	-	-	11,040,225
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	11,040,225	-	-	11,040,225
Less: allowance for impaired loans	-	-	-	-
Total carrying amount of real estate secured	11,040,225	-	-	11,040,225
Total carrying amount				14,142,442
Add: accrued interest				11,323
Member loans receivable				14,153,765

16. Financial instruments *(Continued from previous page)*

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	2018 Total
Personal loans				
Low risk	2,954,523	-	-	2,954,523
Medium risk	-	-	-	-
Defualt	-	-	38,083	38,083
Total gross carrying amount	2,954,523	-	38,083	2,992,606
Less: allowance for impaired loans	11,917	-	38,083	50,000
Total carrying amount of personal loans	2,942,606	-	-	2,942,606
Real estate secured				
Low risk	10,021,505	-	-	10,021,505
Medium risk	-	-	-	-
Defualt	-	-	-	-
Total gross carrying amount	10,021,505	-	-	10,021,505
Less: allowance for impaired loans	-	-	-	-
Total carrying amount of real estate secured	10,021,505	-	-	10,021,505
Total carrying amount				12,964,111
Add: accrued interest				8,849
Member loans receivable				12,972,960

16. Financial instruments *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the allowance for impaired loans

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Allowance for loan impairment				
Balance at January 1, 2018	1,917	-	38,083	40,000
Provision for loan impairment	10,000	-	-	10,000
Balance at December 31, 2018	11,917	-	38,083	50,000
Balance at January 1, 2019	11,917	-	38,083	50,000
Transfer to 12-month ECL	13,919	-	(13,919)	-
Provision for loan impairment	15,000	-	-	15,000
Balance at December 31, 2019	40,836	-	24,164	65,000

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value of future cash flows of a financial statement item will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. The Credit Union does not hedge its interest rate risk. See below for further information on interest rate sensitivity.

16. Financial instruments *(Continued from previous page)*

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

	Within three months	*Four months to one year*	*Over one year to five years*	*Non-Interest Sensitive*	***2019*** *Total*	*2018* *Total*
Assets						
Cash and cash equivalents	3,293,190	-	-	9,549	**3,302,739**	2,264,180
Average yield %	*1.00*	-	-	-	*0.99*	*0.99*
Investments	-	-	900,000	87,402	**987,402**	979,784
Average yield %	-	-	*2.05*	-	*1.87*	*2.14*
Member loans receivable	3,736,828	6,426,153	4,044,461	(53,677)	**14,153,765**	12,972,960
Average yield %	*6.68*	*3.60*	*4.14*	-	*4.58*	*4.48*
	7,030,018	**6,426,153**	**4,944,461**	**43,274**	**18,443,906**	16,216,923
Liabilities						
Member deposits	9,706,614	6,689,546	27,000	85,012	**16,508,172**	14,337,667
Average yield %	*0.45*	*1.98*	*1.50*	-	*1.07*	*0.91*
Accounts payable and accrued liabilities	-	-	-	74,487	**74,487**	71,781
Average yield %	-	-	-	-	-	-
Member shares	-	-	-	51,947	**51,947**	51,749
Average yield %	-	-	-	-	-	-
	9,706,614	**6,689,546**	**27,000**	**211,446**	**16,634,606**	14,461,197
Net sensitivity	**(2,676,596)**	**(263,393)**	**4,917,461**	**(168,172)**	**1,809,300**	1,755,726

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase financial margin by approximately $39,600 (2018 - $29,600). A 1.0% decrease in the interest rate would decrease financial margin by approximately $39,600 (2018 - $29,600).

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk. The acceptable amount of risk is defined by policies approved by the board and monitored by the Investment & Lending Committee.

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

16. Financial instruments *(Continued from previous page)*

The Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows;
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union's responses thereto.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with Central 1;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits.

Credit commitments

The Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, lines of credit, guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2018	*2017*
Unadvanced lines of credit	**1,122,154**	252,805

17. Fair value measurements

Assets and liabilities measured at fair value

The Credit Union's assets and liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

				2019
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Cash and cash equivalents	**2,891,890**	**2,891,890**	**-**	**-**
Investments - shares	**85,734**	**-**	**85,734**	**-**
	2,977,624	**2,891,890**	**85,734**	**-**
Liabilities	**-**	**-**	**-**	**-**
Total recurring fair value measurements	**2,977,624**	**2,891,890**	**85,734**	**-**

				2018
	Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Cash and cash equivalents	2,028,395	2,028,395	-	-
Investments - shares	77,946	-	77,946	-
	2,106,341	2,028,395	77,946	-
Liabilities	-	-	-	-
Total recurring fair value measurements	2,106,341	2,028,395	77,946	-

Level 2 fair value measurements

Valuation techniques and inputs for non-recurring Level 2 fair value measurements are as follows:

Fair value measurement	***Valuation technique(s)***	***Inputs***
Investments - shares	Fair value approximates par value for shares as transactions occur at par value on a regular and recurring basis.	Value of shares

17. Fair value measurements *(Continued from previous page)*

Asset and liabilities for which fair value is only disclosed

The following table analyses within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value, but for which fair value is disclosed:

	Fair Value	**Level 1**	**Level 2**	**2019 Level 3**
Assets				
Cash and cash equivalents - Central 1 term deposits maturing in less than three months	**410,827**	**-**	**410,827**	**-**
Member loans receivable	**14,215,464**	**-**	**14,215,464**	**-**
Investments - Central 1 term deposits	**905,455**	**-**	**905,455**	**-**
Total assets	**15,531,746**	**-**	**15,531,746**	**-**
Liabilities				
Member deposits	**16,541,660**	**-**	**16,541,660**	**-**
Accounts payable and accrued liabilities	**74,487**	**-**	**74,487**	**-**
Member shares	**51,947**	**-**	**-**	**51,947**
Total liabilities	**16,668,094**	**-**	**16,616,147**	**51,947**

	Fair Value	*Level 1*	*Level 2*	*2018 Level 3*
Assets				
Cash and cash equivalents - Central 1 term deposits maturing in less than three months	235,785	-	235,785	-
Member loans receivable	13,011,357	-	13,011,357	-
Investments - Central 1 term deposits	908,391	-	908,391	-
Total assets	14,155,533	-	14,155,533	-
Liabilities				
Member deposits	14,371,866	-	14,371,866	-
Accounts payable and accrued liabilities	71,781	-	71,781	-
Member shares	51,749	-	-	51,749
Total liabilities	14,495,396	-	14,443,647	51,749

Vancouver Firefighters Credit Union
Schedule 1 - Administrative Expenses
For the year ended December 31, 2019

	2019	*2018*
Administration		
Advertising	**14,951**	3,581
Insurance - bonding and contents	**8,306**	8,008
Dues and assessments - Central 1	**16,128**	20,404
Office and administration	**57,599**	64,136
Meetings	**17,135**	26,154
Mortgage appraisals and legal	**3,221**	1,933
Professional fees	**31,919**	25,136
	149,259	149,352