CCEC Credit Union
Financial Statements
September 30, 2018

Management's Responsibility

To the Members of CCEC 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.

November 22, 2018

Chief Executive Officer

Independent Auditors' Report

To the Members of CCEC Credit Union:

We have audited the accompanying financial statements of CCEC Credit Union, which comprise the statement of financial position as at September 30, 2018, and the statements of comprehensive income (loss), changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of CCEC Credit Union as at September 30, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Abbotsford, British Columbia

MNP LLP

November 22, 2018

Chartered Professional Accountants

CCEC Credit Union
Statement of Financial Position
As at September 30, 2018

	2018	*2017*
Assets		
Cash resources *(Note 5)*	**12,096,480**	4,887,383
Investments *(Note 6)*	**17,480,280**	15,545,079
Members loans *(Note 7)*	**26,454,811**	27,290,073
Other assets	**57,533**	16,934
Equipment and leaseholds *(Note 8)*	**47,802**	68,809
Intangible assets *(Note 9)*	**239,914**	217,852
Deferred tax assets *(Note 10)*	**1,900**	1,900
	56,378,720	48,028,030
Liabilities		
Member deposits *(Note 11)*	**54,831,227**	47,023,143
Member shares *(Note 12)*	**341,361**	344,733
Accounts payable and accrued liabilities	**89,812**	68,645
	55,262,400	47,436,521
Commitments *(Note 18), (Note 19)*		
Members' equity		
Retained earnings	**1,116,320**	591,509
	56,378,720	48,028,030

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Comprehensive Income (Loss)
For the year ended September 30, 2018

	2018	*2017*
Financial income		
Member loans	**1,182,166**	1,147,421
Investment income	**417,355**	93,713
	1,599,521	1,241,134
Financial expenses		
Member deposits	**185,401**	195,616
Financial margin	**1,414,120**	1,045,518
Other income	**1,067,906**	604,255
	2,482,026	1,649,773
Operating expenses *(Note 14)*	**1,481,496**	1,402,550
Operating income	**1,000,530**	247,223
Provision for loan impairment *(Note 7)*	**475,719**	973,745
Comprehensive income (loss)	**524,811**	(726,522)

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Changes in Members' Equity
For the year ended September 30, 2018

	Retained earnings
Balance September 30, 2016	**1,318,031**
Comprehensive loss	**(726,522)**
Balance September 30, 2017	**591,509**
Comprehensive income	**524,811**
Balance September 30, 2018	**1,116,320**

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Cash Flows
For the year ended September 30, 2018

	2018	*2017*
Cash provided by (used for) the following activities		
Operating activities		
Comprehensive income (loss)	**524,811**	(726,522)
Depreciation	**52,888**	48,133
Provision for impaired loans, net of write-offs	**383,895**	922,836
Changes in working capital accounts		
Income taxes recoverable	**-**	256
Accounts payable and accrued liabilities	**21,167**	(76,772)
Accrued interest on member loans	**(18,661)**	(8,141)
Accrued interest savings on member deposits	**(4,699)**	(10,918)
Other assets	**(40,599)**	13,577
	918,802	162,449
Financing activities		
Net change in member deposits	**7,812,783**	8,696,000
Net change in member shares	**(3,372)**	(39,271)
	7,809,411	8,656,729
Investing activities		
Net change in member loans	**470,028**	(4,110,206)
Net change in investments	**(1,935,201)**	(1,711,011)
Purchases of equipment and leaseholds	**(4,134)**	(19,376)
Purchases of intangible assets	**(49,809)**	(9,504)
	(1,519,116)	(5,850,097)
Increase in cash resources	**7,209,097**	2,969,081
Cash resources, beginning of year	**4,887,383**	1,918,302
Cash resources, end of year	**12,096,480**	4,887,383

1. Reporting entity

CCEC Credit Union (the “Credit Union”) was formed pursuant to the Credit Union Incorporations Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia (“the Act”).

The Credit Union serves members in the lower mainland area of British Columbia. The address of the Credit Union’s registered office is 2248 Commercial Drive, Vancouver, British Columbia.

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 September 30, 2018 were approved by the Board of Directors on November 22, 2018.

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.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective October 1, 2017. 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. Summary of significant accounting policies

The following principle accounting policies have been adopted in the preparation of these financial statements.

Cash resources

Cash and cash equivalents are comprised of cash on hand, demand deposits and term deposits with maturities of three months or less.

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 classified as fair value through profit or loss, with unrealized gains and losses recognized through profit or loss.

Portfolio investments

Investments in securities are valued at cost, adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive.

Investments in equity investments that do not have a quoted market price in an active market are measured at cost.

3. Summary of significant accounting policies *(Continued from previous page)*

Member loans

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. 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.

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.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Assets are depreciated from the date capitalized. The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

	Years
Furniture and fixtures	3-15 years
Computer hardware	2-5 years
Leasehold improvements	5-10 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Intangible assets

The Credit Union's only intangible asset is computer software which is amortized to profit or loss on a straight-line basis over 2 - 10 years. The useful life of computer software will be 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 comprehensive income (loss) as other operating income or other operating costs, respectively.

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial 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 for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in comprehensive income (loss).

Financial assets, together with the associated provision for loan impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss. Impaired financial assets become a credit loss when in arrears in excess of 90 days.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

3. Summary of significant accounting policies *(Continued from previous page)*

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

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

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the 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 the period.

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.

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.

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell.

Member deposits

Member deposits are initially recognized at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities 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.

3. Summary of significant accounting policies *(Continued from previous page)*

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*.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income is recognized in profit or loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

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

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in comprehensive income (loss) 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 (loss) for the current period.

3. Summary of significant accounting policies *(Continued from previous page)*

Financial instruments

Classification and measurement

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash resources and Central 1 term deposits.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union's financial instruments classified as available-for-sale include shares in Central 1.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union does not have any financial assets as held-to-maturity.

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all members' loans receivable, accrued interest, and other receivables.

Financial instruments classified as other financial liabilities include member deposits, accounts payable and accruals, and member shares classified as liabilities. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through" arrangement; and either:
- The Credit Union has transferred substantially all the risks and rewards of the asset, or
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income (loss).

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.

3. Summary of 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.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at September 30, 2018 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of the standard on its financial statements. The Credit Union does not expect the standard to have a material impact on its financial statements. The new impairment and classification and measurement requirements will be applied by adjusting the Credit Union's Statement of Financial Position on January 1, 2018, the date of initial application of IFRS 9, with no restatement of comparative periods.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers,* and SIC 31 *Revenue – barter transactions involving advertising services*.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of this standard on its financial statements.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede 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*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

4. Significant accounting judgements, 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. However, uncertainties about these assumptions and estimates 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 reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if 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.

4. Significant accounting judgements, estimates and assumptions *(Continued from previous page)*

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on member loans is disclosed in more detail in Note 7.

Financial instrument 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 they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome that the amount included in the tax liabilities.

5. Cash resources

	2018	*2017*
Cash and current accounts	**6,042,084**	4,785,998
Term deposits maturing in less than three months	**6,054,396**	101,385
	12,096,480	4,887,383

6. Investments

	2018	*2017*
Central 1 term deposits and shares:		
Term deposits maturing beyond three months	**17,300,288**	15,390,009
Shares	**166,316**	141,394
Other	**13,676**	13,676
	17,480,280	15,545,079

Liquidity reserve deposit

The Credit Union is required to maintain on deposit with Central 1 an amount equal to 8% of the Credit Union's total deposits and borrowings. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice. At September 30, 2018, the Credit Union liquidity deposits equal 53.79% (2017 - 43.32%) of the Credit Union's total deposits and borrowings less any cash on hand. At September 30, 2018, the Credit Union's liquidity deposits exceeded the minimum required by approximately $25,107,000 (2017 - $16,607,000).

7. Member loans

Principal and allowance by loan type:

2018

	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Residential mortgages	18,020,193	-	-	-	**18,020,193**
Personal and other	3,280,419	49,019	22,041	35,054	**3,272,343**
Commercial mortgages	4,431,902	-	-	-	**4,431,902**
Commercial loans	397,056	1,603,223	1,306,000	28,199	**666,080**
Accrued interest	64,293	-	-	-	**64,293**
Total	26,193,863	1,652,242	1,328,041	63,253	**26,454,811**

2017

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Residential mortgages	17,487,625	-	-	-	17,487,625
Personal and other	3,410,240	49,099	48,027	5,000	3,406,312
Commercial mortgages	4,614,362	-	-	-	4,614,362
Commercial loans	884,804	1,805,709	929,371	25,000	1,736,142
Accrued interest	45,632	-	-	-	45,632
Total	26,442,663	1,854,808	977,398	30,000	27,290,073

The allowance for loan impairment changed as follows:

	2018	*2017*
Balance, beginning of year	**1,007,398**	84,563
Provision for loan impairment	**475,719**	973,745
	1,483,117	1,058,308
Less: accounts written off	**91,823**	50,910
Balance, end of year	**1,391,294**	1,007,398

7. Member loans *(Continued from previous page)*

Loans past due but not impaired:

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-29 days	**30-89 days**	**90 days and greater**	**2018**
Personal	203,483	471,506	61,972	**736,961**
Commercial	208	203	-	**411**
Total	203,691	471,709	61,972	**737,372**

	1-29 days	30-89 days	90 days and greater	2017
Personal	39,899	452,189	182,974	675,062
Commercial	42,379	20,318	293	62,990
Total	82,278	472,507	183,267	738,052

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities of indemnitors. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

8. Equipment and leaseholds

	Equipment	*Leaseholds*	*Total*
Cost			
Balance at October 1, 2016	439,607	227,606	**667,213**
Additions	10,544	8,832	**19,376**
Disposals	(225,029)	**-**	**(225,029)**
Balance at September 30, 2017	225,122	236,438	**461,560**
Balance at October 1, 2017	225,122	236,438	**461,560**
Additions	4,134	-	**4,134**
Balance at September 30, 2018	229,256	236,438	**465,694**
Depreciation and impairment losses			
Balance at October 1, 2016	407,121	187,613	**594,734**
Depreciation charge for the year	12,378	10,668	**23,046**
Disposals	(225,029)	**-**	**(225,029)**
Balance at September 30, 2017	194,470	198,281	**392,751**
Balance at October 1, 2017	194,470	198,281	**392,751**
Depreciation charge for the year	11,269	13,872	**25,141**
Balance at September 30, 2018	205,739	212,153	**417,892**
Net book value			
At September 30, 2017	30,652	38,157	68,809
At September 30, 2018	**23,517**	**24,285**	**47,802**

9. Intangible assets

	Software
Cost	
Balance at October 1, 2016	**241,483**
Additions	**9,504**
Balance at September 30, 2017	**250,987**
Balance at October 1, 2017	**250,987**
Additions	**49,809**
Balance at September 30, 2018	**300,796**
Depreciation and impairment losses	
Balance at October 1, 2016	**8,048**
Depreciation charge for the year	**25,087**
Balance at September 30, 2017	**33,135**
Balance at October 1, 2017	**33,135**
Depreciation charge for the year	**27,747**
Balance at September 30, 2018	**60,882**
Net book value	
At September 30, 2017	217,852
At September 30, 2018	**239,914**

10. 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 26% are as follows:

	2018	*2017*
Other comprehensive income (loss)	**524,811**	(726,522)
Income tax expense on the statutory rate	**136,451**	(188,896)
Items not deductible for tax purposes	**366,482**	280,744
Items deductible for tax purposes	**(354,468)**	(271,710)
Non-capital losses of previous years applied in the current tax year	**(148,465)**	-
Non-capital losses in the current year carried forward	**-**	179,862
Current income tax expense	**-**	-

The movement in 2018 and 2017 deferred income tax assets and liabilities is insignificant.

11. Member deposits

	2018	*2017*
Demand deposits	**29,429,063**	22,570,978
Plan 24	**8,170,228**	7,452,839
Term deposits	**8,464,775**	7,969,051
Registered plans	**8,678,594**	8,937,009
Accrued interest savings and deposits	**88,567**	93,266
	54,831,227	47,023,143

Total member deposits include $545,794 (2017 - $845,663) of US dollar deposits, denominated in Canadian dollars.

12. Member shares

Authorized:

Unlimited number of member shares, at an issue price of $1

Issued:

	2018	*2017*
Member shares classified as liability		
Member shares	**292,739**	292,737
Loan member shares	**48,622**	51,996
	341,361	344,733

Member shares are classified as liabilities in accordance with IFRIC 2 are redeemable at the option of the member, either on demand or on withdrawal from membership. The total amount of shares that are redeemable at September 30, 2018 as part of the Credit Union's share regulations are classified as liabilities.

Terms and conditions

The Credit Union is authorized to issue an unlimited number of non-transferable, voting member shares, redeemable at par. Each member is entitled to one vote. The ownership requirements are 100 shares for co-operatives and not-for-profit societies, 25 shares for youth members, 5 shares for junior members, and 50 shares for all others. Member shares may be redeemed when the account is closed.

In addition, the Credit Union requires borrowing members to purchase additional member shares based on the loan type and amount. The actual amount required is determined by the board of directors at their discretion. Loan member shares may be redeemed once the loan has been paid in full.

13. Borrowings

The Credit Union has an operating line of credit and a term loan arrangement to a maximum borrowing position of $1,100,000 (2017 - $1,100,000). 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 date. As at September 30, 2018, the Credit Union has not utilized this facility.

14. Operating expenses

	2018	2017
Central 1 service charges	**78,290**	62,824
Data processing	**94,219**	92,114
Depreciation	**52,888**	48,133
Directors' expenses	**18,427**	12,092
Insurance	**6,083**	7,988
Legal fees	**28,860**	30,813
Loan administration fees	**2,727**	2,442
Office and miscellaneous	**51,521**	50,668
Office premises and supplies	**228,702**	223,036
Promotions	**5,651**	17,781
Regulatory costs	**162,869**	96,831
RRSP administration fees	**2,732**	2,811
Wages and benefits	**748,527**	755,017
	1,481,496	1,402,550

15. 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:

	2018	2017
Salary and benefits	**239,373**	277,690

Transactions with key management personnel

There are no loans that are impaired in relation to loan balances with KMP.

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

	2018	2017
Lines of credit	**6,098**	11,213
Mortgages	**729,081**	130,360
Loans	**42,130**	51,796
	777,309	193,369

	2018	2017
During the year the aggregate value of loans disbursed to KMP amounted to:		
Lines of credit	**-**	715,000
Mortgages	**361,134**	-
	361,134	715,000

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

	2018	*2017*
Interest and other revenue earned on loans and revolving credit facilities to KMP	**23,902**	5,071
Total interest paid on deposits to KMP	**3,412**	2,407

	2018	*2017*
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**439,626**	202,321
Term deposits	**1,278,499**	149,224
Registered plans	**484,930**	462,808
	2,203,055	814,353

16. 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 September 30, 2018, the Credit Union had a capital base approximating 13.27% (2017 - 8.26%) 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 September 30, 2018.

	2018	*2017*
Primary capital		
Retained earnings	**1,116,320**	591,509
Member shares	**238,052**	242,108
Deferred income tax asset	**(1,900)**	(1,900)
	1,352,472	831,717
Secondary capital		
Share of system retained earnings	**421,377**	352,000
Deductions from capital	**(239,914)**	(217,852)
Capital base	**1,533,935**	965,865

17. Fair value measurements

Recurring fair value measurements

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

	2018 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash resources	**12,096,480**	**6,042,084**	**6,054,396**	**-**
Investments - Central 1 term deposits	**17,300,288**	**-**	**17,300,288**	**-**
Available-for-sale financial assets				
Investments - Central 1 shares	**166,316**	**-**	**166,316**	**-**
	29,563,084	**6,042,084**	**23,521,000**	**-**
Liabilities	**-**	**-**	**-**	**-**
Total recurring fair value measurements	**29,563,084**	**6,042,084**	**23,521,000**	**-**

	2017 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Financial assets at fair value through profit or loss				
Cash resources	4,887,383	4,785,998	101,385	-
Investments - Central 1 term deposits	15,390,009	-	15,390,009	-
Available-for-sale financial assets				
Investments - Central 1 shares	141,394	-	141,394	-
	20,418,786	4,785,998	15,632,788	-
Liabilities	-	-	-	-
Total recurring fair value measurements	20,418,786	4,785,998	15,632,788	-

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

Valuation techniques and inputs for recurring and non-recurring level 2 fair value measurements is as follows:

Fair value measurement	Fair Value	Valuation technique(s)	2018 Inputs
Cash resources	6,054,396	Carrying value approximates fair value due to short term nature of this financial asset.	Discount rates based on current investment rates
Investments - Central 1 term deposits	17,300,288	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on current investment rates
Investments - Central 1 shares	166,316	Fair value approximates par value for Class A shares as transactions occur at par value on a regular and recurring basis which fair value could not be measured reliable for Class E shares as the timing of redemption for these shares could not be determined.	Value of Class A and Class E shares.

Fair value measurement	Fair Value	Valuation technique(s)	2017 Inputs
Cash resources	101,385	Carrying value approximates fair value due to short term nature of this financial asset.	Discount rates based on current investment rates
Investments - Central 1 term deposits	15,390,009	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on current investment rates
Investments - Central 1 shares	141,394	Fair value approximates par value for Class A shares as transactions occur at par value on a regular and recurring basis which fair value could not be measured reliable for Class E shares as the timing of redemption for these shares could not be determined.	Value of Class A and Class E 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 at September 30, 2018 but for which fair value is disclosed:

	2018 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Investments	**13,676**	**-**	**13,676**	**-**
Member loans	**26,476,629**	**-**	**26,476,629**	**-**
Other assets	**1,345**	**-**	**1,345**	**-**
Total assets	**26,491,650**	**-**	**26,491,650**	**-**
Liabilities				
Member deposits	**54,818,794**	**-**	**54,818,794**	**-**
Member shares	**341,361**	**-**	**-**	**341,361**
Accounts payable and accrued liabilities	**89,812**	**-**	**89,812**	**-**
Total liabilities	**55,249,967**	**-**	**54,908,606**	**341,361**

	2017 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Investments	13,676	-	13,676	-
Member loans	27,340,900	-	27,340,900	-
Total assets	27,354,576	-	27,354,576	-
Liabilities				
Member deposits	47,001,090	-	47,001,090	-
Member shares	344,733	-	-	344,733
Accounts payable and accrued liabilities	68,645	-	68,645	-
Total liabilities	47,414,468	-	47,069,735	344,733

18. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Credit risk

Credit risk is the risk of 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 loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region. Geographical risk exists for the Credit Union due to its primary service area being Vancouver, British Columbia and surrounding areas.

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

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/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
- Limits on 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; and
- Loan syndication processes.

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

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	**5,505,351**	5,772,711
Commitments to extend credit	**1,638,250**	-
	7,143,601	5,772,711

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 instrument 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.

18. 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.

					2018	*2017*
	Within three months	***Four months to one year***	***Over one year to five years***	***Non-Interest Sensitive***	***Total***	*Total*
Assets						
Cash resources	11,928,641	-	-	167,839	**12,096,480**	4,887,383
Average yield %	*1.65*	-	-	-	*1.63*	*1.16*
Investments	-	9,148,669	8,025,000	306,611	**17,480,280**	15,545,079
Average yield %	-	*1.82*	*2.18*	-	*1.96*	*1.53*
Members loans	7,722,863	8,323,436	11,735,512	(1,327,000)	**26,454,811**	27,290,073
Average yield %	*5.36*	*3.85*	*3.66*	-	*4.40*	*4.26*
Other assets	-	-	-	1,345	**1,345**	-
	19,651,504	**17,472,105**	**19,760,512**	**(851,205)**	**56,032,916**	34,813,717
Liabilities						
Member deposits	11,999,721	9,582,071	4,308,294	28,941,141	**54,831,227**	47,023,143
Average yield %	*0.23*	*1.08*	*1.61*	-	*0.37*	*0.51*
Member shares	-	-	-	341,361	**341,361**	344,733
Accounts payable and accrued liabilities	-	-	-	89,812	**89,812**	68,645
	11,999,721	**9,582,071**	**4,308,294**	**29,372,314**	**55,262,400**	33,626,828
Net sensitivity	**7,651,783**	**7,890,034**	**15,452,218**	**(30,223,519)**	**770,516**	1,186,889

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase financial margin by $90,000 (2017 - $85,000). A 1.0% decrease in the interest rate would decrease financial margin by $90,000 (2017 - $85,000).

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.

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;
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union's responses thereto.

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

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.

19. Commitment

The Credit Union signed a lease to rent its office premises for five years expiring June 2020. Monthly payments are $10,900 plus the Credit Union's share of the building's operating costs and GST.