Grant Thornton

Financial Statements

Grand Forks District Savings Credit Union

December 31, 2019

Contents

Independent Auditor's Report

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To the members of
Grand Forks District Savings Credit Union

Opinion

We have audited the financial statements of Grand Forks District Savings Credit Union ("the Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statement of earnings and comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Grand Forks District Savings Credit Union as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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.

Grant Thornton LLP

Kelowna, Canada
February 26, 2020

Chartered Professional Accountants

Grand Forks District Savings Credit Union
Statement of Financial Position

December 31		**2019**		2018
Assets				
Cash and cash equivalents (Note 6)	**$**	**10,917,488**	$	5,493,938
Investments (Note 7)		**34,633,520**		39,750,754
Income taxes recoverable		**27,129**		-
Receivables and prepaid expenses		**163,219**		173,036
Derivative financial instruments (Note 8)		**16,913**		302,895
Loans (Note 9)		**196,845,101**		194,841,464
Property, equipment and intangible (Note 11)		**1,509,277**		1,563,670
Deferred income tax		**-**		20,124
Total assets	**$**	**244,112,647**	$	242,145,881
Liabilities				
Payables and other liabilities (Note 14)	**$**	**1,701,673**	$	1,332,842
Deposits (Note 13)		**227,488,325**		226,390,993
Income taxes payable		**-**		6,070
Deferred income tax (Note 16)		**9,099**		-
Total liabilities		**229,199,097**		227,729,905
Members' equity				
Retained earnings		**15,067,957**		14,513,740
Accumulated other comprehensive income		**(154,407)**		(97,764)
Total members' equity		**14,913,550**		14,415,976
	$	**244,112,647**	$	242,145,881

Commitments (Note 24)
Post-reporting date events (Note 25)

On behalf of the Board

M. Shtuttoff ______ Director ______ Director

Grand Forks District Savings Credit Union
Statement of Earnings and Comprehensive Income

Year ended December 31		**2019**		2018
Financial income				
Loans	**$**	**6,968,091**	$	6,605,964
Cash and cash equivalents and investments		**1,403,330**		551,370
		8,371,421		7,157,334
Financial expense				
Deposits		**1,942,876**		1,731,146
Provision for credit losses (Note 10)		**122,093**		127,149
		2,064,969		1,858,295
Financial margin		**6,306,452**		5,299,039
Other income (Note 18)		**884,986**		1,161,044
Operating margin		**7,191,438**		6,460,083
Operating expenses (Note 19)		**6,639,159**		6,077,228
Equity in income of subsidiaries		**51,575**		27,062
Earnings before income taxes		**603,854**		409,917
Income taxes (Note 16)		**49,637**		202,295
Net earnings		**554,217**		207,622
Other comprehensive loss, (net of tax)				
Items that will be reclassified subsequently to net earnings				
Reclassification of Central 1 shares to net earnings		**-**		(170,067)
Unrealized gain (loss) on cash flow hedges		**15,957**		(6,916)
Items that will not be reclassified subsequently to net earnings				
Unrealized actuarial (loss) gain (Note 15)		**(72,600)**		7,200
Total other comprehensive loss for the year		**(56,643)**		(169,783)
Total comprehensive income for the year	**$**	**497,574**	$	37,839

Grand Forks District Savings Credit Union
Statement of Changes in Members' Equity
Year ended December 31, 2019

	Retained earnings	Accumulated other comprehensive income	Total members' equity
Balance on December 31, 2017	**$ 14,306,118**	**$ 72,019**	**$ 14,378,137**
Net earnings	207,622	-	207,622
Other comprehensive loss			
Reclassification of Central 1 shares to net earnings, net of tax ($62,910)	-	(170,067)	(170,067)
Unrealized loss on cash flow hedges, net of tax ($1,963)	-	(6,916)	(6,916)
Unrealized actuarial gain (Note 15)	-	7,200	7,200
Balance on December 31, 2018	**$ 14,513,740**	**$ (97,764)**	**$ 14,415,976**
Net earnings	554,217		554,217
Other comprehensive loss			
Unrealized gain on cash flow hedges, net of tax ($4,531)	-	15,957	15,957
Unrealized actuarial loss (Note 15)	-	(72,600)	(72,600)
Balance on December 31, 2019	**$ 15,067,957**	**$ (154,407)**	**$ 14,913,550**

See accompanying notes to the financial statements

Grand Forks District Savings Credit Union
Statement of Cash Flows

Year ended December 31	2019	2018
Increase (decrease) in cash and cash equivalents		
Operating activities		
Earnings before income taxes	**$ 603,854**	$ 409,917
Adjustments for non-cash items		
Equity income of subsidiaries	**(51,575)**	(27,062)
Loss on disposal of property, equipment and intangible asset	**24,306**	-
Depreciation	**222,997**	219,356
Provision for credit losses	**122,093**	127,149
Mark-to-market adjustments on financial instruments	**(465,648)**	111,585
Income taxes recovered (paid), net	**(58,025)**	(18,625)
Changes in non-cash operating working capital		
Receivables and prepaid expenses	**9,817**	158,357
Loans, net of repayments	**(2,125,730)**	(8,433,203)
Property held for resale	**-**	600,000
Deposits, net of withdrawals	**1,102,721**	7,762,868
Payables and other liabilities	**601,929**	109,225
	(13,261)	1,019,567
Financing activities		
Patronage distributions paid	**(305,699)**	(291,886)
Redemption of equity shares, net	**(5,389)**	(1,794)
	(311,088)	(293,680)
Investing activities		
Proceeds on disposal (purchase) of investments, net	**5,940,807**	(1,039,571)
Purchase of property, equipment and intangible asset	**(194,533)**	(198,020)
Proceeds from disposal of property and equipment	**1,625**	-
	5,747,899	(1,237,591)
Net increase (decrease) in cash and cash equivalents	**5,423,550**	(511,704)
Cash and cash equivalents, beginning of year	**5,493,938**	6,005,642
Cash and cash equivalents, end of year	**$ 10,917,488**	$ 5,493,938

1. Governing legislation and nature of operations

Grand Forks District Savings Credit Union (‘the Credit Union”) is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the Boundary Area of British Columbia. The products and services offered to its members include mortgages, personal, commercial and other, chequing and savings accounts, term, demand and other deposits. The Credit Union’s head office is located at 447 Market Avenue, Grand Forks, BC.

These financial statements have been approved and authorized for issue by the Board of Directors on February 26, 2020.

2. Summary of presentation and statement of compliance

Basis of presentation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of fair value through profit and loss financial assets and derivative financial instruments measured at fair value.

The Credit Union’s functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

In 2019 the Credit Union has adopted new guidance for accounting for leased assets as disclosed in Note 3. This guidance was applied using a modified retrospective approach; accordingly, the Credit Union is not required to present a third statement of financial position as at that date.

3. Changes to accounting policies

Leases

IFRS 16 replaces IAS 17 ‘Leases’. The most significant impact under IFRS 16 is to lessees as they have the requirement to recognize a right-of-use asset and a lease liability for their operating leases. Lessors continue to classify leases as either operating or finance leases and as a result, there is limited impact to the lessors under IFRS 16.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

As the Credit Union does not act as a lessor or as a lessee, there is no impact on adoption of IFRS 16.

4. Summary of significant accounting policies

Investments in joint ventures

A joint venture is an arrangement that the Credit Union controls jointly with one or more other investors, and over which the Credit Union has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in joint ventures are accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Credit Union's share in the joint venture is not recognized separately and is included in the amount recognized as investment.

The carrying amount of the investment in joint ventures is increased or decreased to recognize the Credit Union's share of the profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Credit Union.

Unrealized gains and losses on transactions between the Credit Union and its joint ventures are eliminated to the extent of the Credit Union's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Financial instruments

Recognition and derecognition

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for trade receivables that do not contain a significant financing component, which are measured at their transaction price, all financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

In the periods presented, the Credit Union does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

(continued)

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets at amortized cost

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

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

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, term deposits, shares, investments and accrued interest, loans and other accounts receivable fall into this category of financial instruments.

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

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

The category also contains equity investments. The Credit Union accounts for its investments in shares in Central 1 Credit Union, CUPP Services Ltd., CU Cumis Wealth Holdings LP, WKB Community Investment Co-op, and shares in Stabilization Central Credit Union at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI).

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

Impairment of financial assets

IFRS 9's impairment requirements the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements include all financial assets measured at amortized cost except cash and cash equivalents.

Recognition of credit losses is no longer dependent on the Credit Union first identifying a credit loss event. Instead the Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

(continued)

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).

‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognized for the first category while ‘lifetime expected credit losses’ are recognized for the second and third categories.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Credit Union’s financial liabilities include payables, deposits and other liabilities, and members’ equity shares.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Hedge Accounting

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

The Credit Union manages interest rate risk through interest rate swaps.

(continued)

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedge Accounting (continued)

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

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

For the reporting periods under review, the Credit Union has designated the swap contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate exposure to variability in cash flows for the variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's hedges are primarily hedges of floating rate commercial and personal loans.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

(continued)

4. Summary of significant accounting policies (continued)

Property, equipment and intangible asset

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

Building	45 years
Building improvements	20 years
External	15 years
HVAC	15 years
Parking lot	12 years
Furniture and fixtures	10 years
Computer equipment	3 years
Systems software	5-8 years

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within ‘other income’ or ‘operating expenses’.

Intangible assets include systems software used in administration that qualifies for recognition as an intangible asset. Systems software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over the contract terms of five or eight years. Residual values and useful lives are reviewed at each reporting date.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

Impairment of non-financial assets

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

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

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

(continued)

4. Summary of significant accounting policies (continued)

Income taxes

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

Current income tax liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from net earnings in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

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

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

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

Post-employment benefits and short-term employee benefits

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

(continued)

4. Summary of significant accounting policies (continued)

Post-employment benefits and short-term employee benefits (continued)

The Credit Union participates in a second defined benefit pension plan sponsored by Central 1. The liability recognized in the statement of financial position for the defined benefit plan is the present value of the defined benefit obligation ("DBO") at the reporting date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation is determined using the project unit credit method on an annual basis by an independent actuary. The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the pension cost charged to the statement of comprehensive income.

Actuarial gains and losses related to the defined benefit pension plan are recorded directly in equity through other comprehensive income as they arise. Post-employment benefit expenses are included in 'salaries and benefits'.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Members' shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities.

(continued)

4. Summary of significant accounting policies (continued)

Distributions to members

Patronage distributions on shares classified as liabilities are recognized in net earnings when declared and approved by the Board of Directors.

Revenue recognition

Revenue arises mainly from interest earned on loans.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Loan prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the loan, in which case the fees are capitalized and amortized over the average remaining term of the original loan.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in net earnings.

Standards and interpretations not yet effective

At the date of authorization of these financial statements, several new, but not yet effective Standards and amendments to existing Standards and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been early adopted by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's financial statements.

5. Judgments and estimates

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgments, estimates and assumptions.

Judgments

During the current year, management was not required to make judgments about the recognition and measurement of assets, liabilities, income and expenses.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in earnings in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

1) Allowance for impaired loans

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

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

2) Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2019, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 11. Actual results, however, may vary due to technical obsolescence, particularly for computer equipment and system software.

(continued)

5. Judgments and estimates (continued)

3) Fair value of financial instruments

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

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

4) Income taxes

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

5) Accrued pension liability

Under the Credit Union’s defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee’s length of service and final salary. The legal obligation for any benefits remains with the Credit Union, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit liability is based on standard rates of inflation and mortality. It also takes into account the Credit Union’s specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

6. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the cash resources at December 31, 2019 is 1.35% (2018 – 1.14%).

		2019		2018
Cash and current accounts	**$**	**8,738,052**	$	3,476,278
Term deposits and accrued interest callable or maturing in three months or less		**2,179,436**		2,017,660
	$	**10,917,488**	$	5,493,938

7. Investments

		2019		2018
Term deposits	**$**	**32,965,918**	$	28,452,534
CC&L fixed income		-		9,681,580
Investments accounted for using the equity method		**553,914**		502,340
Shares				
Central 1 Credit Union Class A shares		**87,283**		91,526
Central 1 Credit Union Class E shares		**70**		70
Central 1 Credit Union Class F shares		**943,809**		941,178
CUPP Services Ltd.		**81,272**		81,272
CU Cumis Wealth Holdings LP		**2**		2
WKB Community Investment Co-op		**1,000**		-
Stabilization Central Credit Union		**252**		252
	$	**34,633,520**	$	39,750,754

Term deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

The fair value of term deposits at December 31, 2019 was $34,621,000 (2018 - $28,563,000) and have an average yield of 1.96%.

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.

Certain 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.

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.

(continued)

7. Investments (continued)

The Credit Union has the following investments in joint ventures:

	Equity Interest
0948859 B.C. Ltd. (dba MoneyWorks)	33.33%
Kootenay Risk Services Ltd.	25.00%

Investments accounted for using the equity method

	2019	2018
Investment in 0948859 B.C. Ltd. (dba MoneyWorks)		
Cost of shares	**$ 505,100**	$ 505,100
Equity	**107,500**	61,293
Other cost adjustments	**(73,333)**	(73,333)
	539,267	493,060
Investments in Kootenay Risk Services Ltd.		
Cost of shares	**100**	100
Equity	**14,548**	9,180
	14,648	9,280
	$ 553,915	$ 502,340

MoneyWorks provides wealth management financial services and is accounted for using the equity method in accordance with IAS 28. Summarized financial information for MoneyWorks is set out below:

	September 30, 2019	September 30, 2018
Current assets	**$ 977,535**	$ 784,586
Non-current assets	**1,103,165**	1,123,713
Total assets	**$ 2,080,700**	$ 1,908,299
Current liabilities	**$ 100,501**	$ 75,538
Non-current liabilities	**141,456**	132,639
Total liabilities	**$ 241,957**	208,177
Revenue	**$ 1,224,363**	$ 1,189,184
Net income and comprehensive income for the year	**$ 138,620**	$ 68,031
Depreciation expense	**$ 6,310**	7,783
Income tax expense (recovery)	**$ 12,188**	(6,799)

(continued)

7. Investments (continued)

Investments accounted for using the equity method (continued)

Kootenay Risk Services Ltd. provides risk management services and is accounted for using the equity method in accordance with IAS 28. Summarized financial information for Kootenay Risk Services Ltd. is set out below:

	September 30, 2019	September 30, 2018
Current assets	**$ 95,252**	$ 82,535
Non-current assets	**1,630**	2,693
Total assets	**$ 96,882**	$ 85,228
Current and total liabilities	**$ 38,291**	$ 48,110
Revenue	**$ 514,466**	$ 321,800
Net income (loss) and comprehensive income (loss) for the year	**$ 21,473**	$ 17,543
Depreciation expense	**$ 1,063**	$ 872
Income tax expense (recovery)	**$ 2,901**	$ 2,417

8. Derivative financial instruments

As at December 31, 2019, the Credit Union had entered into interest rate swap contracts for a total of $5 million of notional principal (2018 - $15 million) whereby it has agreed to pay at floating interest rates based on Banker's Acceptance rates and receive at fixed interest rates. The swap contracts have fixed interest rates at 2.31% and mature February 2021. These derivative financial instruments have been designated as cash flow hedges.

The agreements are secured by a general security agreement covering all assets of the Credit Union.

9. Loans

	2019	2018
Personal loans		
Residential mortgages	**$ 120,627,201**	$ 107,309,164
Other	**16,290,219**	16,328,402
Commercial loans		
Mortgages	**41,944,120**	44,374,480
Other	**1,545,907**	5,562,968
Purchased mortgages	**16,509,582**	21,252,274
Accrued interest	**343,270**	356,920
Deferred loan costs (fees)	**2,402**	(29,345)
	197,262,701	195,154,863
Allowance for impaired loans (Note 10)	**(417,600)**	(313,399)
	$ 196,845,101	$ 194,841,464

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to seven years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.50% to prime plus 11.05%. The Credit Union's prime rate at December 31, 2019 was 3.95% (2018 – 3.95%).

The interest rates offered on fixed rate loans advanced at December 31, 2019 range from 2.19% to 15.00%.

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.

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

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.

(continued)

9. Loans (continued)

Average yields to maturity

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

	2019		2018	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 15,384,196**	**5.03%**	**$ 19,258,302**	**4.95%**
Fixed rate due less than one year	**40,372,921**	**3.45%**	**32,274,530**	**3.93%**
Fixed rate due between one and seven years	**141,125,196**	**3.46%**	**143,181,129**	**4.16%**
	$ 196,882,313		**$ 194,713,961**	

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2019	2018
Unsecured loans	**$ 5,393,392**	$ 5,869,165
Loans secured by cash, member deposits	**1,095,703**	3,619,070
Loans secured by other property	**160,929,191**	156,332,914
Residential mortgages insured by government	**28,901,652**	27,916,887
Other	**562,375**	975,925
	$ 196,882,313	$ 194,713,961

Fair value

The fair value of member loans at December 31, 2019 was $195,239,000 (2018 - $192,993,000).

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 by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to geographic concentration risk.

10. Allowance for impaired loans

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, personal loans are classified as impaired when payment is contractually 90 days past due or other evidence of impairment has been noted. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 90 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower's payments are past due more than 90 days.

Once a loan is identified as impaired, the Credit Union continues to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money are recognized and presented as interest income.

Total allowance for impaired loans as at December 31, 2019:

				2019
	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Allowance for credit losses	$ 5,535	$ -	$ 67,538	**$ 73,073**
Carrying amount	145,797,844	124,436	663,619	**146,585,899**
Commercial loans				
Allowance for credit losses	37,495	168	196,238	**233,901**
Carrying amount	43,499,072	60,164	675,912	**44,235,148**
Personal loans and lines of credit				
Allowance for credit losses	57,625	175	52,826	**110,626**
Carrying amount	6,031,121	11,021	53,841	**6,095,983**
Total allowance for credit losses	$ 100,655	$ 343	$ 316,602	**$ 417,600**
Total carrying amount	$195,328,037	$ 195,621	$ 1,393,372	**$ 196,917,030**

(continued)

10. Allowance for impaired loans (continued)

Change in allowance for impaired loans due to:

	January 1, 2019 Beginning balance	Write-offs	Provisions (Recoveries)	**December 31, 2019 Ending balance**
Residential mortgages				
Stage 1	$ 5,545	$ -	$ (10)	$ **5,535**
Stage 2	11	-	(11)	**-**
Stage 3	168,914	-	(101,376)	**67,538**
	174,470	-	(101,397)	**73,073**
Commercial loans				
Stage 1	57,888	-	(20,393)	**37,495**
Stage 2	-	-	168	**168**
Stage 3	5,406	-	190,832	**196,238**
	63,293	-	170,607	**233,901**
Personal loans and lines of credit				
Stage 1	46,931	(17,892)	28,586	**57,625**
Stage 2	201	-	(26)	**175**
Stage 3	28,503	-	24,323	**52,826**
	75,635	(17,892)	52,883	**110,626**
Total provision	$ 313,399	$ **(17,892)**	**$ 122,093**	**$ 417,600**
Percentage of total loans, accrued interest and deferred loan fees	0.16%			**0.21%**

(continued)

10. Allowance for impaired loans (continued)

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default ("PD")

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered.

- The PD of the portfolio is based on the Credit Union's historical default data.

Exposure at default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate payed per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

For all loans, the assumptions are to be provided by the Credit Union. Term loans and mortgages use contractual conditions and construction loans use the outstanding balance.

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

(continued)

10. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

For residential mortgages and real estate secured lines of credit, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date;
- The type of property – single family, multi-family or condo; and
- The average regional property value.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral; and
- Collateral might be shared among many different loans.

The recovered amount of uncollateralized exposure is calculated using the Credit Union's historical loan loss percentages for each category of loans within the portfolio.

Staging

Changes in staging occur when a change in risk rating takes place:

- The internal risk rating for loans will be derived from the days the loan is delinquent at a fixed point in time.

Risk Rating	Description
1 – Remote/Low Risk	0-30 days delinquent – this is considered to be "current"
2 – Moderate Risk	31 – 90 days delinquent
3 - Higher Risk	>90 days delinquent

- In addition, the portfolio is assessed to determine if there are further concerns about specific loans which are currently not delinquent but are deemed impaired due to individual circumstances with the borrower or underlying security.
- The model takes into account the probability of default and assumed loss given default on consumer, residential and commercial loans based on the historical portfolio to determine the present value of 12 month expected credit loss

Lifetime

The lifetime of a product is based on the following data:

- Term and non-retail revolving – Contractual term of the product.
- Retail revolving – Based on Credit Union data provided by Equifax.

(continued)

10. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential mortgage and real estate secured lines of credit LGD – Collateral value adjustments based on local and regional economic factors.
- Retail and non-retail PD – Relationships with macro drivers derived from bank industry data series and Statistics Canada information.

11. Property, equipment and intangible asset

	Property and equipment								Intangible asset	
	Land	Buildings	Building Improvements	External	HVAC	Parking lot	Furniture & fixtures	Computer equipment	System software	Total
Cost										
Balance, December 31, 2018	$ 239,792	$ 1,718,857	$ 317,098	$ 285,114	$ 151,030	$ 37,637	$1,256,839	$1,175,992	$ 989,649	$ 6,172,008
Additions	-	-	-	15,792	23,999	-	66,352	47,275	41,117	194,535
Disposals	-	-	-	-	(105,515)	-	(389,412)	(182,944)	(49,757)	(727,628)
Balance, December 31, 2019	**239,792**	**1,718,857**	**317,098**	**300,906**	**69,514**	**37,637**	**933,779**	**1,040,323**	**981,009**	**5,638,915**
Accumulated depreciation										
Balance, December 31, 2018	-	1,110,044	197,111	168,436	98,411	37,637	1,008,524	1,118,601	869,574	4,608,338
Depreciation	-	38,197	15,855	19,613	3,301	-	53,133	56,112	36,786	222,997
Disposals	-	-	-	-	(84,411)	-	(385,147)	(182,382)	(49,757)	(701,697)
Balance, December 31, 2019	**-**	**1,148,241**	**212,966**	**188,049**	**17,301**	**37,637**	**676,510**	**992,331**	**856,603**	**4,129,638**
Net book value										
December 31, 2018	$ 239,792	$ 608,813	$ 119,987	$ 116,678	$ 52,619	$ -	$ 248,315	$ 57,391	$ 120,075	$ 1,563,670
December 31, 2019	**$ 239,792**	**$ 570,616**	**$ 104,132**	**$ 112,857**	**$ 52,213**	**$ -**	**$ 257,269**	**$ 47,992**	**$ 124,406**	**$ 1,509,277**

12. Short-term borrowings

The Credit Union has available to it, through Central 1 Credit Union, a clearing facility of $2,000,000 CDN and a core line of credit facility of $2,000,000 CDN bearing interest at 50 basis points over the 3M CDOR secured by a commercial security agreement. At year-end, the balance outstanding on the demand facility was $nil (2018 - $nil).

13. Deposits

	2019	2018
Term	**$ 51,982,282**	$ 54,824,729
Demand	**122,811,875**	117,132,183
Registered savings plans	**29,363,365**	31,974,109
Tax free savings accounts	**22,414,900**	21,584,419
Accrued interest	**704,814**	659,075
Membership equity shares (Note 17)	**211,089**	216,478
	$ 227,488,325	$ 226,390,993

Terms and conditions

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 historical interest rates offered on term deposits issued at December 31, 2019 range from 0.25% to 2.50%.

Demand deposits are due on demand and bear interest at an interest rate up to 2.95% at December 31, 2019. Interest, where applicable, is calculated daily and paid on the accounts monthly.

The registered savings plan accounts can be fixed or variable rate. The fixed rate accounts have terms similar to the term deposit accounts described above, and rates that range from 0.85% to 2.75%. The variable rate accounts issued at December 31, 2019 bear interest at rates up to 1.15%. Members may make withdrawals from their registered savings plan accounts according to their needs or to satisfy statutory requirements.

The tax free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered savings plan accounts described above.

Included in demand deposits is an amount of $7,031,562 (2018 - $3,129,923) denominated in United States dollars which has been translated into Canadian dollars as per policy at December 31.

(continued)

13. Deposits (continued)

Average yields to maturity

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

	2019		2018	
	Principal	**Yield**	Principal	Yield
Non-interest sensitive	**$ 26,357,048**	**0.00%**	$ 26,084,979	0.00%
Variable rate	**33,659,455**	**1.53%**	32,642,691	1.53%
Fixed rate due less than one year	**139,391,098**	**0.66%**	139,180,476	0.62%
Fixed rate due between one and five years	**27,164,822**	**1.83%**	27,607,294	1.66%
	$ 226,572,423		$ 225,515,440	

Fair value

The fair value of member deposits at December 31, 2019 was $227,868,000 (2018 - $227,389,000).

The estimated fair value of the variable rate deposits is assumed to be equal to book value as the interest rates on these 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 at current market rates for products with similar terms and credit risks.

14. Payables and other liabilities

Payables and other liabilities recognized in the statement of financial position can be analyzed as follows:

	2019	2018
Trade payables	**$ 404,166**	$ 284,958
Accrued payroll liabilities	**830,301**	735,136
Patronage and dividends	**467,206**	312,748
Total payables and other liabilities	**$ 1,701,673**	$ 1,332,842

All amounts are short-term except for the defined benefit obligations of $632,500 (2018 - $549,600) associated with the pension plans as described in Note 15.

15. Pension plan

Grand Forks District Savings Credit Union is one of several employers that participate in the BC Credit Union Employees' Pension Plan 1.75% division. The Plan is a multi-employer contributory multi-divisional defined benefit pension plan governed by a 12-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 September 30, 2019 has about 3,600 active employees and approximately 1,150 retired plan members. Total plan assets are $836M.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan, and the adequacy of the funding level. The most recent actuarial valuation, which was conducted as at December 31, 2018, indicated a going concern surplus of $31.6M and a solvency deficiency of $99.5M, based on market value assets of approximately $735M. 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. Employer contributions to the plan for fiscal 2019 were $366,062 (2018 - $355,335).

The next formally scheduled actuarial valuation is for the reporting date of December 31, 2021 although the Trustees have the discretion of conducting a valuation for an earlier reporting date.

Pensions and other employee obligations

The liabilities recognized for pensions and other employee remuneration consist of the following amounts:

	2019	2018
Non-current:		
Defined benefit plans	**$ 632,500**	$ 549,600
Current:		
Other short term employee obligations	**$ 197,801**	$ 185,536

The current portion of these liabilities represents the Credit Union's obligations to its current and former employees that are expected to be settled during 2020. Other short-term employee obligations arise mainly from accrued holiday entitlement at the reporting date and various pension payments. As none of the employees are eligible for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.

The Credit Union has set up non-pension retiree benefits plans that are available to certain senior workers. According to the plan, a certain percentage of current salary is converted into a pension component each year. Benefits under this scheme are paid out once a beneficiary retires.

(continued)

15. Pension plan (continued)

Pensions and other employee obligations (continued)

The reconciliation of the Credit Union's defined benefit obligations (DBO) and plan assets to the amounts presented on the statement of financial position for each of the reporting periods are presented below:

The details of the Credit Union's DBO are as follows:

	2019	2018
Defined benefit obligation January 1	**$ 549,600**	$ 702,900
Past service cost	**-**	(166,500)
Current service cost	**16,900**	29,000
Interest cost	**22,100**	25,100
Benefits paid	**(28,700)**	(33,700)
Actuarial loss (gain)	**72,600**	(7,200)
Defined benefit obligation December 31	**$ 632,500**	$ 549,600
Unfunded	**$ 632,500**	$ 549,600

Based on historical data, the Credit Union expects contributions (benefits paid) of approximately $34,300, to be paid for 2020.

The DBO was determined using the following actuarial assumptions:

	2019	2018
Discount rate	**3.00%**	4.00%
Expected rate of return on plan assets	**Not applicable**	Not applicable
Expected rate of salary increases	**3.00%**	3.00%
Medical cost trend rates	**3%-5%**	3%-5%
Inflationary increases	**2.00%**	2.00%

These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. Other assumptions are based on management's historical experience.

The estimate of the DBO is particularly sensitive to medical cost trends as well as the discount rates used. If the rates assumed in the actuarial valuation had varied by +/- 1 percent, this would have altered the Credit Union's defined benefit obligation as follows:

	+1%	-1%
Medical/dental trend rates	72,300	(56,700)
Discount rates	(59,400)	70,500

(continued)

15. Pension plan (continued)

Statement of comprehensive income

The charge to the statement of comprehensive income comprises:

		2019		2018
Employee benefits expense:				
Past service cost	$	-	$	(166,500)
Current service cost		16,900		29,000
Interest costs		22,100		25,100
Total expenses recognized in net earnings	$	39,000		(112,400)

All expenses summarized above were included within employee benefits expense.

Amounts recognized in other comprehensive income:

		2019		2018
Unrealized actuarial gains	$	72,600	$	(7,200)

Expected returns on plan assets are based on a weighted average of expected returns of the various assets in the plan, and include an analysis of historical returns and predictions about future returns. Expected returns on plan assets are estimated by independent pension scheme appraisals undertaken by external valuers in close co-ordination with each fund's treasury board.

16. Income taxes

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

		2019		2018
Current tax expense				
Based on current year taxable income	$	20,414	$	53,977
Deferred tax expense				
Origination and reversal of temporary differences		29,223		148,318
Income taxes	$	49,637	$	202,295

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

		2019		2018
Current tax				
Change in unrealized loss on derivative instruments recorded in other comprehensive income	$	4,531	$	1,963

(continued)

16. **Income taxes** (continued)

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

		2019		2018
Earnings before income taxes	**$**	**603,854**	$	409,917
Expected taxes based on the statutory rate	**$**	**163,041**	$	110,678
Equity in earnings of subsidiaries		**(17,975)**		(7,307)
Rate differentials		**15,801**		29,303
Pension plan adjustments		**10,530**		67,912
Sale of CC&L fixed income		**(128,745)**		**-**
Other		**6,985**		1,709
Income taxes	**$**	**49,637**	$	202,295

The movement in 2019 deferred tax liabilities and assets are:

		Opening Balance at January 1, 2019		Recognized in comprehensive income		**Closing Balance December 31, 2019**
Deferred tax assets						
Allowance for credit losses	$	22,246	$	400	**$**	**22,646**
Unrealized gains/losses on financial instruments		8,600		(31,449)		**(22,849)**
		30,846		(31,049)		**(203)**
Deferred tax liabilities						
Property, equipment and intangible asset		10,722		(1,826)		**8,896**
Net deferred tax asset (liability)	$	20,124	$	(29,223)	**$**	**(9,099)**

17. Members' shares

The Credit Union issues one class of shares designated as membership equity of $1 par value.

Membership equity shares

Membership equity shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.

Membership shares issued and outstanding are included in deposit balances (see Note 13).

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

During the year, the Credit Union declared patronage distributions of $450,972 (2018 - $296,864) and dividends on membership shares of $9,185 (2018 - $9,725). Total distributions to members are included in operating expenses (Note 19).

18. Other income

		2019		2018
Account service fees	$	**520,410**	$	502,757
Foreign exchange		**102,925**		90,378
Loss on disposal of assets		**(24,306)**		-
Insurance commissions and fees		**110,092**		121,891
Loan administration fees		**83,884**		81,490
Mutual fund fees		**302**		4,806
Other		**63,137**		329,704
Safety deposit rentals		**28,542**		30,018
	$	**884,986**	$	1,161,044

19. Operating expenses

		2019		2018
Advertising and member relations	$	**33,038**	$	29,371
Community involvement		**40,140**		34,643
Data processing		**613,795**		596,397
Depreciation		**222,997**		219,356
Distributions to members		**460,157**		306,589
Dues and assessments		**216,780**		274,103
Human resource development		**37,370**		27,131
Occupancy		**402,750**		438,455
Other		**505,891**		379,048
Phoenix Foundation donation		**100,000**		50,000
Professional fees		**358,702**		325,059
Salaries and benefits		**3,534,085**		3,290,496
Service charges		**113,454**		106,580
	$	**6,639,159**	$	6,077,228

20. Related party transactions

The Credit Union's related parties include joint ventures and key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, post-employment benefit plans for the Credit Union's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

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

		2019		2018
Key Management				
Compensation to key management personnel				
Salaries and other short-term employee benefits	**$**	**1,032,636**	$	921,546
Total pension and other post-employment benefits		**125,728**		105,229
	$	**1,158,364**	$	1,026,775

		2019		2018
Loans and lines of credit to key management personnel				
Aggregate value of loans and lines of credit advanced	**$**	**2,109,596**	$	1,810,434
Aggregate value of un-advanced loans and lines of credit	**$**	**323,815**	$	248,300

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

		2019		2018
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**1,646,641**	$	1,409,434

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

(continued)

20. Related party transactions (continued)

		2019		2018
Joint Ventures				
0948859 BC Ltd. (dba MoneyWorks)				
Rental income	**$**	**3,263**	$	3,263
Kootenay Risk Services Ltd.				
Paid professional fees	**$**	**158,724**	$	84,104

These transactions are in the normal course of business and have been recorded at the exchange amount, which is the amount of consideration.

21. Financial instrument classification and fair values

The following table provides an analysis of financial instruments 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 (unadjusted) 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
- 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 (unobservable inputs).

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.

The only financial instruments carried at fair value for the year ended December 31, 2019 were the derivative financial instruments (Level 2), and the shares (Level 2).

There were no transfers between Level 1 and 2 for the years ended December 31, 2019 and 2018.

22. Financial instrument risk management

General objectives, policies, and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Manager, Finance through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region and indicate the relative sensitivity of the Credit Union’s performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being the Boundary Area of British Columbia.

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.

(continued)

22. Financial instrument risk management (continued)

Credit risk (continued)

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, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- 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; and
- Audit procedures and processes for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans in total (by category), delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and provision for credit losses quarterly.

For 2019 and 2018, there have been no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

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

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union’s management oversees the Credit Union’s liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union’s business requires such liquidity for operating and regulatory purposes.

(continued)

22. Financial instrument risk management (continued)

Liquidity risk (continued)

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

Provincial legislation requires the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The *Financial Institutions Act* specifies that a minimum liquidity ratio of 8% of deposits and borrowings must be maintained.

The Credit Union manages liquidity risk by:

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

The Board of Directors receives monthly 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 at year end.

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

	2019 Maximum exposure	2018 Maximum exposure
Qualifying liquid assets on hand		
Cash	**$ 7,631,038**	$ 2,827,292
Liquidity reserve deposit	**19,252,368**	19,068,730
Discount deposits and term deposits	**17,000,000**	12,000,000
Total liquidity requirement at 8%	**(18,182,179)**	(18,093,625)
Excess liquidity requirement	**$ 25,701,227**	$ 15,802,397

The maturities of liabilities are shown below under market risk. 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.

(continued)

22. Financial instrument risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. As at December 31, 2019, the Credit Union had entered into interest rate swap contracts for a total of $5 million of notional principal (2018 - $25 million). The swaps mature February 2021. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

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

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

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

(continued)

22. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

	Average Rates	Within 3 months	4 months to 1 year	Beyond 1 year	Not interest sensitive	Total
		Interest sensitive balances in $000's				
Assets						
Cash resources	1.35%	$ 10,917	$ -	$ -	$ -	$ 10,917
Loans	3.58%	20,581	35,116	141,086	62	196,845
Other	2.03%	1,212	20,865	10,888	3,385	36,350
		32,710	55,981	151,974	3,447	244,112
Liabilities						
Deposits	0.80%	128,485	44,566	27,165	27,272	227,488
Other	0.00%	-	-	-	1,711	1,711
		128,485	44,566	27,165	28,983	229,199
Balance sheet mismatch		(95,775)	11,415	124,809	(25,536)	14,913
Derivatives		(5,000)	-	5,000	-	-
Interest sensitivity position 2019		**$ (100,775)**	**$ 11,415**	**$ 129,809**	**$ (25,536)**	**$ 14,913**
Interest sensitivity position 2018		$ (95,105)	$ 3,429	$ 120,559	$ (14,467)	$ 14,416

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.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net earnings of $57,000 while a decrease in interest rates of 1% could result in a decrease to net earnings of $127,000.

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.

(continued)

22. Financial instrument risk management (continued)

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits. The Credit Union controls its exposure to changes in the United States currency exchange rates by limiting the un-hedged holdings in foreign currency to 0.5% of total assets in accordance with its investment policy. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

For the year-ended December 31, 2019, the Credit Union's exposure to foreign exchange risk is within policy.

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

23. Capital requirements and management

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

In the management of capital, the Credit Union includes retained earnings, accumulated other comprehensive income, and equity shares totalling $15.1 million (2018 - $14.6 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to 17.76% (2018 - 15.28%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the Board of Directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five year period.

(continued)

23. Capital requirements and management (continued)

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2019.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union’s capital adequacy ratio.

24. Commitments

Member loans

The Credit Union has the following commitments to its members at the year-end date on unused lines of credit and letters of credit:

Unused lines of credit	$ 29,425,310
Letters of credit	$ 224,006

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

Data processing services

The Credit Union is committed to acquiring online data processing services until November 30, 2021 at an approximate cost of $280,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union are comprised of a loan that has been syndicated and administered in its capacity as an agent. Off balance sheet funds are not included in the statement of financial position and have a value at year end as follows:

	2019	2018
Syndicated loans	**$ 2,224,832**	$ 1,080,270

25. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.