Kawartha Credit Union Limited

Financial Statements

At December 31, 2018

Contents

Independent Auditor's Report

To the Members of Kawartha Credit Union Limited

Opinion

We have audited the accompanying financial statements of Kawartha Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2018, and the statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Peterborough, Ontario
February 19, 2019

KAWARTHA CREDIT UNION LIMITED

Statement of Financial Position

December 31	2018	2017
	(thousands of Canadian dollars)	
Assets		
Cash resources (Note 8)	$ 19,673	$ 32,162
Liquidity deposits (Note 8)	98,933	91,041
Investments (Note 11)	8,145	8,093
Derivative financial instruments (Note 10)	409	742
Members' loans (Note 4)	1,501,730	1,390,413
Other assets (Note 15)	9,235	8,731
Property and equipment (Note 20)	24,525	19,197
	$ 1,662,650	$ 1,550,379
Liabilities and Members' Equity		
Liabilities		
Term loans (Note 14a)	$ 26,000	$ 58,000
Members' deposits (Note 5)	1,328,067	1,223,273
Accounts payable and accrued liabilities	2,471	4,323
Derivative financial instruments (Note 10)	2,180	2,233
Securitized mortgages under administration (Note 12)	188,662	152,170
Members' shares (Note 6)	1,184	1,176
Employee future benefits (Note 19)	5,299	5,113
	1,553,863	1,446,288
Members' Equity		
Class A Investment shares (Note 6)	40,340	40,340
Class B Affinity shares (Note 6)	13,751	12,864
Contributed surplus	503	434
Retained earnings	53,915	50,175
Accumulated other comprehensive income	278	278
	108,787	104,091
	$ 1,662,650	$ 1,550,379

Approved by the Board:

Nancy Herr

Director

Director

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

KAWARTHA CREDIT UNION LIMITED

Statement of Income

For the year ended December 31		2018		2017
		(thousands of Canadian dollars)		
Financial Revenue				
Interest on members' loans	$	53,707	$	47,384
Investment income		1,585		1,366
		55,292		48,750
Financial Expense				
Interest on members' deposits		18,105		15,828
Interest on borrowings		853		391
		18,958		16,219
Financial Margin		36,334		32,531
Other Income (Note 16)		9,150		8,693
		45,484		41,224
Operating Expenses				
Salaries and employee benefits		23,213		22,009
Loan loss expense		1,175		714
Occupancy		4,406		3,981
Banking costs		893		781
Other expenses (Note 17)		3,384		3,133
Information system costs		1,992		1,792
Deposit insurance		1,083		756
Promotion		952		911
Directors' expenses		223		216
		37,321		34,293
Operating Income		8,163		6,931
Gain (loss) on sale of investments		5		(7)
Patronage distributions (Note 6)		(1,082)		(969)
Income before income taxes		7,086		5,955
Income tax expense (Note 18)		849		1,078
Net Income	$	6,237	$	4,877

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

KAWARTHA CREDIT UNION LIMITED

Statement of Comprehensive Income

For the year ended December 31	2018	2017
	(thousands of Canadian dollars)	
Net Income (Page 5)	$ 6,237	$ 4,877
Other comprehensive income		
Actuarial loss on remeasurement of defined benefit non-pension plans (Note 19)	-	-
Unrealized gains (losses) on financial derivatives designated as cash flow hedges	-	(208)
Comprehensive income	$ 6,237	$ 4,669

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

KAWARTHA CREDIT UNION LIMITED

Statement of Changes in Members' Equity

	Accumulated Other Comprehensive Income	Class A Investment Shares	Class B Affinity Shares	Retained Earnings and Contributed Surplus	Total
				(thousands of Canadian dollars)	
Balance on December 31, 2016	**$ 486**	**$ 25,782**	**$ 12,030**	**$ 47,349**	**$ 85,647**
Net income	-	-	-	4,877	4,877
Dividends (Note 6)				(1,669)	(1,669)
Class A share issuance		14,588			14,588
Class A share issuance costs	-	(30)	-	-	(30)
Class B Affinity shares					
Net share issuance	-	-	886	-	886
Forfeitures	-	-	(52)	52	-
Change in unrealized gains (losses) on cash flow hedges	(208)	-	-	-	(208)
Balance on December 31, 2017	**278**	**40,340**	**12,864**	**50,609**	**104,091**
IFRS 9 transition adjustment on January 1, 2018 (Note 3)	-	-	-	(237)	(237)
Net income	-	-	-	6,237	6,237
Dividends (Note 6)	-	-	-	(2,260)	(2,260)
Class B Affinity Shares					
Net share issuance	-	-	956	-	956
Forfeitures	-	-	(69)	69	-
Change in unrealized gains (losses) on cash flow hedges	-	-	-	-	-
Balance on December 31, 2018	**$ 278**	**$ 40,340**	**$ 13,751**	**$ 54,418**	**$ 108,787**

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

KAWARTHA CREDIT UNION LIMITED

Statement of Cash Flows

For the year ended December 31	2018	2017
	(thousands of Canadian dollars)	
Operating activities		
Net income	$ 6,237	$ 4,877
Adjustments for non-cash items:		
Depreciation	2,183	1,926
Gains (losses) on sale of investments	(5)	7
	8,415	6,810
Changes in operating assets and liabilities:		
Other assets	(504)	(1,231)
Derivative financial instruments	280	527
Accounts payable and accrued liabilities	(1,852)	1,249
Employee future benefits	186	183
Changes in allowance for loan losses	(100)	176
Increase in members' deposits	104,794	97,525
Decrease in accrued interest payable	-	(211)
Increase in members' loans	(110,725)	(174,706)
(Increase) decrease in accrued interest receivable	(729)	(409)
Total cash inflows (outflows) from operating activities	(235)	(70,087)
Financing Activities		
Increase in liquidity deposits	(7,892)	(10,979)
Advances (repayments) of term loans	(32,000)	54,000
Proceeds of mortgage securitization	70,108	52,662
Payment of mortgage securitization liabilities	(33,616)	(34,595)
Class A Investment shares issued	-	14,588
Class A Investment share issuance costs	-	(30)
Class B Affinity shares issued	956	886
Increase (decrease) in membership shares	8	(15)
Dividends paid to members	(2,260)	(1,669)
Total cash inflows (outflows) from financing activities	(4,696)	74,848
Investing Activities		
Purchases of property and equipment (net of disposals)	(7,511)	(3,435)
Decrease (increase) in investments (net)	(47)	1,684
Total cash outflows from investing activities	(7,558)	(1,751)
Net increase in cash resources	(12,489)	3,010
Cash resources, beginning of year	32,162	29,152
Cash resources, end of year	$ 19,673	$ 32,162

Refer to Note 22 for supplementary cash flow information.

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

1. CORPORATE INFORMATION

Reporting Entity
Kawartha Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, and commercial (including agricultural) loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and internet banking. The Credit Union head office is located at 14 Hunter Street East, Peterborough, Ontario, Canada.

These financial statements were authorized for issue by the Board of Directors on February 19, 2019.

2. BASIS OF PRESENTATION

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

ii) Basis of Measurement
These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through other comprehensive income (“FVTOCI”) and derivative financial instruments measured at fair value.

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

iii) Judgment and Estimates
The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving critical judgments and estimates in applying policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into the measurement of the expected credit loss (“ECL”) (Note 4);
- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Notes 4 and 8);
- The fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 4, 5, 10 & 11).
- The determination of the liability for employee future benefits (Note 19)

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Credit Union's financial statements other than those described below.

IFRS 9 *Financial Instruments*

On January 1, 2018, the Credit Union adopted IFRS 9 *Financial Instruments* (IFRS 9), which supersedes IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance. The Credit Union adopted IFRS 9 retrospectively, however despite the retrospective adoption of IFRS 9, the Credit Union is not required, upon initial application, to restate comparatives.

The Credit Union early adopted the amendment to IFRS 9 *Prepayment Features with Negative Compensation*.

i) Classification and measurement of financial instruments
On adoption of IFRS 9, in accordance with its transitional provisions, the Credit Union has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Credit Union did not choose the option of designating any financial liabilities at fair value through profit or loss ("FVTPL") as such, the adoption of IFRS 9 did not impact the Credit Union's accounting policies for financial liabilities.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, FVTOCI, and FVTPL.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Credit Union's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets			$000's		$000's
Cash resources	8	Loans and receivables	$32,162	Amortized cost	$32,162
Liquidity deposits	8	Loans and receivables	91,041	Amortized cost	91,041
Investments – Central 1 Class A membership shares *	11	Available-for-sale	4,976	FVTOCI	4,976
Investments – Central 1 Class E membership shares *	11	Available-for-sale	3,044	FVTOCI	3,044
Investments – other equity securities *	11	Available-for-sale or FVTPL	73	FVTOCI	73
Derivative financial instruments **	10	Designated as hedging instrument or FVTPL	742	FVTPL	742
Member loans	4	Loans and receivables	1,390,413	Amortized cost	1,390,413
Other assets	15	Loans and receivables	3,524	Amortized cost	3,524
Financial liabilities					
Term loans	14	Other financial liabilities	58,000	Amortized cost	58,000
Members' deposits	5	Other financial liabilities	1,223,273	Amortized cost	1,223,273
Accounts payable and accrued liabilities		Other financial liabilities	4,323	Amortized cost	4,323
Derivative financial instruments **	10	Designated as hedging instrument or FVTPL	2,233	FVTPL	2,233
Securitized mortgages under administration	12	Other financial liabilities	152,170	Amortized cost	152,170
Members' shares	6	Other financial liabilities	1,176	Amortized cost	1,176

* The Credit Union has designated these equity instruments, which are not held for trading, as at FVTOCI
** The Credit Union has not designated derivatives as hedging instruments as at December 31, 2018 (see Note 10)

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

ii) Impairment of financial assets
IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Credit Union applies the impairment requirements of IFRS 9, see Notes 4 and 8.

iii) Disclosure
Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Credit Union has also adopted for the annual period beginning January 1, 2018.

Impacts of application of new accounting standards

The following table presents the impact of adopting IFRS 9 on the statement of financial position as at January 1, 2018:

	Balance, December 31, 2017	IFRS 9 adjustments	Adjusted balance, January 1, 2018
Member loans (i)	$ 1,390	$ (237)	$ 1,153
Retained earnings (i)	50,175	237	50,412

i) Adoption of the ECL model in IFRS 9 resulted in an increase in the loss allowance related to member loans and a corresponding reduction to retained earnings.

4. MEMBERS' LOANS

Terms and Conditions

Members' loans can have either a variable or fixed rate of interest and mature within five years. Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.36% to prime plus 20.05%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2018 was 3.95%.

The interest rate offered on fixed rate loans being advanced at December 31, 2018 ranges from 2.00% to 13.25%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

4. MEMBERS' LOANS (continued)

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

	2018	2017
	(thousands of Canadian dollars)	
Residential mortgages	$ 1,058,409	$ 926,025
Personal Loans	91,360	121,537
Commercial loans	354,302	346,020
	1,504,071	1,393,582
Accrued interest receivable	2,817	2,088
Allowance for impaired loans	(5,158)	(5,257)
Net members' loans	$ 1,501,730	$ 1,390,413

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2018		2017	
	Principal	Yield (%)	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable Rate	$ 300,694	6.19	$ 302,683	5.68
Fixed rate due less than one year	188,287	3.79	143,990	4.22
Fixed rate due between one and five years	1,015,090	3.49	946,909	3.35
	$ 1,504,071		$ 1,393,582	

i) Recognition and initial measurement

The Credit Union initially recognizes member loans on the date on which they are originated. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

ii) Classification and subsequent measurement

Member loans are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan losses.

4. MEMBERS' LOANS (continued)

iii) Derecognition and contract modifications

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, then the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

If the terms of a member loan are modified but not substantially, then the member loan is not derecognized.

If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on member loans.

iv) Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's member loans.

4. MEMBERS' LOANS (continued)

Credit risk management

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans with stress testing the ability of a borrower to pay at a higher rate, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including schedule of assigned 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;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Audit procedures and processes for the Credit Union's lending activities;
- Restriction of certain business, including business engaged in or associated with illegal activities and businesses involved in the production of marijuana; and
- Maintaining the Credit Union's watch list for loans whose credit risk has increased since origination with appropriate follow-up and risk mitigation techniques

With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans and bad debts. The Board of Directors also receives an analysis of allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risk of a reduction of the loan to value ratio (LTV) cover should the property market decline. The risk of losses from loans undertaken is primarily reduced by adhering to other lending criteria including a borrower's ability to pay. There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

Amounts arising from ECL

The Credit Union recognizes allowance for loan losses for ECL on member loans. The Credit Union measures allowance for loan losses monthly for ECL stage 3 credit impaired loans and quarterly for ECL stage 1 and stage 2 loans according to a three-stage ECL model as follows:

4. MEMBERS' LOANS (continued)

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition.	Following a significant increase in credit risk (SICR) relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into stage 1. A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement back is approved by the commercial credit department. For residential mortgages or personal loans, migration back to stage 1 may occur if either: • all signs of previous credit deterioration are remedied and the member has reestatblished a consistent record of timely payments as required. • the loan is restructured with sufficient security pledged and the member has reestatblished a consistent record of timely payments as required.	The Credit Union determines a SICR has occurred when a commercial loan moves to the Credit Union's watch list due to a number of factors, including deteriorating financial results, potential security shortfalls or adverse developments of the borrower. Commercial loans where the Credit Union has, for one reason or another, initiated the exiting process, are kept on their watch list and classified in stage 2 until they are paid out. For consumer loans a SICR has occurred if, from management's portfolio segmentation, payments are over 29 days past due for: • very low, low or medium risk residential mortgages • low, medium or high risk personal loans Additionally, the Credit Union incorporates supportable forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, requiring migration to stage 2.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: • a breach of contract such as a default or delinquency in interest or principal payments; • significant financial difficulty of the borrower; • the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise; • payment on a loan is overdue 90 days or more; • it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4. MEMBERS' LOANS (continued)

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
ECL methodology	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss)	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss)	
Collective or individual assessment	Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, loan-to-value, quality of security, borrower risk assessment, and for commercial loans, the industry of the borrower. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.		Each credit-impaired member loan is individually assessed.
Application of ECL methodology	Expected credit loss on a group of member loans is measured on the basis of a loss rate approach. The Credit Union develops loss rates for member loans in stage 1 and loss rates for member loans in stage 2, based on historical loss rates for those types of member loans along with a qualitative forward-looking assessment incorporating current and forecasted economic conditions. The loss rates are also applied to loan commitments approved by the Credit Union but not drawn or funded. For member loans with loan commitments, the estimated allowance required is also based on the loss rate approach.		The probability of default on credit-impaired member loans is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward-looking information	Unemployment rates, economic outlooks (i.e. prime interest rate forecasts), and insolvency forecasts in addition to other relevant economic information impacting the markets where the Credit Union does business are all considered when determining loss rates.		

Credit Quality Analysis

The following table set out our credit risk exposure for loans as at December 31, 2018. Stage 1 represents performing loans carried with a 12 month expected credit loss. Stage 2 represents performing loans carried with a lifetime expected credit loss. Stage 3 represents loans with a lifetime credit loss that are credit impaired. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

4. MEMBERS' LOANS (continued)

	2018						2017
	Stage 1	**Stage 2**	**Stage 3**	**Sub-Total**	**Commitments**	**Total including Commitments**	Total excluding Commitments
Residential Mortgages							
Very Low	$ 332,245	$ -	$ -	$ 332,245	$ 1,039	$ 333,284	$ 321,622
Low	494,583	5,730	-	500,313	4,213	504,526	392,608
Medium	218,568	2,532	-	221,100	2,975	224,075	207,839
Credit Impaired	-	-	5,948	5,948	-	5,948	4,784
	1,045,396	8,262	5,948	1,059,606	8,227	1,067,833	926,853
Allowance for loan losses	(603)	(6)	(31)	(640)	(5)	(645)	(568)
	1,044,793	8,256	5,917	1,058,966	8,222	1,067,188	926,285
Personal Loans							
Low	$ 12,650	$ 162	$ -	$ 12,812	$ 10,942	$ 23,754	$ 16,713
Medium	46,966	714	-	47,680	78,632	126,312	63,492
High	29,504	503	-	30,007	56,402	86,409	40,320
Credit Impaired	-	-	1,016	1,016	78	1,094	1,113
	$ 89,120	$ 1,379	$ 1,016	$ 91,515	$ 146,054	$ 237,569	$ 121,638
Allowance for loan losses	(579)	(8)	(851)	(1,438)	(131)	(1,569)	(1,216)
Carrying Amount	88,541	1,371	165	90,077	145,923	236,000	120,422
Commercial Loans							
Low	$ 153,872	$ -	$ -	$ 153,872	$ 29,385	$ 183,257	$ 137,519
Medium	158,866	-	-	158,866	34,761	193,627	179,296
High	15,200	-	-	15,200	8,115	23,315	16,076
Watch List Loans	-	23,679	-	23,679	-	23,679	9,629
Credit Impaired	-	-	4,150	4,150	-	4,150	4,659
	$ 327,938	$ 23,679	$ 4,150	$ 355,767	$ 72,261	$ 428,028	$ 347,179
Allowance for loan losses	(420)	(230)	(2,216)	(2,866)	(78)	(2,944)	(3,473)
Carrying Amount	327,518	23,449	1,934	352,901	72,183	425,084	343,706
Balance at December 31, 2018	$ 1,460,852	$ 33,076	$ 8,016	$ 1,501,944	$ 226,328	$ 1,728,272	$ 1,390,413

4. MEMBERS' LOANS (continued)

The allowance for loan losses in the above table includes amounts related to loan commitments either undrawn or approved but not funded at year end. The Credit Union has the following loan commitments to its members at the year-end date:

	2018				2017
	Residential Mortgages	Personal Loans	Commercial	Total	Total
Unadvanced Loans	$ 8,227	$ -	$ 54,168	$ 62,395	$ 67,063
Unused Lines of Credit	-	146,054	18,093	164,147	159,246
	$ 8,227	$ 146,054	$ 72,261	$ 226,542	$ 226,309

Allowance for loan losses

The following tables show reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan. Comparative amounts for 2017 represents the allowance account for credit losses and reflects measurement basis under IAS 39. The allowance for loan losses in these tables include in stage 1 the ECL on loan commitments for unadvanced member loans and the unused portion of members lines of credit.

	2018				2017
Residential Mortgage	Stage 1	Stage 2	Stage 3	Total $000's	Total $000's
Balance at January 1	$ 516	$ -	$ 52	$ 568	$ 295
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(6)	6	-	-	-
Transfer to Stage 3	(115)	-	115	-	-
Net remeasurement of allowances for loan losses	118	-	-	118	262
New members loans originated	95	-	-	95	82
Loans written off	-	-	(137)	(137)	(71)
Recoveries of amounts previously written off	-	-	1	1	-
Changes in models/risk parameters	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at December 31	$ 608	$ 6	$ 31	$ 645	$ 568

4. MEMBERS' LOANS (continued)

Personal Loans	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total $000's	2017 Total $000's
Balance at January 1	$ 539	$ -	$ 677	$ 1,216	$ 1,959
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(8)	8	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowances for loan losses	315	-	691	1,006	(350)
New members loans originated	(136)	-	-	(136)	-
Loans written off	-	-	(629)	(629)	(491)
Recoveries of amounts previously written off	-	-	112	112	98
Changes in models/risk parameters	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at December 31	$ 710	$ 8	$ 851	$ 1,569	$ 1,216

Commercial Loans	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total $000's	2017 Total $000's
Balance at January 1	$ 605	$ -	$ 2,868	$ 3,473	$ 2,827
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(230)	230	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowances for loan losses	101	-	197	298	720
New members loans originated	22	-	-	22	-
Loans written off	-	-	(883)	(883)	(96)
Recoveries of amounts previously written off	-	-	34	34	22
Changes in models/risk parameters	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at December 31	$ 498	$ 230	$ 2,216	$ 2,944	$ 3,473

4. MEMBERS' LOANS (continued)

Write-off

Member loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, member loans written off could still be subject to enforcement activities consistent with the Credit Union's procedures for recovery of amounts due.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

The Credit Union continues to seek recoveries on loans that were written off until they have exhausted all reasonable efforts to collect. Below are the contractual amounts of members loans outstanding where recovery is still being pursued as at December 31, 2018:

	2018
Mortgages	$ 110,376
Personal Loans	95,132
Commercial Loans	55,553
	$ 261,061

Renegotiated Member Loans

From time to time the contractual terms of a loan are modified if the member is experiencing financial difficulties. An assessment of impairment of renegotiated loans consistent with existing loan loss impairment policies is performed. Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant, or are returned to performing status when none of the criteria for classification as impaired continue to apply.

There were no renegotiated member loans during the year ended December 31, 2018.

Member Loans Modified Since Initial Recognition

There were no member loans at December 31, 2018 for which the loss allowance has changed from a lifetime ECL to stage 1 or a 12-month measurement during the year.

4. MEMBERS' LOANS (continued)

Quality of Collateral Held

To manage credit risk, collateral or security may be provided by members for loans granted. As part of the segmentation of the portfolios quality of the collateral or security provided by members. Examples of higher quality collateral would include assignment of the members' term deposits, wages or property. Examples of lower quality collateral would include personal guarantees or general security agreements. Residential mortgages are segmented between insured and uninsured balances. The table below provides a breakdown of the Credit Union's loan portfolios based on the quality of the collateral or security held.

	2018				2017
	Residental	**Personal Loans**	**Commercial Loans**	**Total $000's**	Total $000's
Loans unsecured or low quality security	$ -	$ 57,933	$ 52,986	$ 110,919	$ 117,811
Loans with high quality security	-	33,582	302,781	336,363	351,006
Residential mortgages insured by government	142,936	-	-	142,936	165,910
Residential mortgages uninsured by government	727,361	-	-	727,361	605,231
Residential mortgages securitized through Federal government programs	189,309	-	-	189,309	155,712
	$1,059,606	$ 91,515	$ 355,767	$1,506,888	$1,395,670

The total collateral held for member loans in stage 3 is $10,949,826.

Concentration of Credit Risk

The Credit Union monitors concentration of credit risk on the basis of both members' authorized and outstanding exposure. No individual or related groups of members' outstanding loans exceed 15.00% of members' equity.

The Credit Union has credit risk concentration from its geographic distribution of member loans in eastern Ontario.

4. MEMBERS' LOANS (continued)

Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined using Level 3 valuations (note 10) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

For fixed rate loans, the weighted average market interest rate used in estimating fair value was 3.46% (2017 - 3.46%) and the weighted average term to maturity was 2.21 years (2017 - 2.21 years) . The fair value of members' loans as at December 31, 2018 is as follows:

	2018	2017
	(thousands of Canadian dollars)	
Residential mortgages	$ 1,051,110	$ 922,697
Personal loans	92,144	121,548
Commercial loans	354,821	346,718
	$ 1,498,075	$ 1,390,963

5. MEMBERS' DEPOSITS

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.25% at December 31, 2018. Interest is calculated daily and paid on the accounts monthly.

Demand savings accounts are due on demand and bear interest at a variable rate up to 0.50% at December 31, 2018. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits on December 31, 2018 range from 0.60% to 3.55%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at a rate of 0.25% at December 31, 2018.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

5. MEMBERS' DEPOSITS (continued)

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above. The variable rate tax-free savings accounts bear interest at a rate of 1.30% at December 31, 2018.

Included in demand savings accounts and term deposits is an amount of $6,339,592 (2017 - $6,343,933) denominated in US dollars.

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields:

	2018		2017	
	Principal	Yield (%)	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable rate	$ 396,539	0.30	$ 374,546	0.31
Fixed rate due less than one year	608,017	1.61	569,910	1.66
Fixed rate due between one and five years	314,694	2.24	270,686	2.02
	$ 1,319,250		$ 1,215,142	

i) Recognition and initial measurement

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

ii) Classification and subsequent measurement

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

	2018	2017
	(thousands of Canadian dollars)	
Chequing accounts	$ 268,994	$ 255,767
Demand savings accounts	102,122	98,599
Term deposits	528,150	492,935
Registered retirement savings plans	159,814	150,932
Registered retirement income funds	81,257	67,986
Tax free savings account	178,913	148,923
	1,319,250	1,215,142
Accrued interest on member deposits	8,817	8,131
	$ 1,328,067	$ 1,223,273

(iii) Concentration of credit risk

The Credit Union does not have exposure to groupings of individual deposits that exceed 10.00% of members' deposits which concentrate risk and create exposure to particular segments.

Member deposits are primarily with members located in Eastern Ontario.

5. MEMBERS' DEPOSITS (continued)

(iv) Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union measures liquidity risk through calculating the liquidity coverage ratio, the net stable funding ratio, the net cumulative cashflow, and liquid assets as a percentage of deposits and borrowings.

The Credit Union manages liquidity risk by:

- Continuously monitoring cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The Board of Directors receives quarterly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal period.

As at December 31, 2018, the position of the Credit Union is as follows:

	Maximum Exposure (thousands of Canadian dollars)
Qualifying liquid assets on hand	
Cash resources	$ 19,673
Liquidity reserve deposit	98,933
	118,606
Minimum liquidity requirement	103,762
Excess liquidity requirement	$ 14,844

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

5. MEMBERS' DEPOSITS (continued)

(v) Fair value measurement

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks. The fair value of members' deposits as at December 31, 2018 is as follows:

	2018	2017
	(thousands of Canadian dollars)	
Chequing and demand savings accounts	$ 371,116	$ 354,366
Term deposits	526,349	493,805
Registered plans	419,831	367,841
	$ 1,317,296	$ 1,216,012

For fixed rate deposits, the weighted average market interest rate used in estimating fair value was 1.75% (2017 - 1.78%) and the weighted average term to maturity was 1.00 years (2017 - 1.27 years).

6. MEMBERS' SHARES

Members' 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 subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*

	2018		2017	
	Equity	Liability	Equity	Liability
			(thousands of Canadian dollars)	
Membership Shares	$ -	$ 1,184	$ -	$ 1,176
Class A Investment Shares (net of issuance costs)	40,340	-	40,340	-
Class B Affinity Shares	13,751	-	12,864	-
	$ 54,091	$ 1,184	$ 53,204	$ 1,176

6. MEMBERS' SHARES (continued)

Terms and Conditions

Membership Shares

The Credit Union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold 5 member shares with a par value of $5 per share, with the exception of members under 18 years old who are only required to hold 1 member share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. As at December 31, 2018, there were 236,861 membership shares issued (2017 - 235,213).

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any dividends on these shares. Membership shares that are available for redemption based on sufficient regulatory capital are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Class A Investment Shares

The Credit Union is authorized to issue an unlimited number of Class A Investment shares, in series, with rights, privileges, restrictions and conditions to be determined by the Board of Directors, subject to statutory restrictions. As at December 31, 2018, there were 40,677,054 Class A shares issued (2017 - 40,677,054). The Class A Series 1 shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors after five years, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. Class A shares that are available for redemption are classified as Tier 2 capital. Class A shares available for redemption as of December 31, 2018 total 2,608,927.

Class B Affinity Shares

The Credit Union is authorized to issue an unlimited number of Non-Cumulative Redeemable Non-Voting Non-Participating Class B Affinity shares. As at December 31, 2018, there were 13,750,977 Class B Affinity shares issued (2017 - 12,864,250). The Class B shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. On February 27, 2018 the Credit Union issued 1,082,037 Class B Series 1 Affinity Shares. Class B shares available for redemption as of December 31, 2018 total 736,817.

6. MEMBERS' SHARES (continued)

Distributions to Members

Dividends recorded to Members' Equity are as follows:

	2018	2017
	(thousands of Canadian dollars)	
Dividends on Class A shares	$ 1,875	$ 1,304
Dividends on Class B Affinity shares	385	365
	$ 2,260	$ 1,669

In addition to the amounts paid above, the Credit Union recorded patronage allocations of $1,082,037 (2017 - $969,069). These are recorded as an expense on the Statement of Income.

7. CAPITAL MANAGEMENT

The Credit Union's capital management objective is to hold sufficient capital to ensure long-term viability, protecting against unanticipated losses and exceeding regulatory requirements.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Regulatory capital calculated in accordance with the Act shall not be less than 4.00% of the book value of assets; and
- Regulatory capital calculated in accordance with the Act shall not be less than 8.00% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than 5.50% of the book value of all assets, and members' capital as shown on the balance sheet shall not be less than 11.00% of the risk weighted value of its assets and an operational risk requirement.

The Credit Union considers its capital to include membership shares (member shares, Class A Investment shares, Class B Affinity shares), contributed surplus and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2018 was $766,902,641 (2017 - $739,381,867).

7. CAPITAL MANAGEMENT (continued)

Total regulatory capital is composed of Tier 1 and Tier 2 Capital as follows:

	2018	2017
	(thousands of Canadian dollars)	
Tier 1 Capital		
Class A Investment Shares	$ 40,340	$ 40,340
Class B Affinity Shares	13,751	12,864
Less: Redeemable Portion of Class A and Class B Shares	(3,346)	(1,672)
Membership Shares	1,184	1,176
Contributed Surplus	503	434
Retained Earnings	53,915	50,175
Total Tier 1 Capital	106,347	103,317
Tier 2 Capital		
Redeemable portion of Class A and Class B Shares	3,346	1,672
Allowance for Loan Loss	2,060	1,660
Total Tier 2 Capital	5,406	3,332
Total regulatory capital	$ 111,753	$ 106,649
The applicable capital ratios are as follows:		
Tier 1 Capital to Risk Weighted Assets	13.87 %	13.97 %
Total Regulatory Capital to Risk Weighted Assets	14.57 %	14.43 %
Total Regulatory Capital to Total Assets	6.72 %	6.88 %

8. CASH AND CASH EQUIVALENTS AND LIQUIDITY DEPOSITS

Cash and cash equivalents consist of cash resources. The Credit Union's current accounts are held with Central 1. The average yield on the accounts at December 31, 2018 is 1.50% (2017 - 1.42%).

Cash resources are initially measured at fair value plus transaction costs. Cash resources are classified and subsequently measured at amortized cost.

Liquidity deposit are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Liquidity deposits are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity deposits are subsequently reduced by any loss allowance. The Credit Union holds cash held on deposit with Central. Liquidity deposits have been determined to have no credit risk.

The Credit Union must maintain liquidity reserves with Central 1 at 6.00% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity deposits have various maturities up to 5 years. They bear interest at rates ranging between 0.88% and 2.12%.

9. FINANCIAL MARGIN AND INTEREST

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members' loans and interest paid on members' deposits. The objective of asset and liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management in accordance with the Credit Union's policy. For the year ended December 31, 2018, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity. An adjustment has been made for repayments that may occur prior to maturity based on recent member activity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Maturity dates	Assets	Yield (%)	Liabilities and Members' Equity	Cost (%)	Gap
				(thousands of Canadian dollars)	
Interest sensitive					
< 6 months	$ 536,814	2.72	$ 350,827	1.73	$ 185,987
1 year	169,582	3.36	414,537	1.87	(244,955)
2 years	304,968	3.30	269,920	2.13	35,048
3 years	325,336	3.08	134,316	2.25	191,020
4 years	193,453	3.42	29,821	2.40	163,632
5 years	109,709	3.94	70,127	3.07	39,582
Interest sensitive	$ 1,639,862		$ 1,269,548		$ 370,314
Non-interest sensitive	$ 22,788		$ 393,102		$ (370,314)
Total	$ 1,662,650		$ 1,662,650		$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

9. FINANCIAL MARGIN AND INTEREST (continued)

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 0.50% could result in an increase to net income of $639,000 while a decrease in interest rates of 0.50% could result in an decrease to net income of $713,000.

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union utilizes derivative financial instruments to mitigate the risk on certain instruments. The Credit Union has not applied hedge accounting to any of its derivative financial instruments for the year ended December 31, 2018.

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities. The tables below provide an overview of the Credit Unions's derivative portfolio.

	Maturities of Derivatives (Notional Amounts)			**December 31, 2018 Fair Value**	
	Within 1 year	1 to 5 years	Total	Asset	Liability
				(thousands of Canadian dollars)	
Interest rate swaps: Receive fixed	$ 125,000	$ -	$ 125,000	$ 124	$ -
Foreign exchange	7,695	-	7,695	-	1,895
Index-linked options	462	5,482	5,944	285	285
Total	$ 133,157	$ 5,482	$ 138,639	$ 409	$ 2,180

	Maturities of Derivatives (Notional Amounts)			December 31, 2017 Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
				(thousands of Canadian dollars)	
Interest rate swaps: Receive fixed	$ 20,000	$ -	$ 20,000	$ 224	$ -
Foreign exchange	6,000	-	6,000	-	1,715
Index-linked options	794	5,630	6,424	518	518
Total	$ 26,794	$ 5,630	$ 32,424	$ 742	$ 2,233

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest Rate Swaps

As described in Note 4, the Credit Union issues loans with variable interest rates to its members, which exposes the Credit Union to interest rate risk. The Credit Union enters into fixed interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2018, the Credit Union had entered into two interest rate swap contracts for a total of $125,000,000 of notional principal whereby it has agreed to pay at variable interest rates based on three month Canadian Dollar Offered Rate ("CDOR") rates and receive at fixed interest rates. One swap contract is for a one year term with a fixed interest rate of 1.95% and will mature in January 2019. The other swap contract is also for a one year term with a fixed interest rate of 2.32% and will mature in December 2019. Both agreements are secured by a general security agreement covering all assets of the Credit Union.

Foreign Exchange Swaps

The Credit Union uses foreign exchange derivative instruments as a hedge to manage currency risk. These derivatives consist of US dollar swap transactions which are simultaneous sell/buy and buy/sell of an identical amount of US dollars over two different days at an agreed exchange rate. Board policy governs the amount and term of these instruments.

Equity Index-Linked Deposits

The Credit Union has outstanding $5,928,948 (2017 - $6,499,616) in index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in assets and liabilities and have a fair value of $284,964 (2017 - $517,895).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2018, the Credit Union had entered into such contracts on index linked term deposits for a total of $5,943,675 (2017 - $6,424,407). The agreements are secured by a general security agreement covering all assets of the Credit Union.

Fair Value of Derivatives

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves. The following table provides an analysis of derivatives that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

All derivative valuations are Level 2 valuations and there were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2018 and 2017.

11. INVESTMENTS

i) Recognition and initial measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value.

ii) Classification and subsequent measurement

The Credit Union classifies its equity instruments as FVTOCI.

The equity instruments are subsequently measured at fair value with changes in fair value recognized in OCI. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

iii) Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment. On derecognition, any cumulative gain or loss recognized in OCI is not recognized in profit or loss.

iv) Fair value measurement

The following tables provide information on the investments by type of security and issuer.

	2018	2017
	(thousands of Canadian dollars)	
Central 1 Credit Union Limited		
- Class A membership shares	$ 605	$ 4,976
- Class E membership shares	2,285	3,044
- Class F membership shares	5,127	-
Other Investments	128	73
	$ 8,145	$ 8,093

11. INVESTMENTS (continued)

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. Fair value is determined based on the rebalancing mechanism used by Central 1, which calculates the amount of shares a credit union must hold. On March 29, 2018, as part of a Central 1 share restructuring, the Credit Union redeemed $4,394,402 of its Class A Central 1 shares. These shares were redeemed at their par value of $1 per share. Subsequent to their initial measurement, Class A Central 1 shares are fair valued using a Level 2 fair value measurement as described in Note 10.

Class E Central 1 shares were issued to Ontario Credit Unions as part of the combination agreement between CUCO and CUCBC and are redeemable at the option of Central 1. These shares were issued with a par value however are redeemable at $100 at the option of Central 1. There is no separately quoted market value for these shares; however, fair value is determined based on a discounted cash flow model using the expected timing of redemption and a market rate of interest. Due to redemption of these shares being at the discretion of Central 1, with no planned redemption currently known, the time period used in the valuation is of significant length, therefore, the cost of the shares approximates their fair value. On March 14, 2018, as part of the Central 1 share restructuring, the Credit Union exercised a put option and sold $759,600 of its Class E Central 1 shares to a subsidiary of Central 1. These shares were sold to the subsidiary at their redemption value of $100 per share. Subsequent to their initial measurement, Class E Central 1 shares are fair valued using a Level 3 fair value measurement as described in Note 10.

On March 29, 2018, as part of a Central 1 share restructuring, $5,127,000 Class F Central 1 shares were issued to the Credit Union. These shares are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. Fair value is determined based on the rebalancing mechanism used by Central 1, which calculates the amount of shares a credit union must hold based on the Credit Union's deposits. Subsequent to their initial measurement, Class F Central 1 shares are fair valued using a Level 2 fair value measurement as described in Note 10.

There were no transfers between any levels of the fair value hiearchy for the years ended December 31, 2018 and 2017.

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.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

12. MORTGAGE SECURITIZATIONS AND TRANSFERS

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 has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

During the year the Credit Union securitized residential mortgages of $70,108,455 (2017 - $52,661,507). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities.

Transferred Financial Assets that are recognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred loans to members that are recognized in their entirety and any associated liabilities.

	2018	2017
	(thousands of Canadian dollars)	
Carrying amount of assets:		
Members' loans	$ 189,309	$ 153,502
Other securitization assets (Note 15)	3,541	2,940
Carrying amount of associated liabilities:	(188,662)	(152,170)
Net position	$ 4,188	$ 4,272

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

13. FOREIGN EXCHANGE RISK

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its foreign currency exposure in accordance with its exchange risk management policy. Foreign currency changes are continually monitored by the asset/liability committee for effectiveness of foreign exchange mitigation activities and holdings.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $500,000 in U.S. funds.

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

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

14. COMMITMENTS

i) Credit Facilities

The Credit Union has a committed line of credit and term loan facilities with Central 1 Credit Union Limited totaling $65,100,000. As of December 31, 2018 the Credit Union had unused credit facilities totaling $39,100,000. The authorized lines of credit bear interest at 2.73% (2017 - 1.76%). Security given is an assignment of loans receivable and a general security agreement covering all assets of the Credit Union.

ii) Lease Agreements

The Credit Union has entered into lease agreements for branch offices. Rental payments for these branches for the year ended December 31, 2018 totaled $1,857,649, which is included in occupancy expense on the Statement of Income.

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

	(thousands of Canadian dollars)
2019	$ 1,954
2020	1,998
2021	1,801
2022	1,804
2023	1,769
Thereafter	7,582
	$ 16,908

iii) Commitments

In addition to its lease agreements, the Credit Union has entered into a number of additional commitments with third party service providers for terms of varying lengths. Payments to these service providers are expected to total approximately $11,000,000 over a ten year period.

iv) Contingencies

The nature of the Credit Union's activities are such that there may be litigation pending or in progress at any time. With respect to claims at December 31, 2018 management believes the Credit Union has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Credit Union's financial position.

15. OTHER ASSETS

	2018	2017
	(thousands of Canadian dollars)	
Interest receivable on liquidity deposits (Note 8)	$ 633	$ 584
Deferred income taxes (Note 18)	1,158	1,465
Other securitization assets (Note 12)	3,541	2,940
Other assets	3,903	3,742
	$ 9,235	$ 8,731

16. OTHER INCOME

	2018	2017
	(thousands of Canadian dollars)	
Foreign exchange gain	$ 445	$ 326
Gain on sale of assets	296	-
Other income	502	532
Rental income	405	456
Service fee revenue	7,502	7,379
	$ 9,150	$ 8,693

17. OTHER EXPENSES

	2018	2017
	(thousands of Canadian dollars)	
Other supplies and postage	$ 772	$ 723
Equipment costs	711	599
Central dues & regulatory assessments	182	158
Savings and loan life insurance	4	211
Education and staff development	248	385
Professional services	412	468
Collection costs	114	105
Telephone	206	189
Miscellaneous	735	295
	$ 3,384	$ 3,133

18. INCOME TAXES

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The effects of temporary differences, which give rise to the deferred income tax assets reported in other assets on the balance sheet, are as follows:

	Balance as at December 31 2017	Recognized in Net Income	Balance as at December 31 2018
		(thousands of Canadian dollars)	
Employee future benefits	$ 997	$ (17)	980
Allowance for impaired loans	395	45	440
Property and equipment	73	(335)	(262)
	$ 1,465	$ (307)	1,158

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2018	2017
	(thousands of Canadian dollars)	
Income before income taxes	$ 7,086	$ 5,955
Statutory income tax rate	26.50 %	26.50 %
Expected income tax expense	1,878	1,578
Decrease in taxes resulting from:		
Reduction due to Ontario credit union tax reduction	(567)	(417)
Tax savings on dividends	(651)	(474)
Non-deductible expenses and other reconciling items	189	391
Income tax expense	$ 849	$ 1,078

The income tax expense consists of the following:

	2018	2017
	(thousands of Canadian dollars)	
Current provision	$ 542	$ 741
Deferred provision	307	337
	$ 849	$ 1,078

19. EMPLOYEE FUTURE BENEFITS

Defined Contribution Pension Plan

The Credit Union sponsors a defined contribution pension plan. Contributions to the plan during the year ended December 31, 2018 were $954,493 (2017 - $912,510).

Defined Benefit Post-Retirement Non-Pension Plan

The Credit Union provides health and dental benefits for retired employees who were employed on a full time basis prior to November 1, 2003. The Credit Union recognizes these post retirement costs in the period in which the employees render their services. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of retirement ages of employees, employee turnover and expected health care costs. Gains or losses arising from actuarial assessments are recognized through Other Comprehensive Income. The most recent actuarial valuation of the obligation was performed as at December 31, 2016.

The accrued benefit obligation at December 31, 2018 of $5,299,217 (2017 - $5,112,897) and the net periodic benefit cost for the year ending December 31, 2018 was determined by actuarial valuation using a discount rate of 4.10% (2017 - 4.10%).

Information about the Credit Union's defined benefit plans is as follows:

	2018	2017
	(thousands of Canadian dollars)	
Accrued benefit obligation		
Balance at the beginning of the period	$ 5,113	$ 4,930
Service cost for the period	92	88
Interest cost for the period	207	200
Benefits cost for the period	(113)	(105)
Accrued liability	$ 5,299	$ 5,113
Components of net periodic benefit cost		
Service cost for the period	$ 92	$ 88
Interest cost for the period	207	200
Net periodic benefit cost	$ 299	$ 288

The main actuarial assumptions employed for the valuations are as follows:

General Inflation (CPI rate)	2.00%
Interest (discount) rate	4.10%

Medical costs were assumed to increase at the CPI rate plus 3.78% in 2018, decreasing by 0.21% each year until reaching the CPI rate plus 2.50% in 2024 and thereafter.

Dental costs were assumed to increase at the CPI rate plus 2.50% in 2018 and thereafter.

19. EMPLOYEE FUTURE BENEFITS (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2018:

	Increase	Decrease
Total of service and interest cost	$ 68,000	$ (53,000)
Accrued benefit obligation	$ 991,000	$ (776,000)

20. PROPERTY AND EQUIPMENT

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

Parking lot		25 years
Buildings		25 - 50 years
Buildings	- interior renovations	10 years
Equipment	- computer	3 - 5 years
	- computer software	3 - 10 years
	- furniture & other	5 - 10 years
Leasehold improvements		Remaining term of the lease

Where components of an item of buildings have different useful lives, they are accounted for as separate items of buildings.

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

20. PROPERTY AND EQUIPMENT (Continued)

(thousands of Canadian dollars)

Cost	**Land and Parking Lots**	**Buildings**	**Equipment, Furniture and Software**	**Leasehold Improvements**	**Total**
Balance at December 31, 2016	$ 3,685	$ 12,489	$ 11,163	$ 4,771	$ 32,108
Additions	8	586	1,595	1,246	3,435
Balance on December 31, 2017	3,693	13,075	12,758	6,017	35,543
Additions	170	134	5,114	2,093	7,511
Balance on December 31, 2018	**$ 3,863**	**$ 13,209**	**$ 17,872**	**$ 8,110**	**$ 43,054**
Accumulated Depreciation					
Balance at December 31, 2016	$ 101	$ 4,111	$ 8,005	$ 2,203	$ 14,420
Depreciation Expense	28	430	1,084	384	1,926
Balance on December 31, 2017	129	4,541	9,089	2,587	16,346
Depreciation Expense	26	421	1,269	467	2,183
Balance on December 31, 2018	**$ 155**	**$ 4,962**	**$ 10,358**	**$ 3,054**	**$ 18,529**
Net Book Value					
December 31, 2017	**$ 3,564**	**$ 8,534**	**$ 3,669**	**$ 3,430**	**$ 19,197**
December 31, 2018	**$ 3,708**	**$ 8,247**	**$ 7,514**	**$ 5,056**	**$ 24,525**

21. RELATED PARTY TRANSACTIONS

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

	2018	2017
	(thousands of Canadian dollars)	
Compensation:		
Salaries, and other employee benefits	$ 1,719	$ 1,341

	2018	2017
	(thousands of Canadian dollars)	
Loans to key management personnel:		
Aggregate value of loans advanced	$ 706	$ 725
Interest received on loans advanced	22	16
Total value of lines of credit advanced	106	47
Interest received on lines of credit advanced	3	1
Unused value of lines of credit	503	543

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

	2018	2017
	(thousands of Canadian dollars)	
Deposits from key management personnel:		
Aggregate value of term and savings deposits	$ 2,387	$ 2,263
Total interest paid on term and savings deposits	64	53

The Credit Union's policy for receiving deposits from key management personnel 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 key management personnel or close family members.

21. RELATED PARTY TRANSACTIONS (continued)

Regulatory Reporting

i) Remuneration of Officers and Employees

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded $150,000. If there are more than five officers and employees of a credit union whose total remuneration for the year was over $150,000, the five officers and employees with the highest total remuneration for the year are disclosed. The table below provides this information for the 2018 calendar year:

	Total Salary Received	Monetary Value of Benefits Received
Robert Wellstood, CEO	$ 408,886	$ 13,250
John Finnie, COO	$ 242,053	$ 13,250
Mark Oakes, CFO	$ 232,095	$ 13,250
Jennifer Mowry, VP Human Resources	$ 191,008	$ 13,230
Brad Best, VP Information Systems	$ 172,824	$ 11,981

ii) Restricted Party Loans

The Credit Union has enacted a policy requiring disclosure and Board approval of all restricted party transactions. Restricted parties have been defined in the policy to include anyone who is, or has been within the preceding twelve months, a Director or Officer of the Credit Union, their spouse or relatives residing within the same house. The Credit Unions and Caisses Populaires Act, 1994, provides a broader definition of restricted parties which includes all relatives of Directors and Officers. There were 2 new loans advanced to restricted parties as defined by policy during the year, and there are 16 loans outstanding to such parties with an aggregate value of $1,683,882 at December 31, 2018.

iii) Other Statutory Information

Pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 1994, the following information is provided:

	2018	2017
	(thousands of Canadian dollars)	
Director remuneration paid	$ 183	$ 175
Deposit insurance premium paid	$ 1,083	$ 756

22. STATEMENT OF CASH FLOWS

The following amounts are included in the cash provided by operations:

	2018	2017
	(thousands of Canadian dollars)	
Interest received on loans to members	$ 52,712	$ 46,975
Interest paid on member deposits	$ 17,413	$ 16,039

23. SUBSEQUENT EVENTS

On January 29, 2019, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 5.00% on the Class A Investment Shares, payable to the shareholders of record at December 31, 2018.

On January 29, 2019, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 4.00% on the Class B Affinity Shares, payable to the shareholders of record at December 31, 2018.

On February 19, 2019, the Board of Directors of the credit Union passed a resolution to issue approximately 1,100,000 Class B Affinity Shares to members of record as at December 31, 2018.

24. STANDARDS, AMENDMENTS, AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2019 or later.

The Credit Union has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 16 supersedes 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. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Credit Union will recognize right-of-use assets and lease liabilities for land, building, office equipment and automatic teller machines on our statement of financial position as of January 1, 2019 upon initial application of IFRS 16. See Note 13 for a schedule of lease commitments.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.