Interior Savings

2018

Annual Report

Local Money for Local Good.

Local Money for Local Good.

Local money for local good… it's present in everything we do. It means improving our communities with local investments, loans, knowledge and Member Rewards. It's about understanding local needs because we live, work and play here too. It's about global access to accounts with all the online services our members may need and a team of experts ready to help with knowledge and support right here at home. Best of all, local money means investing in our members. Money may make the world go round but local money makes our communities buzz!

At Interior Savings

we make a positive difference in people's lives and enrich each member's life journey while keeping the human touch in a digital world.

our **purpose**

We put our expertise and profits to work for our communities, stepping up to help everyone get ahead. When they succeed, we all succeed.

our **mission**

We can be counted on to help our members do more, reach higher and live richer. Our members are our focus.

our **commitment**

We work hard to perfect the blend of digital banking and personalized care our members need to succeed in today's changing world.

We commit to...

being **collaborative**

- we support our members and communities
- we are team players
- we welcome different points of view

being **curious**

- we ask questions
- we look for new ways
- we love to learn new skills

being **courageous**

- we do what's right, not what's easy
- we embrace change
- we challenge the status quo

Contents

Corporate Overview

We're a financial institution offering a wide range of services. From day-to-day banking and lending to Wealth Management and Insurance Services, we have it all. With total assets of $2.5 billion, Interior Savings continues to be the largest credit union located in the Interior of British Columbia. Our members have access to a network of 21 branches and 16 insurance offices, two specialized Commercial Services Centres in Kamloops and Kelowna, and a Member Service Centre providing expanded service to members throughout our region. But that's only part of the picture.

We're proudly a cooperative where our customers are our members, our members are our owners, and our success begins and ends with them. Our job is to be there with the right financial supports so our members can succeed – in whatever way they may define success for themselves and their families.

It's also our job to be a community champion and give back to help our communities thrive. When community is at the heart of everything that you do, day-to-day business becomes so much more: an account with us supports a neighbour's mortgage, a loan to a business down the street, insurance for a nearby family's future, bursaries for children at the local school, a sponsorship, a community centre, and many more local causes, events and programs.

Our success is our members' success and we owe it all to them!

A message from Board Chair Elmer Epp and CEO Kathy Conway

Local money for local good. It's evident in all that we do and give back to our members, our employees and our communities. At the end of 2018, our asset base remained consistent at $2.5 billion with earnings from operations of $10.6 million. We returned 22% of our 2018 pre-tax earnings to our members and communities through our Member Rewards and community giving programs. This included nearly $1.4 million in patronage rewards and dividends to members and an estimated $825,000 in bursaries through our Million Dollar Bursary program, to be awarded in the fall.

As the competitive environment continued to heat up with new non-traditional players and evolving digital expectations, in 2018 we focused on enhancing our systems and planning for future requirements. We also continued to invest in our communities and our people.

MAKING EXPERT INVESTMENT ADVICE MORE ACCESSIBLE

In 2018 we launched our Investment Solutions Centre to make it more convenient for both new and seasoned investors to access expert advice. We also launched Virtual Wealth so our members can now access professionally-managed low cost portfolios digitally, to help them achieve their financial goals.

BANKING ON THE GO

We've seen a steady increase in members visiting our website and doing their banking from cell phones or tablets. So, in 2018 we launched a mobile-friendly website, we improved notifications and alerts on our mobile app and we introduced Mobile Pay for android devices. As we begin planning the next evolution of our website, we will do so with a 'mobile first' approach.

SMARTER TECHNOLOGY FOR BETTER MEMBER SERVICE

Our ability to deliver an outstanding member experience is underpinned by the many systems that support our day-to-day operations. In 2018 we combined both our payroll and HR systems to streamline administrative processes, allowing us more time to focus on developing and supporting our employees. In 2018 we also started the search for a new core banking system that will position us to meet our members' evolving needs for service, convenience and accessibility into the future.

INTERAC E-TRANSFERS

We've done away with the Interac e-Transfer transaction fee on personal accounts. Now treated just like any other withdrawal, members can send as many Interac e-Transfers as they like within their personal account package limits. This means unlimited Interac e-Transfers for our MyChequing, Ultimate and Horizon Packages!

CREATING STRONG, CONNECTED AND RESILIENT COMMUNITIES

As a locally-based financial institution, we have a vested interest in seeing our communities thrive. We work to support the causes that our members care about and, in 2018, we did so with over half a million dollars in community investment and 8,444 hours volunteered by our employees.

SURPASSED $2.5 MILLION IN BURSARY AWARDS

Since launching the Million Dollar Bursary Program, we have now awarded bursaries to over 2500 young student members, amounting to over $2.5 million in just five years. This program is funded by Member Rewards, and it's just one of the ways we're helping our young members reach their full potential. Interior Savings has made a commitment to provide this bursary for eight years (2014-2021), representing a total funding pledge of up to $8 million.

SUSTAINING A SUPPORTIVE AND EMPOWERING WORKPLACE

Year after year, our members give us a 98% satisfaction rating which is a testament to the dedication, passion and commitment of our employees. We are fortunate to have a team of employees that embodies our values and we work hard to create a culture that is supportive and empowering. We have succession planning, leadership coaching and career development programs available for employees to help them achieve their career aspirations while confidently providing our members with the right advice at the right time. In 2018, we were honoured to receive CMHA Kelowna's Mentally Healthy Workplace Award. Read more about this accolade in our annual community report.

LIVING LEAN AND GREEN

In our commitment to embrace continuous improvement, we now have almost 90% of our employees trained in Lean methodologies for streamlining and improving processes. We have saved money and freed up thousands of hours which can be used to better serve our members. For example, as an outcome of a Lean problem solving event, in 2018 we switched all member files from paper to electronic documents. This will significantly decrease our paper usage, reduce costs, and allow us to serve members more quickly when they call in or visit us at any of our 21 branches.

LOOKING AHEAD

In 2019, we'll stay curious and connected, keeping our finger on the pulse of what's important to our members and what's happening in our industry. Through continuous improvement and a new digital eco-system, we will continue to develop a banking experience that is easy and convenient and that keeps our members in the driver's seat, giving them timely information and expert advice so they can feel confident about their financial decisions.

On behalf of the Board of Directors and all the employees, thank you for being part of everything we've accomplished in 2018 and for your continued support in 2019.

Board and Management Report

Board of Directors

In the 2018 election, the Central/North Okanagan Region saw the re-election of Stacey Fenwick and Pat Ryan, each for three-year terms. The Thompson/ South Okanagan Region saw the re-election of Shelley Sanders and the election of Bruce Tisdale for a three year term. Following the election, Mr. Elmer Epp of Kamloops was re-elected as Chair of the Board of Directors.

The Board of Directors is responsible for overseeing the strategic direction of the Credit Union. In practice, the Board of Directors delegates responsibility for the management of the Credit Union to the President and Chief Executive Officer while retaining oversight responsibility.

The Board of Directors is expected to act in a manner that protects and enhances the value of the Credit Union in the interest of all members. While adhering to the Credit Union's policies and procedures, and to statutory and regulatory requirements, the Board of Directors is required to exercise independent judgement with utmost honesty and integrity. The Board of Directors takes these responsibilities seriously and stands proudly behind the Credit Union and each and every one of its employees.

For information on Board responsibilities and activities, please refer to the 2018 Interior Savings Corporate Governance Report which can be found on our website, interiorsavings.com under About Us/News Room/Corporate Reports.

Senior Management

Our senior management team works with the Board of Directors to position the Credit Union's strategic direction and develop the annual strategic plan. They monitor every aspect of the plan to ensure progress is being maintained and the organization is on track. They are responsible for a team of managers, and are committed to ongoing personal and professional development, and involvement in their communities.

Kathy Conway, President and Chief Executive Officer
Ted Schisler, Senior Vice President and Chief Operating Officer
Trevor Tremblay, Senior Vice President, Chief Financial and Risk Officer
Gene Creelman, Senior Vice President, Member and Community Engagement
Dave Cronquist, Senior Vice President, Strategy and Organizational Efficiency
Karen Hawes, Senior Vice President, Culture and Technology

Board of Directors

Elmer Epp
Chair
Kamloops

Pat Ryan
Vice Chair
Kelowna

Rolli Cacchioni
Kelowna

Ken Christian
Kamloops

Liza Curran
Ashcroft

Stacey Fenwick
Kelowna

Aniela Florcynzski
Kelowna

Don Grant
Peachland

Caroline Grover
Kelowna

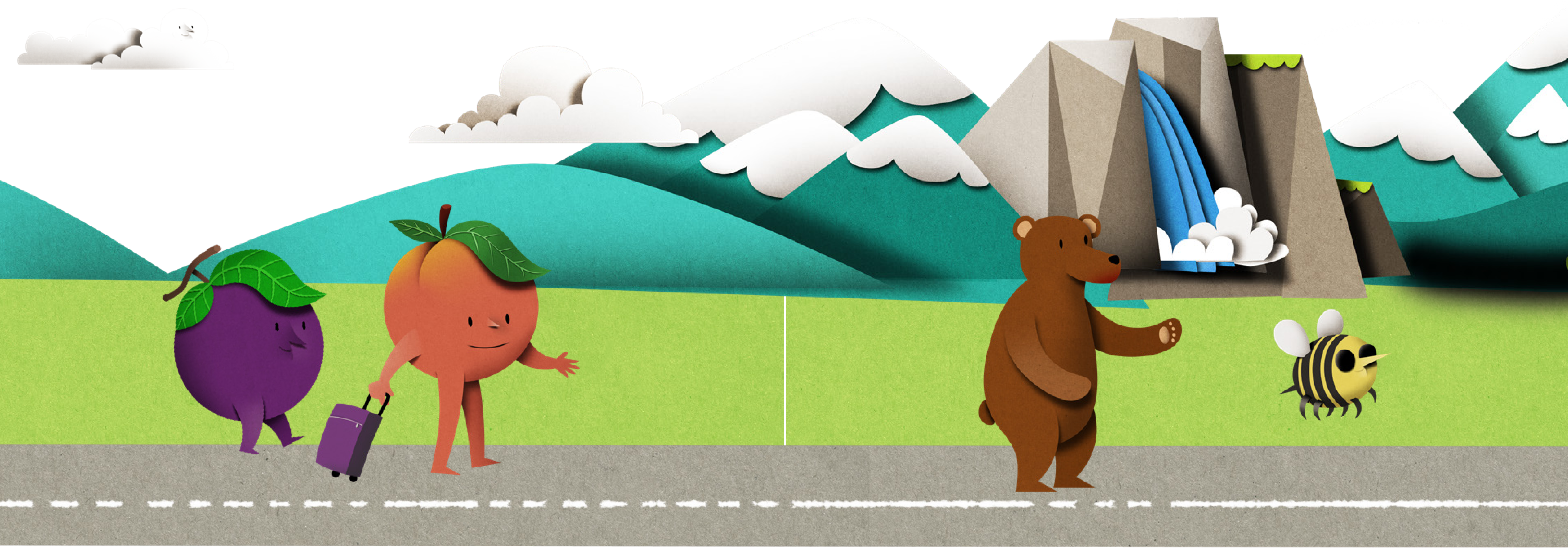
Daphane Nelson
Kamloops

Shelley Sanders
Merritt

Bruce Tisdale
Kamloops

2018 Management Discussion and Analysis

This MD&A section is presented to provide an overview of the credit union's financial and operating performance. It is prepared in conjunction with the audited consolidated financial statements.



2018 Financial Performance

Summary

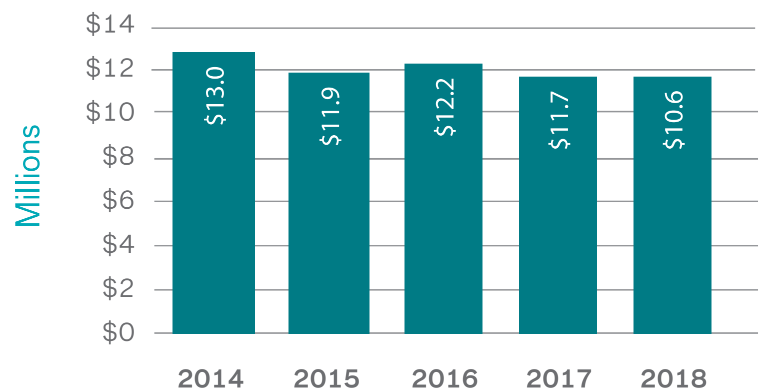
Interior Savings experienced strong financial performance in 2018 amidst a growing local economy. Consolidated total assets of Interior Savings was $2.5 billion at December 31, 2018. Asset growth was $22.0 million or 0.9% with lending as the most significant area of growth.

Loans accounted for 83.2% of total assets. Loan balances include both loan interest receivable and the allowance for impaired loans, the latter of which reduces the overall loan portfolio. Impaired loan totals and write-offs increased during 2018.

Member deposit balances increased in 2018, up $33.4 million to over $2.1 billion. Consolidated retained earnings strengthened further in 2018 to reach $200.8 million. Retained earnings represents the strongest source of regulatory capital.

Consolidated operating income in 2018 totalled $10.6 million compared to $11.7 million in 2017. Lower other income and increased operating costs in 2018 were partially offset by the lower loan loss provision and the increased financial margin. Consolidated net income of $6.2 million was lower than the $7.9 million in 2017, due in large part to lower operating income and the increased income tax provision.

OPERATING INCOME



Financial Margin

Financial margin is the difference between interest and investment income earned on assets and interest expensed on deposits and other liabilities, including borrowings. In 2018, our financial margin increased to $52.6 million compared to $51.1 million in 2017 reflecting the increased interest on member loans outpacing the growth in interest expense on deposits. Overall, total interest revenues increased $4.2 million in 2018. The net effect of increased interest revenues and interest expense was a total increase in financial margin of $1.5 million from 2017.

Prime rate increases by the Bank of Canada in 2018 affected loan and deposit rates. We expect further Bank of Canada rate increases will be cautiously applied given the impact on economic growth. Locally, the housing market in our largest urban centres is beginning to show signs of a more balanced market with increased inventory and the cumulative effect of provincial speculation tax and federal mortgage insurance rules. Our goal for 2019 is to continue supporting our local communities in the pursuit of moderate loan and deposit growth.

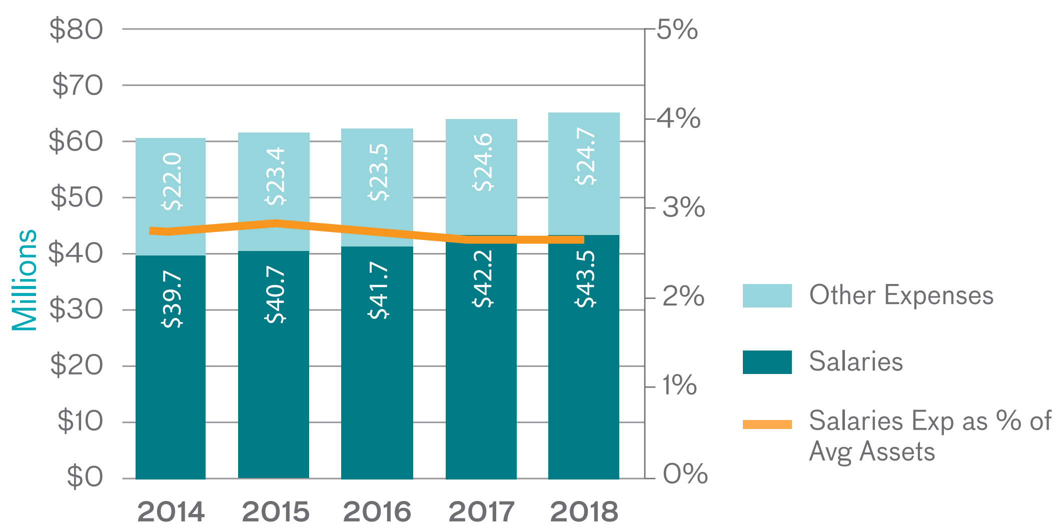
Other Income

Other income is comprised of loan fees, service charges, commissions related to insurance and mutual funds sales, foreign exchange and other revenues that are not interest related. In aggregate, other income decreased by $1.6 million year over year. The category of commissions experienced the most notable decline with a decrease of $1.4 million from 2017 largely associated with reductions in general insurance and creditor insurance revenues. The remaining other income categories remained fairly consistent with only moderate changes from 2017.

Operating Expenses

The average rate of inflation in Canada for 2018 was reported to be 2.0% and comparably, our total operating expenses increased 2.3% or $1.5 million to $68.3 million. Employee salaries and benefits expense increased $1.3 million or 3.2% partially due to general salary and compensation increases.

SALARIES AND OTHER EXPENSES



In 2018, we continued our journey of continuous process improvements that will have a lasting and positive impact on overall member experience. In addition to this, we continue to dedicate resources to furthering improvements of our digital member experiences. These improvements require balancing resources and expertise to the meet members' banking needs and expert advice. Other non-salary costs were virtually unchanged in aggregate. Additional detail on general operating and administrative expenses can be found in note 17 of the consolidated financial statements. Within that note, you will find increases across several categories including, with the most sizable increases in advertising, deposit insurance, and training, meetings and travel. These increases were largely offset by reductions in other expenses and sponsorship and donations.

The result of total operating expenses increasing beyond the growth in total revenues was a deterioration of the operating efficiency ratio to 85.4% from 83.4% in the previous year. The efficiency ratio is a measure of expenses incurred to revenues earned. With this ratio, a lower number is better.

Distributions to Members

We have had a long-standing tradition of sharing our profits with our members. For 2018, we are sharing $2.2 million which includes $1.2 million in patronage distributions, based on usage of services, $0.2 million in dividends on equity shares and $0.8 million for the current year's commitment for the bursary program. All distributions are approved annually by the Board of Directors. To line up with our fiscal year-end, payments to members are made in March every year, after the completion of the annual audit. Since 2002, members have received over $61.4 million in the form of patronage and dividend distributions.

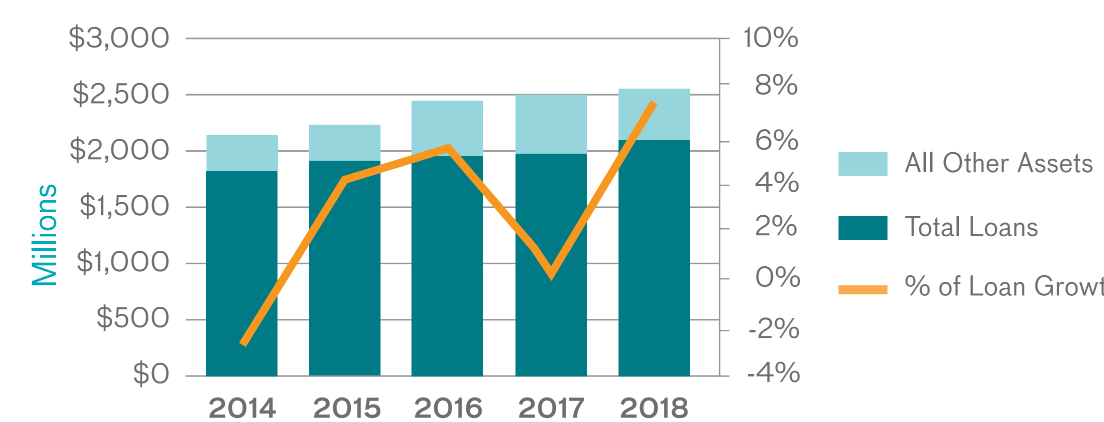
Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Elements of net income have been described above. Interior's OCI includes changes in cash flow hedges including the unrealized gains from fair valuation changes and the flow of those gains to net income when realized. In 2018, other comprehensive gain was $0.5 million compared to a loss of $4.9 million in 2017. This change in OCI for 2018 was largely due to the net change in cash flow hedges.

Loans

Total loan growth for 2018 was a significant achievement as we exceeded growth expectations. This year, member and other loans, net of accrued interest, increased by 7.2% ($141.9 million). The commercial lending category increased by 4.8%, which amounted to $18.1 million largely attributed to commercial residential project financing throughout the year. Interior Savings continued to support local businesses and multi-year residential construction developments in 2018. This resulted in an increase in commercial and small business loan balances in 2018 but also commitments to fund growth in 2019 and beyond. As a proportion of loans at year-end, commercial lending represented 18.8% of the loan portfolio. Personal loans increased a total of $117.7 million, which was the most significant area of loan growth in several years. The majority of this personal loan growth was residential mortgages which was sourced through a variety of channels. These include our local branch network, our growing mobile mortgage specialist team, and new local mortgage broker relationships.

ASSET AND LOAN GROWTH



Allowance for Loan Loss

In 2018, we implemented new accounting standards that impacted the overall methodology for estimating credit losses and the associated note disclosure. Expected credit losses for all stages of loan impairment was estimated at a total loss allowance of $5.9 million which is unchanged from the prior year. While the overall loss allowance is unchanged, the mix relative to loan portfolio groups has shifted. The most notable is the reduction of expected credit losses from residential mortgages and an increase related to other personal loans.

Deposits

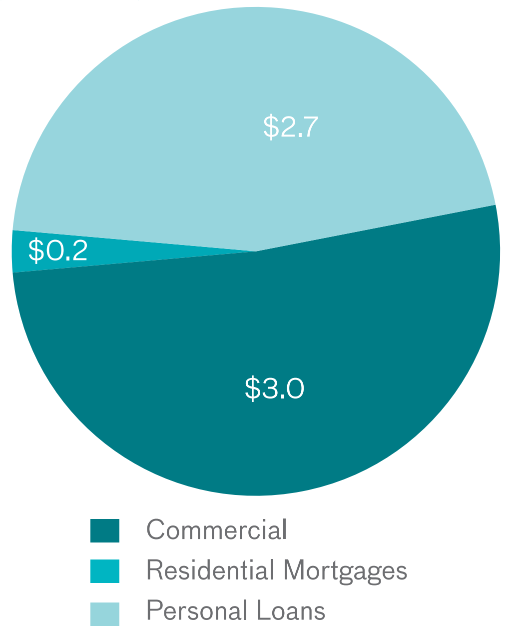
Total member deposits at the end of 2018 were $33.0 million higher than in 2017. The total growth and shifting member deposit product preferences resulted in $39.8 million growth in non-registered chequing and savings account balances, $14.8 million decline in non-registered term deposits, and $7.2 million growth in registered and tax-free plan deposits. The result is member deposits in non-registered chequing & savings represent 51% of total deposits.

In addition to our deposit products, we offer our members investment products from third-party suppliers, such as mutual funds, for which we receive a commission. In 2018, these funds under administration totalled $561.5 million, a decrease of $4.9 million from the prior year. This decrease in overall funds under administration is the net result of positive sales growth offset by the impact of a decrease in market valuations of the underlying securities.

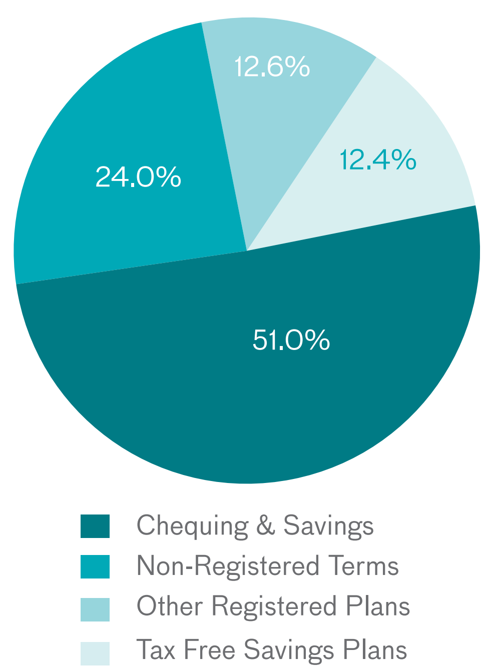
Borrowings

Borrowings at year end represent a combination of amounts due under the Canada Mortgage Bond program and third party borrowings, both of which are secured by member and other loans.

EXPECTED CREDIT LOSS
(in millions)



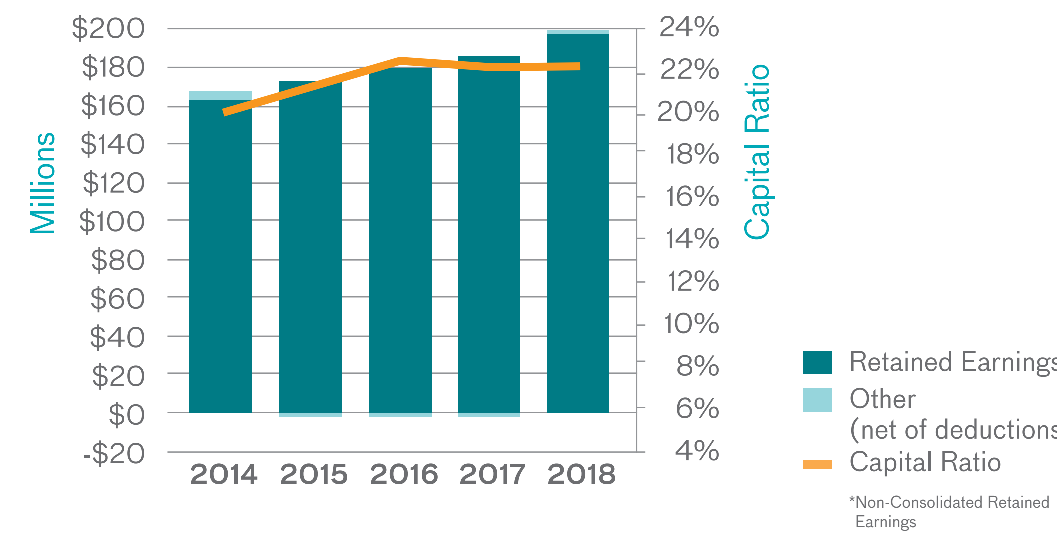
DEPOSIT MIX



Members' Equity and Capital

Total members' equity increased to $197.4 million at the end of 2018. Retained earnings grew by $8.1 million which was partially offset by a $0.3 million increase in accumulated other comprehensive loss. Interior Savings continues to have one of strongest capital positions, relative to other BC credit unions of similar size, which builds long-term membership value and enables us to invest for future growth. At year end, our regulatory capital position reduced slightly to 22.1%. Our regulators, the Financial Institutions Commission of BC (FICOM), monitor our capital, which under current requirements for regulatory capital and supervisory capital must be maintained at a minimum of 8% and 10%, respectively, of risk-weighted assets. Management regularly monitors the Credit Union's capital position. More information on capital management can be found in note 21 of the financial statements.

CAPITAL



Risk Management

As a financial institution, we are exposed to a variety of risks. Our risk governance framework starts with the Board of Directors and its Committees which provide overall strategic direction, oversight of risk management and approved risk policies, and set risk tolerance levels for key areas of potential risk. Our executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor and mitigate risks. In addition to risks identified in note 20 to the financial statements, the credit union is also exposed to strategic, operational and regulatory risks, for which planning, policies and procedures, controls and monitoring are in place. To support our risk management, we have internal and external audit functions, which are independent of management and report to the Audit & Finance Committee of the Board. In addition, the Board of Directors has established a Risk Appetite framework and management has implemented an Enterprise Risk Management system to effectively monitor and manage key business risks including emerging risks.

Outlook for 2019

Looking ahead to 2019, we expect the interest rate environment to be relatively stable. We also expect a continuation of our growth in new members and the deepening of relationships with existing members, while striving to improve our digital service offering. The financial services space is highly competitive and we are confident that our comprehensive and competitive product and service offering, coupled with our local community focus, will result in continued growth in retail and commercial member loans, deposits, insurance services and wealth management.

Consolidated Financial Statements

Consolidated Financial Statements

Management's Responsibility

To the Members of Interior Savings Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated 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 consolidated 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 consolidated financial statements.

The Board of Directors and Audit and Finance 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 Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. 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 consolidated 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.

[Signed] Kathy Conway

President & Chief Executive Officer

[Signed] Trevor Tremblay

Senior VP, Chief Financial & Risk Officer

Independent Auditor's Report

To the Members of Interior Savings Credit Union:

Opinion

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

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

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 Consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

MNP LLP

Chartered Professional Accountants

Kelowna, British Columbia
March 9, 2019

Consolidated Statement of Financial Position

As at December 31, 2018 ($ in thousands)	2018	2017
Assets		
Cash	**46,625**	29,701
Investments (Note 5)	**323,534**	456,592
Derivative financial instruments (Note 6)	**2,413**	3,538
Member and other loans (Note 7), (Note 20)	**2,106,176**	1,964,010
Property, plant and equipment (Note 8)	**16,690**	17,204
Intangible assets (Note 9)	**22,913**	22,822
Other assets (Note 10)	**8,986**	11,097
Deferred income tax asset (Note 11)	**4,471**	4,809
	2,531,808	2,509,773
Liabilities		
Bank indebtedness (Note 13)	**15,000**	-
Member deposits (Note 12)	**2,144,133**	2,110,686
Payables and other liabilities	**20,582**	30,138
Derivative financial instruments (Note 6)	**4,955**	6,265
Borrowings (Note 13)	**145,169**	168,211
Membership Shares (Note 14)	**4,542**	4,801
	2,334,381	2,320,101
Members' equity		
Member shares (Note 14)	**317**	330
Retained earnings	**200,815**	192,729
Accumulated other comprehensive loss	**(3,705)**	(3,387)
	197,427	189,672
	2,531,808	2,509,773

Approved on behalf of the Board

Elmer Epp
Chair

Liza Curran
Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income

For the year ended December 31, 2018 ($ in thousands)	2018	2017
Interest revenue		
Interest on member and other loans	**66,213**	59,721
Other interest revenue	**8,751**	11,072
	74,964	70,793
Interest expense		
Interest on member deposits	**18,962**	16,553
Other interest expense	**3,410**	3,189
	22,372	19,742
Financial margin	**52,592**	51,051
Provision for loan impairment (Note 7), (Note 20)	**1,050**	1,550
	51,542	49,501
Other income (Note 16)	**27,305**	28,945
	78,847	78,446
Operating expenses		
Employee salaries and benefits	**43,534**	42,188
General operating and administrative (Note 17**)**	**13,051**	12,739
Occupancy and equipment	**4,922**	5,178
Data processing	**3,952**	3,816
Depreciation and amortization	**2,819**	2,831
	68,278	66,752
Operating income	**10,569**	11,694
Distribution to members (Note 14)	**2,182**	2,384
Income before income taxes	**8,387**	9,310
Provision for (recovery of) income taxes (Note 11)		
Current	**1,833**	2,817
Deferred	**338**	(1,424)
	2,171	1,393
Net income	**6,216**	7,917

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018 ($ in thousands)	2018	2017
Net income	**6,216**	7,917
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on defined benefit plan	**89**	(148)
Items that will be reclassified subsequently to profit or loss		
Change in unrealized gains/losses on cash flow hedges	**1,935**	(2,157)
Realized gains on cash flow hedges included in net income	**(1,537)**	(3,496)
Change in unrealized gains/losses on available-for-sale investments	**-**	910
	398	(4,743)
Other comprehensive income (loss), net of income tax	**487**	(4,891)
Total comprehensive income	**6,703**	3,026

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2018 ($ in thousands)

	Member shares	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Balance December 31, 2016	279	184,812	1,504	186,595
Net income	-	7,917	-	7,917
Issuance of member shares	51	-	-	51
Actuarial loss on defined benefit plan	-	-	(148)	(148)
Change in unrealized gains/losses on cash flow hedges	-	-	(2,157)	(2,157)
Change in unrealized gains/losses on available-for-sale investments	-	-	910	910
Realized gains on cash flow hedges included in net income	-	-	(3,496)	(3,496)
Balance December 31, 2017	330	192,729	(3,387)	189,672
Net income	-	6,216	-	6,216
Actuarial gain on defined benefit plan	-	-	89	89
Change in unrealized gains/losses on cash flow hedges	-	-	1,935	1,935
Realized gains on cash flow hedges included in net income	-	-	(1,537)	(1,537)
Redemption of member shares	(13)	-	-	(13)
Impact of initial application of IFRS 9	-	1,870	(805)	1,065
Balance December 31, 2018	317	200,815	(3,705)	197,427

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2018 ($ in thousands)	2018	2017
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member and other loans	67,276	60,853
Interest received on investments and derivatives	7,635	8,006
Cash received on other income	29,009	26,699
Cash paid to suppliers and employees	(76,642)	(59,237)
Interest paid on members' deposits	(17,621)	(15,921)
Interest paid on borrowings	(3,410)	(3,186)
Patronage distributions paid to members	(1,910)	(2,911)
Income taxes recovered	1,852	718
	6,189	15,021
Financing activities		
Change in borrowings	(23,042)	(2,247)
Change in bank indebtedness	15,000	-
Increase in members' deposits	32,105	75,751
Increase (reduction) of equity shares	(13)	51
Dividends on equity and non-equity shares	(170)	(147)
	23,880	73,408
Investing activities		
Increase in member and other loans	(142,879)	(11,401)
Purchase of plant, equipment and intangibles	(2,396)	(2,705)
Net change in investments	132,130	(71,092)
	(13,145)	(85,198)
Increase in cash resources	16,924	3,231
Cash resources, beginning of year	29,701	26,470
Cash resources, end of year	46,625	29,701

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS

REPORTING ENTITY

Interior Savings Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. The Credit Union is approved to operate throughout the Province of British Columbia and primarily serves members in the Thompson Okanagan region of the province. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment. The Credit Union's head office is located at 678 Bernard Avenue, Kelowna, British Columbia.

BASIS OF PRESENTATION

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

The consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiaries, Interior Savings Estate Planning Inc., Interior Savings Investment Management Inc., and Interior Savings Insurance Services Inc. All intercompany balances and transactions have been eliminated.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all IFRSs issued by the IASB, and in effect, as at December 31, 2018.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 9, 2019.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

BASIS OF MEASUREMENT

These consolidated financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

FUNCTIONAL AND PRESENTATION CURRENCY

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

2. CHANGE IN ACCOUNTING POLICIES

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The Credit Union adopted the following new and/or revised standards, effective January 1, 2018. As indicated, adoption of the following new and/or revised standards, had a significant impact on the Credit Union's consolidated financial statements.

IFRS 9 FINANCIAL INSTRUMENTS

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 9 as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 *Financial instruments: recognition and measurement.* The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

The key changes to the Credit Union's accounting policies resulting from adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39. However, under IAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, the amount of change in fair value attributable to the Credit Union's own credit risk is generally required to be presented in other comprehensive income.

Impairment of financial assets

IFRS 9 replaces the methodology under IAS 39 and IAS 37 *Provisions, contingent liabilities and contingent assets* of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

Hedge accounting

The new hedge accounting requirements of IFRS 9 aim to more accurately reflect the Credit Union's risk management activities within the financial statements.

Unlike the IAS 39 hedge accounting model, hedge effectiveness is assessed prospectively and, depending on the complexity of the hedging relationship, can be limited to a qualitative analysis. The 80%-125% effectiveness requirement is replaced by a requirement for there to be an economic relationship between the hedged item and hedging instrument that is not dominated by the effect of credit risk.

IFRS 9 permits a risk component of both financial and non-financial items to be designated as the hedged item in a hedging relationship provided the risk component is separately identifiable and reliably measurable. In addition, IFRS 9 permits more groups of items to be designated as the hedged item including layers of groups of items.

Finally, the time value of options, forward elements of forward contracts, and foreign currency basis spread of financial instruments may be excluded from the designation of the item as a hedging instrument. Changes in the fair value of the excluded portion are recognized and accumulated in other comprehensive income. These amounts are then allocated to profit or loss or the statement of financial position depending on the type of hedged item that the option hedges.

Transition

In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings and reserves as at January 1, 2018. Additional transitional provisions applied are described below.

Classification and measurement

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

Impairment

The credit risk at the date that a financial asset was initially recognized or, for loan commitments and financial guarantee contracts, the date that the entity became a party to the irrevocable commitment, has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

For the purposes of this assessment, the Credit Union has assumed that for low credit risk financial assets, credit risk has not increased significantly since initial recognition.

Notwithstanding the above, the Credit Union has applied the rebuttable presumption that there has been a significant increase in credit risk if contractual payments on a financial asset are more than 30 days past due.

Hedge accounting

The Credit Union has applied the requirements for hedge accounting in IFRS 9 prospectively to hedging relationships that met all qualifying criteria at the date of initial application. Hedging relationships that qualified for hedge accounting in accordance with IAS 39 that also qualified for hedge accounting in accordance with IFRS 9, after taking into account any rebalancing on transition, were accounted for as continuing hedging relationships.

Initial application of IFRS 9

Impact on equity

The following table shows the impact, net of tax, of the initial application of IFRS 9 on various components of equity. There is no impact to other components of equity.

	Impact of initial application of IFRS 9
Retained earnings	
Closing balance under IAS 39 (December 31, 2017)	192,729
Reclassification of equity investments from available-for-sale to fair value through profit and loss	1,655
Reclassification of tax effect on available-for-sale equity investments to amortized cost	215
Opening balance under IFRS 9 January 1, 2018	194,599
Accumulated other comprehensive loss	
Closing balance under IAS 39 (December 31, 2017)	(3,387)
Reclassification of investments from available-for-sale to amortized cost	850
Reclassification of equity investments from available-for-sale to fair value through profit and loss	(1,655)
Opening balance under IFRS 9 January 1, 2018	(4,192)

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

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Cash		FVTPL (designated)	FVTPL (mandatory)	29,701	29,701
Investments - Central 1 liquidity deposits		Held to maturity	Amortized cost	174,555	174,555
Investments - Central 1 and other deposits	1	Available-for-sale	Amortized cost	242,424	243,487
Portfolio investments		FVTPL (designated)	FVTPL (designated)	24,595	24,595
Equity investment - Central 1 and other shares	2	Available-for-sale	FVTPL (mandatory)	15,018	15,018
Derivative financial instruments		FVTPL (mandatory)	FVTPL (mandatory)	3,538	3,538
Member and other loans	3	Loans and receivables	Amortized cost	1,964,010	1,964,010
Other receivables		Loans and receivables	Amortized cost	4,522	4,522
Total financial assets				2,458,363	2,459,426
Financial liabilities					
Member deposits		Amortized cost	Amortized cost	2,110,686	2,110,686
Payables and other liabilities		Amortized cost	Amortized cost	30,138	30,138
Derivative financial instruments		FVTPL (mandatory)	FVTPL (mandatory)	6,265	6,265
Borrowings		Amortized cost	Amortized cost	168,211	168,211
Membership shares		Amortized cost	Amortized cost	4,801	4,801
Total financial liabilities				2,320,101	2,320,101

Application of the accounting policies adopted on the date of initial application of IFRS 9 resulted in the reclassifications as set out in the table above and explained below:

1 – As a result of the adoption of IFRS 9, investments in non-liquidity deposits at Central 1 were reclassified out of the fair value through other comprehensive income category and into the amortized cost category. This reclassification occurred as the deposits consist solely of payments of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows and for sale. This change resulted in an increase to the carrying value of those investments upon transition in the amount of $1,063.

2 – Investments in equity investments that do not have a quoted market price in an active market, including Central 1 shares, classified as available-for-sale and therefore measured at FVOCI under IAS 39, were reclassified as FVTPL. Reclassification did not result in any changes in measurement of the carrying amounts.

3 – Accrued interest receivable and mortgages receivable were classified at amortized cost under IAS 39 prior to the date of initial application, and remain at amortized cost beginning on the date of initial application of IFRS 9. The original carrying amount did not change. The provision for loan impairment, as measured under the impairment requirements of IAS 39, attributable to financial assets previously categorized as loans and receivables and not measured at amortized cost as at December 31, 2017 was $5,886. This loss allowance remained at $5,886 upon transition to the impairment requirements of IFRS 9 on the date of initial application.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 15 *Revenue from contracts with customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, International Financial Reporting Interpretations Committee ("IFRIC") 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and Standard Interpretations Committee ("SIC") 31 *Revenue – barter transactions involving advertising services*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. The comparative information contained within these consolidated financial statements has not been restated and continues to be reported under previous revenue standards.

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

Initial application of IFRS 15

There was no impact on the financial statements from the retrospective application of IFRS 15 Revenue from contracts with customers.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

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

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
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- 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 the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Loan to value ratios
- Vacancy rates

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.

FINANCIAL INSTRUMENTS NOT TRADED IN 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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

INCOME TAX

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 asset or liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax assets or liabilities.

CLASSIFICATION OF FINANCIAL ASSETS

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

CASH

Cash includes cash on hand, operating deposits with financial institutions, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

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.

PROPERTY, PLANT AND EQUIPMENT

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

	Rate
Buildings	20 or 40 years
Computer equipment	3 years
Leasehold improvements	Lease term to a maximum of 10 years
Furniture and fixtures	5 or 10 years
Branch improvements	10 years

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

INTANGIBLE ASSETS

Intangible assets consist of Insurance Corporation of British Columbia ("ICBC") licenses which are determined to have an indefinite useful life and are not being amortized. Any impairment in the value of the intangible asset is written off against earnings.

The customer lists determined to have a definite useful life are amortized based on the estimated useful life of 10 years, straight-line basis. Any impairment in the value of the intangible asset is written off against earnings.

Goodwill, being the excess of cost over assigned values of net assets acquired, is stated at cost less any write-down for impairment in value. The fair value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings in the year in which impairment is determined.

Other intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over an estimated useful life of 3 years.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

MEMBER DEPOSITS

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

SECURITIZATION

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

The Credit Union's securitization activity primarily involves sales of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's Consolidated Statement of Financial Position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's Consolidated Statement of Financial Position as borrowings.

PENSION PLAN

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan. In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the contributions are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services.

In the defined benefit plan, a liability is recognized as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for any actuarial gains or losses and past service costs. Actuarial gains and losses have been recognized in other comprehensive income in the period in which they occur. Past-service costs are recognized immediately in profit or loss. Contributions are recognized as employee benefit expense when they are due. Excess/shortfall of contribution payments over the contribution due for service, is recorded as an asset/liability.

The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

MEMBER SHARES

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability. Shares that contain redemption features are accounted for using the partial treatment requirements of IFRIC 2 *Member Shares in Co-operative Entities and Similar Instruments.*

DISTRIBUTIONS TO MEMBERS

Patronage distributions, dividends to members and other distributions approved by the Board are recognized in earnings in the year that they are declared.

LEASED ASSETS

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

INCOME TAXES

Income tax expense is comprised of current and deferred taxes which are recognized in earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized 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 nor taxable profit or loss.

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 to 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.

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

FOREIGN CURRENCY TRANSLATION

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

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.

For Level 2 discount rate purposes, CDOR is the Canadian Dollar Overnight Rate.

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.

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.

The best evidence of fair value at initial recognition is normally the transaction price. If a difference exists between fair value at initial recognition and the transaction price, and fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1 input) nor based on a valuation technique that uses only data from observable markets, then the measurement at initial recognition is adjusted to defer the difference between fair value and the transaction price.

Classification and subsequent measurement

On initial recognition, financial assets are classified as 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.

Classified 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 Central 1 liquidity and other deposits, other financial institution deposits, member and other loans receivable, accrued interest and other receivables.
- 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.

- Mandatorily at 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 changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss comprise of cash and derivative financial instruments.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets designated to be measured at fair value through profit or loss are comprised of portfolio investments.

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 shares of Central 1, and other equity investments.

Refer to Note 19 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

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, how managers of the business are compensated, the significance and frequency of sales 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.

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.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For retail and commercial member and other loans 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 applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, 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 loan delinquency of 90 days or more, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and available borrower specific information indicating financial difficulty of the borrower that is expected to have a detrimental effect on future cash flow. 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 consolidated 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;
- For loan commitments and financial guarantee contracts, as a provision;
- For debt instruments measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the consolidated statement of financial position.

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

Refer to Note 20 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

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.

The Credit Union engages in securitization transactions resulting in transfers not qualifying for derecognition, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

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. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, payables and other liabilities, borrowings, and membership shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivatives not designated as a hedging instrument are recognized in profit or loss.

The Credit Union designates certain derivative and non-derivative financial instruments as the hedging instrument in qualifying hedging relationships in order to better reflect the effect of its risk management activities in the consolidated financial statements.

Qualifying hedging relationships are those where there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from that economic relationship, and the hedge ratio of the hedging relationship is the same as that resulting from the actual quantities of the hedging instrument and the hedged item that the Credit Union uses for hedging purposes.

At inception of the hedging relationship, the Credit Union documents the economic relationship between the hedging instrument(s) and the hedged item(s), along with its risk management objective and strategy.

Fair value hedges

The Credit Union, in accordance with its risk management strategies, manages interest rate risk through interest rate swaps.

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union tests the effectiveness of its hedges on an annual basis.

Changes in the fair value of the hedging instrument are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the risks being hedged. Where the hedged item is an equity investment for which the Credit Union has elected to present changes in fair value in other comprehensive income, the changes in the fair value of the hedged item and the hedging instrument are recognized in other comprehensive income.

Where the Credit Union has designated a group of assets and/or liabilities in a fair value hedge, gains and losses are presented in the consolidated statement of financial position as an adjustment to the carrying amount of the respective individual items comprising the group.

For hedges of groups of items that have offsetting risk positions, hedging gains or losses are presented in the consolidated statement of profit or loss in other interest revenue/expense.

When the hedged item is a financial instrument measured at amortized cost, adjustments to the hedged item are amortized to profit or loss. Amortization may begin as soon as a hedging adjustment exists but no later than when the hedged item ceases to be adjusted for hedging gains and losses. Amortization is based on a recalculated effective interest rate calculated at the date that amortization begins.

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to variable interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges include hedges of floating rate loans, embedded derivatives, other derivatives related to index-linked deposits and certain foreign exchange positions.

The Credit Union accumulates changes in fair value related to the effective portion of the hedging instrument in the cash flow hedge reserve within equity. The effective portion of the hedge is equal to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item from inception of the hedge. The ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in profit or loss.

When the hedged item is a forecast transaction that subsequently results in recognition of a non-financial asset or liability, the amounts accumulated in the cash flow hedge reserve are removed from equity and included directly in the initial cost or other carrying amount of the asset or liability. This adjustment does not affect other comprehensive income, unless that amount is a loss and the Credit Union expects that all or a portion of the loss will not be recovered in future periods. In this case, the Credit Union immediately reclassifies the amount not expected to be recovered to profit or loss as a reclassification adjustment.

Otherwise, amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period(s) during which the hedged expected future cash flows affect profit or loss. The amounts reclassified to profit or loss are presented in the same line item as the underlying hedged transaction.

When hedge accounting is discontinued for a cash flow hedge and the hedged future cash flows are still expected to occur, accumulated hedging gains or losses remain in the cash flow hedge reserve until such time as the future cash flows occur and are then accounted for as described above. If the hedged future cash flows are no longer expected to occur, accumulated hedging gains and losses are immediately reclassified to profit or loss.

Rebalancing and discontinuation of hedging relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedging relationship continues to qualify for hedge accounting, the hedging ratio is rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item to realign the hedge ratio with the ratio used for risk management purposes. Hedge ineffectiveness is recognized in profit or loss at the time of rebalancing.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to meet the qualifying criteria, including instances where the hedging instrument expires or is sold, terminated or exercised.

REVENUE RECOGNITION

The following describes the Credit Union's principal activities from which it generates revenue.

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.

Other revenue

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Consideration is typically due when the policy has been rendered to the member. The amount of revenue recognized on these transactions is based on the price specified in the contract.

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfill a contract with a member as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Credit Union has not yet applied the following new standard, interpretations and amendments to standards that have been issued as at December 31, 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 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 consolidated financial statements.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

IFRIC 23 was issued in June 2017 to specify how to reflect the effects of uncertainty in accounting for income taxes. The interpretation aims to reduce the diversity in how entities recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this interpretation on its consolidated financial statements.

5. INVESTMENTS

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value in Note 20.

	2018	2017
Investments		
Measured at amortized cost		
Central 1 liquidity deposits - Canadian	**182,295**	173,291
Central 1 liquidity deposits - US	**1,372**	1,264
Central 1 other deposits - Canadian	**57,500**	217,500
Central 1 other deposits - US	**21,415**	23,056
Accrued interest receivable	**1,974**	1,868
Other financial institution deposits	**20,000**	-
	284,556	416,979
Measured at fair value through profit or loss		
Portfolio investments	**24,483**	24,595
	309,039	441,574

	2018	2017
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**10,350**	10,882
Other investments	**4,145**	4,136
	14,495	15,018
Total	**323,534**	456,592

The Credit Union must maintain liquidity deposits with Central 1 as required by governing legislation. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. At maturity, these deposits are reinvested at market rates for various terms.

Other financial institution deposits represent interest bearing deposit notes held at other financial institutions.

Portfolio investments include multi-strategy investment funds consisting of both equity and fixed income instruments.

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and is a condition of membership in Central 1. These shares are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union enters into derivative financial instruments for risk management purposes. Derivative financial instruments used by the Credit Union include:

- Interest rate swaps, which are used to hedge the Credit Union's exposure to interest rate risk.
- Foreign exchange forward contracts, which are used to hedge the Credit Union's exposure to foreign exchange risk.
- Index-linked call options, which are used to directly hedge member index-linked deposits.

The notional amounts of these derivative financial instruments are not recorded in the financial statements. Derivatives are recorded at fair value on the statement of financial position. The fair value of the derivative financial instrument assets and liabilities at December 31, 2018 were $2,413 and $4,955, respectively (2017 - $3,538 and $6,265).

Derivative financial information:

	Notional amounts				Fair values	
	Within 1 year	**1-5 years**	**2018**	2017	**2018**	2017
Interest rate swaps	**109,000**	**168,500**	**277,500**	227,500	**(2,542)**	(2,539)
Forward start interest rate swaps	**-**	**75,000**	**75,000**	75,000	**-**	(188)
Index-linked call options	**6,380**	**38,657**	**45,037**	41,765	**2,413**	3,538
Embedded derivatives in index-linked deposits	**-**	**-**	**-**	-	**(2,413)**	(3,538)
Total	**115,380**	**282,157**	**397,537**	344,265	**(2,542)**	(2,727)

7. MEMBER AND OTHER LOANS

The information included below is for December 31, 2017 only, and is reported under IAS 39. For the current year information on member and other loans and loan allowance see Note 20 which is reported under IFRS 9.

Principal and allowance by loan type:

	2017				
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Residential mortgages	1,528,923	5,093	21	2,463	1,531,532
Personal loans	55,444	296	163	1,166	54,411
Commercial loans and mortgages	376,867	306	246	1,827	375,100
	1,961,234	5,695	430	5,456	1,961,043
Accrued interest receivable	2,967	-	-	-	2,967
Total	1,964,201	5,695	430	5,456	1,964,010

The allowance for loan impairment changed as follows:

	2017
Balance, beginning of year	4,417
Provision for loan impairment	1,550
	5,967
Less: accounts written off, net of recoveries	81
Balance, end of year	5,886

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer equipment	Leasehold improve-ments	Furniture and fixtures	Branch improve-ments	Total
Cost							
Balance at December 31, 2016	2,124	14,573	7,702	12,215	14,982	5,425	57,021
Additions	-	-	295	521	720	1,007	2,543
Balance at December 31, 2017	2,124	14,573	7,997	12,736	15,702	6,432	59,564
Additions	-	-	371	856	416	536	2,179
Balance at December 31, 2018	2,124	14,573	8,368	13,592	16,118	6,968	61,743
Depreciation							
Balance at December 31, 2016	-	8,767	6,934	8,142	13,531	2,335	39,709
Depreciation expense	-	471	464	678	352	686	2,651
Balance at December 31, 2017	-	9,238	7,398	8,820	13,883	3,021	42,360
Depreciation expense	-	471	461	618	382	761	2,693
Balance at December 31, 2018	-	9,709	7,859	9,438	14,265	3,782	45,053
Net book value							
At December 31, 2017	2,124	5,335	599	3,916	1,819	3,411	17,204
At December 31, 2018	**2,124**	**4,864**	**509**	**4,154**	**1,853**	**3,186**	**16,690**

9. INTANGIBLE ASSETS

	Computer software	Customer list	Licences	Goodwill	Total
Cost					
Balance at December 31, 2016	2,298	167	12,750	9,871	25,086
Additions	162	-	-	-	162
Balance at December 31, 2017	2,460	167	12,750	9,871	25,248
Additions	217	-	-	-	217
Balance at December 31, 2018	2,677	167	12,750	9,871	25,465
Amortization					
Balance at December 31, 2016	2,077	167	-	-	2,244
Amortization expense	182	-	-	-	182
Balance at December 31, 2017	2,259	167	-	-	2,426
Amortization expense	126	–	-	-	126
Balance at December 31, 2018	2,385	167	-	-	2,552
Carrying amounts					
At December 31, 2017	201	-	12,750	9,871	22,822
At December 31, 2018	**292**	**-**	**12,750**	**9,871**	**22,913**

10. OTHER ASSETS

	2018	2017
Accounts receivable	**4,254**	4,522
Corporate income tax recoverable (payable)	**(168)**	1,699
Loan origination/acquisition fees	**2,425**	2,475
Prepaid expenses and deposits	**2,475**	2,401
	8,986	11,097

11. INCOME TAXES

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

	2018	2017
Current tax recovery based on:		
Change in unrealized gain on cash flow hedges	**(341)**	(600)
Realized gains (losses) on cash flow hedges included in earnings	**271**	(722)
Actuarial loss on supplemental retirement plan	**(16)**	(30)
Change in unrealized gain on available-for-sale investments	**-**	342
	(86)	(1,010)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2017 - 26%) are as follows:

	2018	2017
Current income tax expense		
Comprehensive income for the year	**6,703**	3,026
Income tax expense on the statutory rate	**1,810**	788
Preferred rate deduction for credit unions	**(153)**	(125)
Items not deductible or taxable for tax purposes	**(199)**	705
Other	**289**	439
Tax effect of amounts recorded in other comprehensive income (as shown above)	**86**	1,010
	1,833	2,817
Origination and reversal of temporary differences	**338**	(1,424)
	2,171	1,393

The movement in 2018 deferred income tax assets are:

	Jan 1, 2018	Recognized in net income	Dec 31, 2018
Deferred income tax assets:			
Property, plant and equipment	**761**	**24**	**785**
Allowance for impaired loans	**1,430**	**(42)**	**1,388**
Other liabilities	**2,579**	**(316)**	**2,263**
Other	**39**	**(4)**	**35**
	4,809	**(338)**	**4,471**

The movement in 2017 deferred income tax assets are:

	Jan 1, 2017	Recognized in net income	Dec 31, 2017
Deferred income tax assets:			
Property, plant and equipment	641	120	761
Allowance for impaired loans	826	604	1,430
Other liabilities	1,823	756	2,579
Other	95	(56)	39
	3,385	1,424	4,809

	2018	2017
Deferred income tax assets		
Deferred income tax assets to be settled within 12 months	**1,388**	1,430
Deferred income tax assets to be settled after more than 12 months	**3,083**	3,379
Deferred income tax assets	**4,471**	4,809

12. MEMBER DEPOSITS

	2018	2017
Demand deposits	**1,088,126**	1,048,349
Term deposits	**512,681**	527,514
Registered plans	**534,898**	527,722
Non-equity shares	**150**	164
Accrued interest payable	**8,278**	6,937
	2,144,133	2,110,686

Included in registered plans are retirement savings plans, retirement income funds, registered educations savings plans, registered disability savings plans and tax free savings accounts.

13. BORROWINGS AND BANK INDEBTEDNESS

The Credit Union maintains operating lines of credit and short term borrowing facilities with Central 1 and other major financial institutions which are secured by general security agreements and a demand debenture creating floating charges over the assets of the Credit Union. The approved facilities total $161,137 (2017 - $151,118) and any undrawn amount may be subject to standby fees. This facility was drawn down $15,000 as at December 31, 2018 (2017 - $NIL).

The Credit Union is an approved issuer of mortgage backed securities for inclusion in the Canada Mortgage Bond ("CMB") program administered by the Canada Housing Trust. The CMB represents the full repayment amount of 5-year bonds maturing from 2021 to 2022 and are secured by specific pools of member and other loans. In order to ensure sufficient assets are available to meet its repayment obligations, the Credit Union maintains reinvestment accounts as required under the terms of the CMB program. The outstanding balance of the CMB at December 31, 2018 was $145,169 (2017 - $168,211).

14. MEMBER SHARES

		2018		2017	
	Authorized	**Equity**	**Liability**	Equity	Liability
Investment equity shares	**Unlimited**	**317**	**3,772**	330	3,689
Member equity shares	**Unlimited**	**-**	**770**	-	1,112
		317	**4,542**	330	4,801

Member shares are recognized as a liability or equity based on the terms and in accordance with *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. If they are classified as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Both classes of shares have a par value and redemption value of one dollar per share. Monies invested in membership equity and investment equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

Investment equity shares

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount is classified as equity.

Membership equity shares

As a condition of membership, each member is required to own at least $5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

Distributions to members

	2018	2017
Patronage distributions	**1,187**	1,487
Dividends on members' shares	**170**	147
Bursary program	**825**	750
	2,182	2,384

Patronage distributions are calculated based on the level of business a member conducts with the Credit Union. Dividends and other approved distributions may be paid at the discretion of the Board of Directors in the form of cash or additional shares.

15. PENSION PLAN

The Credit Union provides four types of retirement plan options for its employees. These include participation in a multi-employer defined benefit pension plan (the "Plan"), administered by Central 1; participation in a defined benefit Supplemental Employee Retirement Plan (the "SERP"), administered by the Credit Union; participation in a group registered retirement savings plan, administered by the Credit Union; and participation in a money purchase plan offered and administered by Central 1. The annual cost of the pension benefits for the Plan and the SERP have been determined by an independent actuary based on the accrued benefit actuarial cost method.

The Plan is governed by a 9 member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The Plan, as at December 31, 2018, has about 3,500 active employees, approximately 1,000 retired plan members, and total plan assets of $732,800. Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The Plan valuation uses a discount rate of 4.0% and an inflation rate of 3.5%.The most recent actuarial valuation, which was conducted as at December 31, 2015, indicated a going concern unfunded liability of $25,100 and a solvency deficiency of $123,000. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. The pension expense for the year ended December 31, 2018 amounted to $3,506 (2017 - $3,506) which has been recorded as an expense in earnings.

The SERP is a non-registered, unfunded defined benefit plan covering certain employees of the Credit Union. Every year, an actuarial valuation is performed to determine the accrued benefit obligation and the annual pension cost. The most recent actuarial valuations were as of December 31, 2018 for the SERP. The Credit Union contributed $165 during the year (2017 - $111).

The Credit Union also provides additional pension benefits to certain eligible employees who are members of the registered retirement savings plan. Under this plan, the Credit Union contributes to an employee's registered plan an amount based on a percentage of the employee's earnings, and expenses the contributions to the plan in the year in which payments are made. Additionally, the employee can contribute to this plan. The Credit Union contributed $56 during the year (2017 - $57).

The money purchase plan is also a multi-employer pension plan with several active contributors from various Credit Unions. The Credit Union contributes to an employee's pension plan account an amount based on a percentage of the employee's earnings and expenses the contributions to the plan in the year in which payments are made. The Credit Union contributed $24 during the year (2017 - $31).

Funding of the Plan complies with applicable regulations that require actuarial valuations of the pension funds at least once every three years in Canada, depending on the funding status.

16. OTHER INCOME

	2018	2017
Commissions	**16,808**	18,246
Member account service fees	**5,984**	6,003
Member and other loan fees	**2,376**	2,325
Credit card commissions	**858**	908
Foreign exchange	**697**	833
Other accounts	**582**	577
Recovery of investment	**-**	53
	27,305	28,945

17. GENERAL OPERATING AND ADMINISTRATIVE

	2018	2017
Professional fees	**2,023**	1,932
Deposit insurance	**1,991**	1,798
Advertising	**1,931**	1,722
Bank charges and interest	**1,638**	1,589
Member services and lending	**996**	1,044
Training, meetings and travel	**933**	821
Other	**867**	1,005
Courier and postage	**646**	628
Stationery and supplies	**611**	680
Telephone	**416**	428
Sponsorship and donations	**403**	542
Central 1 dues	**335**	310
Director honorarium	**261**	240
	13,051	12,739

18. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL ("KMP")

The Credit Union entered into the following transactions with key management personnel and directors, which are defined by *IAS 24, Related Party Disclosures*, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel, along with their close family members.

Compensation for related parties

	2018	2017
Salaries, and other short-term employee benefits	**2,374**	2,030
Total pension and other post-employment benefits	**430**	425
Total remuneration	**2,804**	2,455

Loans to related parties

The Credit Union's policy for lending to directors and KMP is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. KMP may receive concessional rates of interest on their loans and facilities. There are no additional benefits or concessional terms and conditions applicable to related parties. There are no loans that are impaired in relation to loan balances with directors, KMP, and their close family members.

	2018	2017
Balance of loans and lines of credits outstanding at year end	**2,462**	2,147
Unused lines of credit outstanding at year end	**965**	507
	3,427	2,654

Loans and lines of credit advanced during the year, excluding repayments amount to $1,044 (2017 - $1,579).

Interest income and expense

	2018	2017
Interest collected on loans and revolving credit facilities	**55**	39
Interest paid on deposits	**16**	15

Deposits

	2018	2017
Balance of term and savings deposits outstanding at year end	**2,557**	2,752

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

19. 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:

	Fair Value	Level 1	Level 2	2018 (IFRS 9) Level 3
Assets				
Financial assets at fair value through profit or loss				
Cash	**46,625**	**46,625**	-	-
Portfolio investments	**24,483**	**24,483**	-	-
Equity investment - Central 1 and other shares	**14,495**	-	-	**14,495**
	85,603	**71,108**	-	**14,495**
Financial assets at fair value through other comprehensive income				
Derivative financial instruments	**2,413**	-	**2,413**	-
	88,016	**71,108**	**2,413**	**14,495**
Liabilities				
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	**4,955**	-	**4,955**	-
	4,955	-	**4,955**	-

	Fair Value	Level 1	2017 (IAS39) Level 2
Assets			
Financial assets at fair value through profit or loss			
Cash	29,701	29,701	-
Derivative financial instruments	3,538	-	3,538
Portfolio investments	24,595	24,595	-
	57,834	54,296	3,538
Available-for-sale financial assets			
Investments - other	257,442	-	257,442
	315,276	54,296	260,980
Liabilities			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	6,265	-	6,265
	6,265	-	6,265

Level 2 fair value measurements

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

Line item	Valuation techniques	Inputs
Derivative financial assets and liabilities	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset/liability	Discount rates based on CDOR and swap rates.
Investments - other	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on credit spread adjusted swap rates.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The carrying amount, fair value, and categorization into the fair value hierarchy of financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

	Carrying amount	**Fair Value**	**Level 2**	**2018 (IFRS 9) Level 3**
Assets				
Amortized cost				
Investments - liquidity deposits	**183,667**	**183,643**	**183,643**	-
Investments - other	**100,889**	**98,459**	**98,459**	-
Member and other loans	**2,106,176**	**2,060,625**	**2,060,625**	-
Other assets	**4,254**	**4,254**	**4,254**	-
	2,394,986	**2,346,981**	**2,346,981**	-
Liabilities				
Amortized cost				
Member deposits	**2,144,133**	**2,149,902**	**2,149,902**	-
Borrowings	**145,169**	**148,303**	**148,303**	-
Payables and other liabilities	**20,582**	**20,582**	**20,582**	-
Bank indebtedness	**15,000**	**15,000**	**15,000**	-
Member shares - liability	**4,542**	**4,542**	-	**4,542**
	2,329,426	**2,338,329**	**2,333,787**	**4,542**

	Carrying amount	Fair Value	Level 2	2017 (IAS 39) Level 3
Assets				
Investments - liquidity deposits	174,555	173,202	173,202	-
Member and other loans	1,964,010	1,954,136	1,954,136	-
Other assets	4,523	4,523	4,523	-
	2,143,088	2,131,861	2,131,861	-
Liabilities				
Member deposits	2,110,686	2,132,701	2,132,701	-
Borrowings	168,211	163,671	163,671	-
Payables and other liabilities	30,138	30,138	30,138	-
Member shares - liability	4,801	4,801	-	4,801
	2,313,836	2,331,311	2,326,510	4,801

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to the amortized cost.

20. 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 financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. The risk can relate to balance sheet assets such as loans, as well as off balance sheet assets such as commitments and letters of credit.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Investment and Lending Committee which reports to the Board of Directors ensure that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Investment and Lending Committee ("ILC") comprised of members of the Board and senior management is responsible for developing and implementing the credit risk management practices of the Credit Union by approving and reviewing lending policies on a regular basis, establishing lending limits for the Credit Union, delegating lending limits and reviewing quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements.

The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The Audit and Finance Committee reviews the adequacy of the allowance for impaired loans. The primary credit risk management policies and procedures include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.
- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities.
- Loan syndication 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), 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	**297,832**	296,556
Guarantees and standby letters of credit	**9,218**	8,701
Commitments to extend credit	**109,608**	68,538
	416,658	373,795

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.

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 commercial 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;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments and derivative financial instruments.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower's payment performance compared to the modified contractual terms and whether such modifications increase the borrower's ability to meet its contractual obligations.

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when there is evidence that the quantitative or qualitative indicator for a significant increase in credit risk not longer exists for a particular financial asset. Subsequently, management monitors these assets to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

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 observable data about the following events:

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default or past due event;
- The credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

As it may not be possible to identify a single discrete event, a combined effect of several events may result in a financial asset to become credit-impaired.

Measurement of expected credit losses

The Credit Union measures expected credit losses ("ECL") for member loans that have not been assessed as credit-impaired on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held. The expected credit losses for credit-impaired member loans are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers the probability of default, loss given default, forward looking information and macroeconomic factors, and exposure at default of the financial asset. 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 members 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.

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.

The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

	2018			
	12-month ECL (stage 1)	Lifetime ECL (not credit impaired) (stage 2)	Lifetime ECL (credit impaired) (stage 3)	Total
Residential mortgages				
Low risk	1,330,042	-	-	1,330,042
Medium risk	-	324,336	-	324,336
Default	-	-	5,653	5,653
Gross carrying amount	1,330,042	324,336	5,653	1,660,031
Less: loss allowance	77	69	8	154
Carrying amount	1,329,965	324,267	5,645	1,659,877
Personal loans				
Low risk	40,803	-	-	40,803
Medium risk	-	9,554	-	9,554
Default	-	-	212	212
Gross carrying amount	40,803	9,554	212	50,569
Less: loss allowance	694	1,832	163	2,689
Carrying amount	40,109	7,722	49	47,880
Commercial loans and mortgages				
Low risk	212,658	-	-	212,658
Medium risk	-	182,625	-	182,625
Default	-	-	3,002	3,002
Gross carrying amount	212,658	182,625	3,002	398,285
Less: loss allowance	778	1,591	670	3,039
Carrying amount	211,880	181,034	2,332	395,246
Total members' loans receivable				
Total gross carrying amount per above	1,583,503	516,515	8,867	2,108,885
Add: accrued interest	2,612	548	13	3,173
Less: loss allowance per above	1,549	3,492	841	5,882
Total carrying amount	1,584,566	513,571	8,039	2,106,176

As at December 31, 2018, the maximum exposure to credit risk with respect to financial assets without taking into account collateral held or other credit enhancements is $2,848,782 (2017 - $2,798,283). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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)	IAS 39 Comparatives	Total
Members' loan receivable					
Balance at January 1, 2017	-	-	-	**4,417**	**4,417**
Provision for impaired loans	-	-	-	**1,550**	**1,550**
Write-offs, net of recoveries	-	-	-	**(81)**	**(81)**
Balance at December 31, 2017	-	-	-	**5,886**	**5,886**
Balance at January 1, 2018	-	-	-	**5,886**	**5,886**
Transfer to 12-month ECL	**1,676**	-	-	**(1,676)**	-
Transfer to lifetime ECL (not credit impaired)	-	**3,781**	-	**(3,781)**	-
Transfer to lifetime ECL (credit impaired)	-	-	**429**	**(429)**	-
Provision for impaired loans	**150**	**338**	**562**	-	**1,050**
Write-offs, net of recoveries	**(277)**	**(627)**	**(150)**	-	**(1,054)**
Balance at December 31, 2018	**1,549**	**3,492**	**841**	-	**5,882**

MARKET RISK

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below.

INTEREST RATE RISK

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as loan prepayment and deposit redemption, which also impact interest rate risk.

Risk Measurement

The Credit Union measures its interest rate risk on a monthly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, Policies and Processes

The Asset Liability Committee ("ALCO"), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and decide future strategy. These policies and guidelines define the standards and limits within which the risks to net interest income and the value of equity are contained. An asset/liability risk report is prepared monthly for ALCO and reviewed on a quarterly basis by the ILC. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to an immediate parallel shift in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	2018	2017
1% increase in interest rates		
Impact on financial margin (for the next 12 months)	**(3,143)**	(2,486)
1% decrease in interest rates		
Impact on financial margin (for the next 12 months)	**1,267**	201

Interest rate sensitivity

The main source of income for the Credit Union is its financial margin. Financial margin is the difference between interest received on assets and interest paid on liabilities. Management of financial margin is performed by the ALCO. The ALCO uses extensive cash flow analysis to monitor the Credit Union's position and to ensure risk is kept within the limits prescribed by the Board approved Investment and Lending Policy.

The following table show the terms to maturity of the interest sensitive financial instruments as shown on the statement of financial position.

	Under 1 Year	1-5 Years	Over 5 Years	Non-Interest Sensitive	2018 Total	2017 Total
Assets						
Cash	40,708	-	-	5,917	**46,625**	29,701
Average yield %	1.75	-	-	-		
Investments	59,276	221,900	24,483	17,875	**323,534**	456,592
Average yield %	1.82	1.65	1.54	-		
Derivative financial instruments	-	-	-	2,413	**2,413**	3,538
Member loans	665,519	1,423,670	14,367	2,620	**2,106,176**	1,964,010
Average yield %	4.23	3.09	4.04	-		
Other assets	-	-	-	4,254	**4,254**	4,522
	765,503	**1,645,570**	**38,850**	**33,079**	**2,483,002**	2,458,363

	Under 1 Year	1-5 Years	Over 5 Years	Non-Interest Sensitive	2018 Total	2017 Total
Liabilities						
Bank indebtedness	15,000	-	-	-	**15,000**	-
Average yield %	2.76	-	-	-		
Member deposits	774,692	412,012	-	957,429	**2,144,133**	2,110,686
Average yield %	1.23	1.91	-	-		
Borrowings	8,327	136,842	-	-	**145,169**	168,211
Average yield %	1.63	1.62	-	-		
Derivative financial instruments	-	-	-	4,955	**4,955**	6,265
Member shares	-	-	-	4,542	**4,542**	4,801
Other liabilities	-	-	-	20,582	**20,582**	30,138
	798,019	**548,854**	**-**	**987,508**	**2,334,381**	2,320,101
Mismatch	**(32,516)**	**1,096,716**	**38,850**	**(954,429)**	**148,621**	138,262
Net derivative contracts	**(206,500)**	**212,000**	**(5,500)**	**-**	**-**	-
Net sensitivity	**(239,016)**	**1,308,716**	**33,350**	**(954,429)**	**148,621**	138,262

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in U.S. dollars.

Risk Measurement

The Credit Union's foreign exchange positions are measured and monitored regularly.

Objectives, Policies and Processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between U.S. dollar assets and liabilities. Foreign exchange forward contracts may be used to hedge the Credit Union's exposure to foreign exchange risk. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2018, the Credit Union's exposure to foreign exchange risk was not significant.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due.

Risk measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

Objectives, Policies and Processes

The Credit Union's liquidity management framework is monitored by ALCO and policies are approved by the ILC and Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources. As at December 31, 2018, the Credit Union had available funding sources totaling $138,500 (2017 - $151,118).

Legislation requires that the Credit Union maintain liquid assets with Central 1 of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly and the ILC receives regular reporting of available cash resources and utilization rates. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2018, the Credit Union's total liquidity ratio was 16.37% (2017 - 22.10%).

The following table shows the principal obligations related to financial liabilities significant in the management of liquidity risk as at December 31, 2018:

	Demand & Notice	Under 1 year	1 to 5 years	Over 5 years	2018	2017
Deposits	1,534,441	294,307	315,385	-	**2,144,133**	2,110,686
Bank indebtedness	-	15,000	-	-	**15,000**	-
Borrowings	-	-	145,169	-	**145,169**	168,211
	1,534,441	309,307	460,554	-	**2,304,302**	2,278,897

21. CAPITAL MANAGEMENT

As a provincially chartered Credit Union, the Credit Union is required to measure its capital adequacy based on regulations monitored by FICOM. Regulatory capital must have the following fundamental characteristics: i) permanency; ii) be free of fixed charges against earnings; and iii) be subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may be deducted from capital to arrive at the total capital base.

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0% to 150%. The regulatory ratio is then computed by dividing the total capital base by the Credit Union's risk weighted assets, including off-balance sheet commitments. Regulation currently requires that each Credit Union must maintain a minimum capital to risk-weighted assets ratio of 8%. FICOM's supervisory target capital ratio is established above the regulatory minimum at 10%.

The Credit Union's capital adequacy ratio as of December 31, 2018 was 22.07% (2017 - 22.15%).

Capital of the Credit Union is comprised of:

	2018	2017
Primary capital		
Retained earnings - non-consolidated	**197,966**	190,120
Membership equity shares	**1,087**	1,112
Deferred income tax	**(495)**	(1,041)
	198,558	190,191
Secondary capital		
Share of system retained earnings	**26,191**	18,727
Other equity shares	**3,772**	4,020
	29,963	22,747
Deductions from capital	**(24,042)**	(24,650)
Capital base	**204,479**	188,288

The Credit Union manages capital and its composition based on statutory requirements. The ratio is reviewed monthly and is addressed in annual and three year planning cycles to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the ILC.

22. COMMITMENTS

MEMBER AND OTHER LOANS

Credit Union's commitments to provide credit to its members are disclosed in the credit risk section of Note 20.

CONTRACTUAL OBLIGATIONS

The Credit Union is committed to payments for data processing services and system improvements of $1,320 per annum until December 30, 2020.

The Credit Union is committed to lease payments for premises of approximately $2,515 (2017 - $2,380) per annum with varying terms, the last term ending in 2025. Expiring leases are expected to be renewed with similar terms.

23. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

CREDIT UNION AND INSURANCE LOCATIONS

Ashcroft
201 Railway Avenue
250-453-2219
Insurance
250-453-9133

Barriere
4621 Barriere Town Road
250-672-9736
Insurance
250-672-9634

Chase
814 Shuswap Avenue
250-679-8831
Insurance
810 Shuswap Avenue
250-679-3248

Clearwater
401-365 Murtle Crescent
250-674-3111
Insurance
250-674-3151

Kamloops
Lansdowne
200-350 Lansdowne St
250-374-3361
Insurance
201-350 Lansdowne St
250-374-3536

Summit
370-1210 Summit Drive
250-314-1210
Columbia Insurance
370C-1210 Summit Drive
250-372-8118

Tranquille
100-430 Tranquille Road
250-376-5544
Insurance
101-430 Tranquille Road
250-376-6255

North Hills Insurance
19-700 Tranquille Road
250-376-8881

Valleyview
1-2101 Trans Canada Hwy, East
250-374-6676
Insurance
1-2101 Trans Canada Hwy, East
250-374-7552

Kelowna
Bernard
101-678 Bernard Avenue
250-869-8300
Insurance
102-678 Bernard Avenue
250-712-4045

Glenmore
500-1982 Kane Road
250-762-2262
Insurance
250-980-4570

Mission
101-595 K.L.O Road
250-763-8144
Insurance
250-868-2251

Orchard Centre
2071 Harvey Avenue
250-860-7400

Rutland
185 Rutland Road South
250-469-6575
Insurance
250-765-4898

Lake Country
30-9522 Main Street
250-766-3663

Lillooet
674 Main Street
250-256-4238

Merritt
1959 Voght Street
250-378-5181
Insurance
2001B Voght Street
250-378-4234

Oliver
6287 Main Street
250-498-3457
Insurance
6283 Main Street
250-498-5610

Okanagan Falls
4929 9th Avenue
250-497-8204

Osoyoos
9145 Main Street
250-495-8027

Vernon
4301 32nd Street
250-545-1234

West Kelowna
3718 Elliott Road
250-469-6550
Insurance
250-768-2176

ADDITIONAL SERVICES

Commercial Services

Kelowna
654 Bernard Avenue
250-469-6500

Kamloops
202-350 Lansdowne Street
250-851-2814

Commercial Insurance
201-350 Lansdowne Street
250-374-3536

Wealth Management

Kelowna
200-2071 Harvey Ave
250-869-8336

Kamloops
203-350 Lansdowne Street
250-377-4937

Member Service Centre
1-855-220-2580

Telephone Banking
1-877-861-ISCU (4728)

Insurance 24 Hr Claims Reporting
1-877-912-2271

www.interiorsavings.com

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