Salmon Arm Savings and Credit Union
Consolidated Financial Statements
For the Year Ended December 31, 2019

Contents

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Independent Auditor's Report

To the Members of Salmon Arm Savings and Credit Union

Opinion

We have audited the financial statements of Salmon Arm Savings and Credit Union, which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year ended December 31, 2019, 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 Salmon Arm Savings and Credit Union as at December 31, 2019, and its financial performance and 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 Salmon Arm Savings and 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 Salmon Arm Savings and 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 Salmon Arm Savings and Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Salmon Arm Savings and 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 Salmon Arm Savings and 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 Salmon Arm Savings and 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 Salmon Arm Savings and 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 Salmon Arm Savings and Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

BDO Canada LLP

Chartered Professional Accountants

Salmon Arm, British Columbia
March 10, 2020

Salmon Arm Savings and Credit Union
Consolidated Balance Sheet

December 31	2019	2018
Assets		
Cash (Note 4)	$ 13,149,012	$ 11,808,850
Income tax receivable	121,499	-
Investments (Note 5)	65,713,281	108,650,403
Derivative financial assets (Note 6)	873,306	387,594
Loans to members (Note 7, 8)	705,751,311	632,219,616
Property, plant, and equipment (Note 9)	14,366,924	14,829,671
Right-of-use assets (Note 11)	805,990	-
Intangible assets (Note 9)	2,537,167	2,397,188
Goodwill	2,760,238	2,650,491
Investment property (Note 10)	522,272	540,614
Other assets	1,271,841	1,067,378
	$ 807,872,841	$ 774,551,805
Liabilities		
Accounts payable and accrued liabilities	$ 2,818,040	$ 2,873,691
Income taxes payable	-	62,731
Dividends payable	14,073	19,824
Member deposits (Note 12)	748,704,091	731,117,385
Derivative financial liabilities (Note 6)	873,306	387,594
Short-term debt (Note 13)	11,000,776	-
Lease liability (Note 11)	779,116	-
Deferred income tax liability (Note 14)	386,406	275,118
Members' shares (Note 15)	739,801	748,270
Total liabilities	765,315,609	735,484,613
Members' equity	42,557,232	39,067,192
	$ 807,872,841	$ 774,551,805

Signed on behalf of the Board of Directors' by:

Director

Director

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

Salmon Arm Savings and Credit Union
Consolidated Statement of Comprehensive Income

For the year ended December 31	2019	2018
Interest revenue		
Interest on member loans	$ 24,005,324	$ 21,257,181
Other interest revenue	2,105,507	2,203,724
	26,110,831	23,460,905
Interest and loan related expenses		
Interest on member deposits	10,787,435	8,122,616
Other interest expense	85,510	40,737
Impairment losses on member loans (Note 8)	161,219	68,802
	11,034,164	8,232,155
Financial margin	15,076,667	15,228,750
Other income (Note 16)	6,967,727	5,808,399
	22,044,394	21,037,149
Operating expenses		
Amortization	1,129,893	993,354
Community support	170,681	203,082
Interest on lease liability	33,729	-
Distributions to members	14,199	36,537
Employee salaries and benefits	10,458,158	9,541,549
General operating and administrative (Note 17)	6,055,468	6,120,405
Total non-interest expenses	17,862,128	16,894,927
Income before income taxes	4,182,266	4,142,222
Provision for income taxes (Note 14)		
Current income taxes	580,938	699,075
Deferred income taxes	111,288	46,085
	692,226	745,160
Comprehensive income for the year	$ 3,490,040	$ 3,397,062

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

Salmon Arm Savings and Credit Union
Consolidated Statement of Changes in Members' Equity

For the year ended December 31

Balance at December 31, 2017	$	35,670,130
Comprehensive income		3,397,062
Balance on December 31, 2018		39,067,192
Comprehensive income		3,490,040
Balance on December 31, 2019	$	42,557,232

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

Salmon Arm Savings and Credit Union
Consolidated Statement of Cash Flows

For the year ended December 31	2019	2018
Cash flows from operating activities		
Interest revenue	$ 25,942,936	$ 23,201,432
Other income	6,944,038	5,643,538
Interest paid	(9,996,373)	(6,507,217)
Interest paid on lease liability	(33,729)	-
Cash paid to suppliers and employees	(16,918,966)	(14,816,448)
Income taxes paid	(766,951)	(916,762)
Distributions to members	(19,950)	(883,555)
	5,151,005	5,720,988
Changes in member activities		
Net increase in member loans	(73,560,793)	(41,579,648)
Net increase in deposits	16,710,911	76,186,942
	(56,849,882)	34,607,294
	(51,698,877)	40,328,282
Cash flows from investing activities		
Purchase of investments	(175,835)	(37,823,213)
Proceeds on investments	43,148,745	4,073,028
Purchase of intangible assets	(268,586)	(1,477,359)
Change in goodwill	(109,746)	(2,650,491)
Purchase of property, plant and equipment	(358,412)	(502,446)
	42,236,166	(38,380,481)
Cash flows from financing activities		
Net change in member shares	(8,468)	(23,351)
Proceeds from short-term debt	11,000,000	-
Principal payment of lease liability	(188,659)	-
	10,802,873	(23,351)
Net increase in cash	1,340,162	1,924,450
Cash at beginning of year	11,808,850	9,884,400
Cash at end of year	$ 13,149,012	$ 11,808,850

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

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Salmon Arm Savings and Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of the Province of British Columbia and subject to the Financial Institutions Act of British Columbia. The Credit Union is a member of Central 1 Credit Union Limited (Central 1).

SASCU Wealth Inc. is incorporated under the Company Act of British Columbia and provides financial planning services.

SASCU Insurance Services Ltd. is incorporated under the Company Act of British Columbia and provides insurance services.

Shuswap Insurance 2018 Ltd. is incorporated under the Company Act of British Columbia and provides insurance services.

The Credit Union operates as three operating segments in the financial services industry in the communities of Salmon Arm, Sicamous, Sorrento and Enderby in British Columbia. The Credit Union's head office is located at 370 Lakeshore Drive NE, Salmon Arm, British Columbia.

The main products and services offered to its members include: personal loans and mortgages, commercial loans and mortgages, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, RESPs, mutual funds, financial planning services, insurance services, automated teller machines ("ATMs"), debit and credit cards and online banking.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 10, 2020.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and those of its wholly-owned subsidiaries SASCU Wealth Inc., SASCU Insurance Services Ltd. and Shuswap Insurance 2018 Ltd. All significant intercompany transactions and accounts have been eliminated.

Basis of Presentation

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

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL") and derivative financial instruments measured at fair value, where fair value could be reasonably determined.

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 3.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies

Cash

Cash includes cash on hand, deposits with banks, other highly liquid investments and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Investments

Central 1 Deposits

These deposit instruments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Other Deposits

Other deposit instruments held at other financial institutions are also initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Equity Instruments

These instruments are classified as fair value through profit and loss and initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized through profit and loss.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Loans to Members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recorded at amortized cost.

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

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

The Credit Union derecognizes loans when the contractual rights to the cash flows from the loans expire, or the Credit Union transfers the 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 loan are modified, then the Credit Union evaluates whether the cash flows of the modified loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired and are derecognized and a new loan recognized at fair value.

If the terms of a loan are modified but not substantially, then the loan is not derecognized. If the loan is not derecognized, then the Credit Union recalculate the gross carrying amount of the 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 loans to members.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are 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 (SL) or declining-balance (DB) basis over the estimated useful life of the assets as follows:

Buildings	20 - 60 years SL
Landscaping and paving	10 - 25 years SL
Computer hardware	4 - 7 years SL
Furniture and fixtures	5 - 15 years SL and 20% DB
Equipment	5 - 15 years SL
Security equipment	5 - 20 years SL and 5% DB
Leasehold improvements	Lease term

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

Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union, as well as, Insurance Corporation of British Columbia (ICBC) licenses. Intangible assets are initially recorded at cost and, subsequently, measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of four to ten years. The ICBC licenses have not been depreciated as they have an indefinite useful life.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Credit Union's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

Investment Property

The Credit Union's investment property consists of land and building held to earn rental income. Investment property is initially recorded at fair value and, subsequently, measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of forty years. Rent receivable is recognized in net income on a straight-line basis over the period of the lease.

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. The Credit Union has four cash-generating units, of which one is the investment property of the land

and building, for which impairment testing is performed.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Impairment of Non-Financial Assets (continued)
Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes
Income tax expense comprises of 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.

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

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

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

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

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

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

Pension Plan
The Credit Union participates in a multi-employer defined contribution pension plan and recognizes contributions as an expense in the year to which they relate.

Accounts Payable and Accrued Liabilities
Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and, subsequently, carried at amortized cost using the effective interest rate method.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

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 or financial asset.

Revenue Recognition

Interest and investment income are recognized using the effective interest method.

Loan negotiation fees are recognized using the effective interest method. Fees recorded on setting up, prepayment or renegotiation of fixed-term loans are recognized in the period in which they occur.

The effective interest method is a method of calculating the amortized cost of the related loan based on its estimated fair value and allocating the interest income over the relevant period.

Mutual fund and insurance commission income are recognized as the services are rendered to the member, the price is fixed or determinable and collectibility is reasonably assured when payment is received.

Foreign Currency Translation

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union’s accounting periods beginning on or after January 1, 2020 or later periods that the Credit Union has decided not to early adopt.

i) New standards, interpretations and amendments not yet effective:

The following new standards, amendments and interpretations which have not been applied in these financial statements, that will or may have an effect on the Credit Union's future financial statements are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Material)
- IFRS 3 Business Combinations (Amendment - Definition of Business)
- Revised Conceptual Framework for Financial Reporting

There are no other IFRS 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.

2. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Credit Union's financial statements other than those described below.

IFRS 16 Leases ("IFRS 16")

On January 1, 2019, the Credit Union adopted IFRS 16, which supersedes IAS 17, Leases and IFRIC 4 Determining whether an arrangement contains a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Credit Union has applied IFRS 16 with a date of initial application of January 1, 2019 using the modified retrospective approach, with no impact to retained earnings at January 1, 2019. Under this approach, the Credit Union has not restated comparative information presented for 2018. Comparative information for 2018 is presented as previously reported under IAS 17 and related interpretations. The Credit Union has changed its accounting policy for lease contracts as detailed below.

Previously, the Credit Union determined at contract inception whether an arrangement is or contains a lease under International Financial Reporting Interpretations Committee 4, Determining Whether an Arrangement contains a Lease ("IFRIC 4"). Under IFRS 16, the Credit Union assesses whether a contract is or contains a lease based on the new definition of a lease provided in IFRS 16. IFRS 16 provides that a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Credit Union elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether they met the IFRS 16 definition of a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

The Credit Union previously classified leases as operating leases. Payments made under operating leases were recognized in comprehensive income on a straight-line basis over the term of the lease (i.e. they were off-balance sheet). Under IFRS 16, the Credit Union recognizes right-of-use assets and lease liabilities for most leases - i.e. leases are on-balance sheet.

On transition to IFRS 16, the Credit Union elected to apply recognition exemptions for short-term leases (i.e. leases with terms less than 12 months or entered into on a month-to-month basis) and leases of IT equipment that are considered to be low-dollar value leases. For leases of other assets, which were classified as operating leases under IAS 17, the Company recognized right-of-use assets and lease liabilities.

2. Adoption of New Accounting Standards (continued)

Significant Accounting Policy

Policy applicable from January 1, 2019

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost. Subsequent to initial application, the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. In comparison, the lease liability is increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Credit Union has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Credit Union is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Transition of leases classified as operating leases under IAS 17

At transition from IAS 17 to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Credit Union used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Applied the exemptions not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term and/or of low-dollar value.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

2. Adoption of New Accounting Standards (continued)

Impact on financial statements on transition

On transition to IFRS 16, the Credit Union recognized $ 804,876 of right-of-use assets and lease liabilities. When measuring lease liabilities, the Credit Union discounted lease payments using its incremental borrowing rate at January 1, 2019. The incremental borrowing rate was 4.45%. Determination of the incremental borrowing rate involves significant judgment. There was no impact on the opening retained earnings as a result of the transition to IFRS 16.

Following is a reconciliation from the December 31, 2018 lease commitments note to the lease liability and Right of Use Asset balances as at the transition date to IFRS 16 of January 1, 2019:

Commitments as at December 31, 2018	$ 3,800,000
Other commitments which were not operating leases	(3,092,960)
Leases that qualified under short term & low value lease exemption	(36,720)
Net impact of discounting using the incremental borrowing rate and renewal terms	134,556
Lease liability recognized at January 1, 2019	$ 804,876
Right-of-use asset at January 1, 2019	$ 804,876

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (IFRIC 23)

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is possible that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC Interpretation 23 Uncertainty over Income Tax Treatments did not have a material impact on the Credit Union's financial statements.

3. Critical Accounting Estimates and Judgments

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 accounting 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");
- 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;
- The Credit Union determines 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; and
- The determination of lease term for some lease contracts in which the Credit Union is a lessee that include renewal options and termination options, and the determination whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract.

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.

Judgments

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on the expected losses over the expected life of customer loans arising from default events occurring in the next 12 months or in the life time of the instrument. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8, 20 and 21.

3. Critical Accounting Estimates and Judgments (Continued)

Estimates

The effect of a change in an accounting estimate is recognized, prospectively, by including it in comprehensive income 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.

The estimates and assumptions, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately. Further details on assumptions used are provided in Note 20.

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 the tax liabilities (Note 14).

4. Cash

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2019 is 1.90% (2018 - 1.64%).

5. Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

	2019	2018
Liquidity deposits		
Central 1 deposits	$ 62,260,462	$ 93,385,683
Other financial institution deposits	-	12,022,808
	62,260,462	105,408,491
Equity instruments	3,452,819	3,241,912
Total investments	$ 65,713,281	$ 108,650,403

Central 1 Deposits

	2019	2018
Liquidity deposits	$ 61,917,478	$ 92,985,299
Accrued interest	342,984	400,384
Total Central 1 deposits	$ 62,260,462	$ 93,385,683

The Central 1 deposits accrue interest at 1.03% to 2.95% (2018 - 0.90% to 2.95%) and mature between Thursday, March 26, 2020 and Friday, June 28, 2024. The Credit Union must maintain liquidity deposits with Central 1 Credit Union at 8% of total deposits and debt liabilities at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities or upon withdrawal of membership from Central 1. The liquidity deposits are due within five years. At maturity, these deposits are reinvested at market rates for various terms.

Other Financial Institution Deposits

	2019	2018
Liquidity deposits	$ -	$ 12,000,000
Accrued interest	-	22,808
Total other financial institution deposits	$ -	$ 12,022,808

The carrying amounts for deposits approximate fair value due to having similar characteristics as cash and cash equivalents.

5. Investments (continued)

Equity Instruments

		2019	2018
Central 1 Credit Union - 279,193 Class A Shares	$	279,193 $	270,682
Central 1 Credit Union - 15,654 Class E Shares		157	157
Central 1 Credit Union - 2,854,285 Class F Shares		2,854,285	2,767,285
Other investments		319,184	203,788
Total equity instruments	$	3,452,819 $	3,241,912

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 that transactions occur at par value on a regular and recurring basis. Class A shares are valued at $1 per share.

Class E Central 1 shares are issued with a par value of $0.01, however, are redeemable at $100.00 at the option of Central 1. There is no separately quoted market value for these shares and the fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. As a result, they are recorded at cost.

Class F 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 that transactions occur at par value on a regular and recurring basis. Class F shares are valued at $1 per share.

The Credit Union is not intending to dispose of any other 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.

There is no separately quoted market value for the Credit Union's other investments and their fair values could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined. Therefore, they are recorded at cost.

6. Derivative Financial Instruments

The Credit Union has outstanding $ 7,853,748 (2018 - $ 7,238,006) in market linked term deposits to its members. The market 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 derivatives associated with these deposits are presented separately on the balance sheet as a liability and have a fair value of $ 873,306 (2018 - $ 387,594).

The Credit Union utilizes derivative financial instruments to mitigate the risk on these deposits. The Credit Union has entered into hedge agreements with Caisse Centrale Desjardins, where the Credit Union pays a fixed rate of interest for the term of each market 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. These are presented separately as an asset on the balance sheet and reported at fair value.

Maturity dates for the market linked term deposits are as follows:

	Notional Amounts	Fair Values
2020	$ 2,305,659	$ 347,068
2021	2,205,373	287,267
2022	1,966,053	129,783
2023	811,632	76,097
2024	565,031	33,091
	$ 7,853,748	$ 873,306

7. Loans to Members

	2019	2018
Residential mortgages	$513,475,595	$ 457,248,069
Personal loans	10,269,509	10,808,857
Commercial loans and mortgages	181,625,500	163,804,767
	705,370,604	631,861,693
Accrued interest receivable	1,380,921	1,248,800
Allowance for impaired loans (Note 8)	(1,000,214)	(890,877)
Loans to members	$705,751,311	$ 632,219,616

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and they mature within ten years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.90% to prime plus 8.00% (2018 - prime minus 1.20% to prime plus 8.50%). The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2019 was 3.95% (2018 - 3.95%).

The interest rate offered on fixed-rate loans being advanced at December 31, 2019, ranges from 1.49% to 15.75% (2018 - 1.49% to 11.95%). 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.

Commercial loans consist of term loans, operating lines of credit and mortgages to sole proprietors, 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.

7. Loans to Members (continued)

Average Yields to Maturity
Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2019 Yield	Principal	2018 Yield
Variable rate	$ 97,432,689	4.98 %	$ 96,096,311	4.93 %
Fixed rate due less than one year	104,437,025	3.38	93,607,095	3.53
Fixed rate due between one and ten years	503,500,890	3.41	442,158,287	3.32
	$705,370,604	3.62 %	$ 631,861,693	3.59 %

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.

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 ("SPPI") 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.

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 differences between the carrying amounts at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, 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.

7. Loans to Members (continued)

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	$ 10,850,850	$ 10,197,194
Loans secured by cash, member deposits or government	3,061,410	3,575,794
Mortgages insured by government and secured by property	140,295,973	140,303,940
Mortgages insured by other	3,347,350	3,549,665
Residential mortgages secured by property	369,920,332	313,492,784
Commercial mortgages secured by property	174,618,867	157,402,421
Other secured loans	3,275,822	3,339,895
	$705,370,604	$ 631,861,693

Fair Value
The fair value of member loans at December 31, 2019 was $ 713,454,000 (2018 - $ 631,760,000).

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 sets policies and limits to help manage its exposure and concentration of risk. Policies and limits have been set for single member or connected members, commercial business, agricultural, hospitality/tourism, construction and any unsecured loans.

The Credit Union is within all its policies and limits at December 31, 2019.

The majority of member loans are with members located in and around the Salmon Arm, Sicamous and Sorrento communities in British Columbia.

8. Allowance for Impaired Loans

Movement in collective provision for impairment:

2019	Residential Mortgage	Personal	Commercial	Total
Balance at January 1, 2019	$299,654	$ (214)	$591,438	$890,878
Recoveries of loans previously written off	-	12,161	-	12,161
Provision charged (recovery) to net income	32,137	13,277	115,805	161,219
	331,791	25,224	707,243	1,064,258
Loans written off	-	(25,224)	(38,820)	(64,044)
Balance at December 31, 2019	$331,791	$ -	$668,423	$1,000,214
Gross principal balance of individually impaired loans	$644,793	$ 34,524	$ -	$679,317

2018	Residential Mortgage	Personal	Commercial	Total
Balance at January 1, 2018	$ 237,720	$ 6,320	$ 626,837	$ 870,877
Recoveries of loans previously written off	-	2,952	937	3,889
Provision charged (recovery) to net income	61,934	28,151	(21,282)	68,803
	299,654	37,423	606,492	943,569
Loans written off	-	(37,637)	(15,054)	(52,691)
Balance at December 31, 2018	$ 299,654	$ (214)	$ 591,438	$ 890,878
Gross principal balance of individually impaired loans	$ 678,541	$ 5,452	$ -	$ 683,993

8. Allowance for Impaired Loans (Continued)

The allowance for loan losses in the above table includes amounts related to undrawn loan commitments. The Credit Union has the following undrawn loan commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	Retail	Commercial	2019 Total	2018 Total
Unadvanced loans	$ 7,597,631	$ 4,719,927	$ 12,317,558	$ 11,864,090
Unused lines of credit	90,932,456	29,809,997	120,742,453	113,187,743
Letters of credit	148,505	1,002,834	1,151,339	1,045,403

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 in order to comply 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.

8. Allowance for Impaired Loans (Continued)

The following tables show reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan. The allowance for loan losses in these tables include expected credit loss ("ECL") on loan commitments for certain member loans such as unadvanced loans, unused lines of credit and letters of credit, because the Credit Union cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

	12 Month ECL (Stage 1)	Lifetime ECL-Not Impaired (Stage 2)	Lifetime ECL-Credit Impaired (Stage 3)	2019 Total	2018 Total
Personal loans					
Balance January 1	$ 209,163	$ 16,844	$ 73,433	$ 299,440	$ 244,040
Year-to-Date:					
Additional provision (recovery) for loans	46,978	4,041	(5,605)	45,414	90,085
Loans written-off	-	-	(25,224)	(25,224)	(37,637)
Recoveries of loans written-off	-	-	12,161	12,161	2,952
Balance at December 31	256,141	20,885	54,765	331,791	299,440
Commercial loans					
Balance January 1	132,334	189,729	269,374	591,437	626,837
Year-to-Date:					
Additional provision (recovery) for loans	(12,993)	(17,187)	145,986	115,806	(21,282)
Loans written-off	-	-	(38,820)	(38,820)	(15,054)
Recoveries of loans written-off	-	-	-	-	936
Balance at December 31	119,341	172,542	376,540	668,423	591,437
Total allowance for loan losses, December 31	$ 375,482	$ 193,427	$ 431,305	$ 1,000,214	$ 890,877

9. Property, Plant and Equipment and Intangible Assets

	Land	Buildings	Leasehold Improvements	Furniture, Fixtures & Equipment	Pavement & Landscaping	Total	Intangible Assets
Cost							
Balance at January 1, 2018	$ 2,568,396	$ 14,651,788	$ 871,195	$ 4,935,957	$ 537,979	$ 23,565,315	$ 1,519,331
Additions	-	19,181	6,353	447,395	-	472,929	1,506,877
Disposals	-	-	-	(410,426)	-	(410,426)	-
Balance on December 31, 2018	$ 2,568,396	$ 14,670,969	$ 877,548	$ 4,972,926	$ 537,979	$ 23,627,818	$ 3,026,208
Additions	-	85,424	62,591	210,397	-	358,412	268,586
Disposals	-	(14,298)	(31,983)	(322,381)	-	(368,662)	(119,366)
Balance on December 31, 2019	$ 2,568,396	$14,742,095	$ 908,156	$ 4,860,942	$ 537,979	$23,617,568	$ 3,175,428
Accumulated depreciation							
Balance on January 1, 2018	$ -	$ 4,102,068	$ 735,428	$ 3,236,661	$ 257,106	$ 8,331,263	$ 531,317
Depreciation expense	-	393,864	21,849	441,380	20,217	877,310	97,703
Disposals	-	-	-	(410,426)	-	(410,426)	-
Balance on December 31, 2018	$ -	$ 4,495,932	$ 757,277	$ 3,267,615	$ 277,323	$ 8,798,147	$ 629,020
Depreciation expense	-	395,325	24,923	380,694	20,217	821,159	128,607
Disposals	-	(14,298)	(31,983)	(322,381)	-	(368,662)	(119,366)
Balance on December 31, 2019	$ -	$ 4,876,959	$ 750,217	$ 3,325,928	$ 297,540	$ 9,250,644	$ 638,261
Net book value							
December 31, 2018	$ 2,568,396	$ 10,175,037	$ 120,271	$ 1,705,311	$ 260,656	$ 14,829,671	$ 2,397,188
December 31, 2019	$ 2,568,396	$ 9,865,136	$ 157,939	$ 1,535,014	$ 240,439	$14,366,924	$ 2,537,167

Included in intangible assets are ICBC licenses with cost of $ 1,858,532 (2018 - $ 1,858,532) which is not being depreciated as they have an indefinite useful life.

10. Investment Property

	Land	Buildings	Pavement	Total
Cost				
Balance at January 1, 2018	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Balance at December 31, 2018	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Balance at December 31, 2019	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Accumulated depreciation				
Balance at January 1, 2018	$ -	$ 356,991	$ 41,049	$ 398,040
Depreciation expense	-	17,581	761	18,342
Balance at December 31, 2018	$ -	$ 374,572	$ 41,810	$ 416,382
Depreciation expense	-	17,581	761	18,342
Balance at December 31, 2019	$ -	$ 392,153	$ 42,571	$ 434,724
Net book value				
December 31, 2018	$ 150,907	$ 383,869	$ 5,838	$ 540,614
December 31, 2019	$ 150,907	$ 366,288	$ 5,077	$ 522,272

The fair value of the investment property is $ 1,732,000 (2018 - $ 1,732,000). Investment properties were subject to external valuation performed in 2013 by Flynn Mirtle Moran, qualified professional appraisers adhering to the generally accepted Standards of Professional Practice (CUSPAP) and the Code of Ethics of the Appraisal Institute of Canada. The fair value has subsequently been adjusted for changes in the market.

Investment property, held by the Credit Union, is leased out under an operating lease. The future minimum lease payments under the lease are as follows:

	2019	2018
Less than one year	$ 84,563	$ 82,500
Years two to five	363,000	356,813
More than five years	1,116,228	1,206,978
	$ 1,563,791	$ 1,646,291

11. Right-of-Use Assets

	Premise & Equipment	Naming Agreements	Total
Balance at January 1, 2019	$ 778,174	$ 26,702	$ 804,876
Additions	42,825	120,074	162,899
Depreciation	(147,697)	(14,088)	(161,785)
Balance at December 31, 2019	$ 673,302	$ 132,688	$ 805,990

Lease Liability	Premise & Equipment	Naming Agreements	Total
Balance at January 1, 2019	$ 778,174	$ 26,702	$ 804,876
Additions	42,825	120,074	162,899
Lease payments	(132,659)	(56,000)	(188,659)
Balance at December 31, 2019	$ 688,340	$ 90,776	$ 779,116

12. Member Deposits

	2019	2018
Demand	$ 335,777,108	$ 338,419,964
Term	279,032,610	275,146,861
Registered plans	129,081,195	113,613,178
	743,890,913	727,180,003
Accrued interest payable	4,813,178	3,937,382
	$ 748,704,091	$ 731,117,385

Included in registered plans are education savings plans, retirement savings plans, retirement income funds and tax-free savings accounts.

Terms and Conditions

Demand deposits are due on demand and bear interest at a variable rate up to 0.85% at December 31, 2019 (2018 - 1.05%). 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 issued on December 31, 2019 range from 0.01% to 2.25% (2018 - 0.01% to 3.30%).

The registered plans can have a fixed or variable rate. The fixed rate has terms and rates similar to the term deposit accounts described above. The variable rate bears interest at rates up to 0.85% at December 31, 2019 (2018 - 1.05%).

Included in member deposits is an amount of $ 5,216,764 denominated in US dollars ($ 6,735,364 - Canadian dollars) (2018 - $ 5,108,936 in US dollars; $ 6,933,337 in Canadian dollars).

12. Member Deposits (continued)

Fair Value
The fair value of member deposits at December 31, 2019 was $749,953,000 (2018 - $729,492,000).

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 deposits are re-priced 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.

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

	Principal	2019 Yield	Principal	2018 Yield
Non-interest bearing	$ 91,989,502	- %	$ 87,141,609	- %
Variable rate	263,832,551	0.58	273,885,698	0.75
Fixed rate due less than one year	256,524,971	2.20	227,951,552	2.28
Fixed rate due between one and five years	131,543,889	2.58	138,201,144	2.45
	$743,890,913	1.42 %	$ 727,180,003	1.46 %

Concentration of Risk
The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

Individual member deposits which exceed 1% of total assets:

	2019	2018
Demand	$ 5,427,032	$ 14,591,121
Term	30,710,362	16,637,454
	$ 36,137,394	$ 31,228,575

The majority of member deposits are from members located in and around the Salmon Arm, Sicamous and Sorrento communities in British Columbia.

13. Short-term Debt

	Approved	2019 Balance Outstanding	Approved	2018 Balance Outstanding
CIBC	$ 10,000,000	$ -	$ 10,000,000	$ -
Central 1	23,100,000	11,000,000	26,100,000	-
Accrued interest	-	776	-	-
	$ 33,100,000	$ 11,000,776	$ 36,100,000	$ -

The above amounts have a floating interest rate of CDOR (Canadian Dollar Offered Rate) + 0.50%.

14. Income Taxes

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

	2019	2018
Current tax expense		
Based on current year taxable income	$ 580,938	$ 699,075
Deferred tax expense		
Origination and reversal of temporary differences	111,288	46,085
Total income tax expense	$ 692,226	$ 745,160

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.0% (2018 – 27.0%) are as follows:

	2019	2018
Net income before taxes	$ 4,182,266	$ 4,142,222
Income tax expense using the statutory rate	1,109,555	1,130,412
Preferred rate for Credit Unions	(411,637)	(417,739)
Other	(5,692)	32,487
Total income tax expense	$ 692,226	$ 745,160

14. Income Taxes (continued)

The movement in 2019 deferred tax liabilities and assets is:

2019	Opening Balance at Jan 1, 2019	Recognize in Net Income	Closing Balance at Dec 31, 2019
Deferred tax (assets) liabilities			
Property, plant and equipment, intangible assets and investment property	$ 425,725	$ 201,274	$ 626,999
Other	(150,607)	(89,986)	(240,593)
2019 net deferred tax liability	$ 275,118	$ 111,288	$ 386,406

The movement in 2018 deferred tax liabilities and assets is:

2018	Opening Balance at Jan 1, 2018	Recognize in Net Income	Closing Balance at Dec 31, 2018
Deferred tax (assets) liabilities			
Property, plant and equipment, intangible assets and investment property	$ 398,030	$ 27,695	$ 425,725
Other	(168,997)	18,390	(150,607)
2018 net deferred tax liability	$ 229,033	$ 46,085	$ 275,118

15. Members' Shares

Issued

		2019	2018
Class A membership equity shares	$	739,801 $	748,270

Class A membership equity shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 "Financial Instrument Presentation" and IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments". If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and, subsequently, carried at amortized cost using the effective interest rate method.

Class A Membership Equity Shares
As a condition of membership, which is required to use the services of the Credit Union, each member is required to own at least $5 of membership equity shares. This $5 membership is redeemable at par only upon withdrawal of membership. Dividends are at the discretion of the Board of Directors. The Credit Union is authorized to issue an unlimited number of Class A shares.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia. All membership shares are available for redemption and are classified as a liability.

Class B Investment Equity Shares
Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors or upon the application of the member owning such shares on such terms and conditions as the directors may from time to time determine. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity. The Credit Union is authorized to issue an unlimited number of Class B shares and none are outstanding as at year end.

Class C Share Savings Shares
Savings shares are non-equity, non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the Board of Directors in the form of cash and additional shares. These shares are redeemable subject to the Credit Union maintaining adequate regulatory capital. The Credit Union is authorized to issue an unlimited number of Class C shares and none are outstanding as at year end.

16. Other Income

	2019	2018
Commissions and fees	$ 5,804,451	$ 4,597,333
Service fee revenue	1,163,276	1,211,066
	$ 6,967,727	$ 5,808,399

17. General Operating and Administrative Expenses

	2019	2018
Directors' expenses	$ 101,732	$ 101,347
Licenses, fees, and dues	938,688	1,004,913
Office, premise and supplies	3,450,514	3,300,185
Other administrative expenses	718,778	631,728
Professional fees	528,414	741,440
Promotion and advertising	180,242	216,770
Training	137,100	124,022
	$ 6,055,468	$ 6,120,405

18. 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.

	2019	2018
Compensation		
Salaries, and other short-term employee benefits	$ 1,262,832	$ 1,231,252
Total pension and other post-employment benefits	64,318	62,535
	$ 1,327,150	$ 1,293,787

	2019	2018
Loans to key management personnel		
Aggregate value of loans advanced	$ 4,024,400	$ 3,539,804
Interest received on loans advanced	101,936	75,068
Total value of lines of credit advanced	439,299	452,600
Interest received on lines of credit advanced	19,790	18,186
Unused value of lines of credit	1,176,000	1,221,199

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. However, staff who qualify may be eligible for their loan to be at the best member rate minus 1%, which is preferable to non-staff members. The Credit Union also has a policy to not go below Canada Revenue Agency's prescribed rate.

	2019	2018
Deposits from key management personnel		
Aggregate value of term and savings deposits	$ 1,310,747	$ 1,436,906
Total interest paid on term and savings deposits	10,565	3,158

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. However, staff and immediate family are eligible for waived or reduced charges on some services.

19. Financial Instrument Classification

The carrying amount of the Credit Union's financial instruments by classification is as follows:

December 31, 2019 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Fair value through profit and loss	Fair value through OCI	Amortized Cost (Assets)	Amortized Cost (Liabilities)	Total
Cash	$ -	$ -	$ 13,149,012	$ -	$ 13,149,012
Investments					
Liquidity deposits	-	-	62,260,462	-	62,260,462
Central 1 Credit Union	3,133,635	-	-	-	3,133,635
Other investments	319,184	-	-	-	319,184
Derivative financial assets	873,306	-	-	-	873,306
Loans to members	-	-	705,751,311	-	705,751,311
Other receivables	-	-	888,037	-	888,037
Members' deposits	-	-	-	748,704,091	748,704,091
Derivative financial liabilities	873,306	-	-	-	873,306
Accounts payable and other liabilities	-	-	-	13,832,889	13,832,889

December 31, 2018 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Fair value through profit and loss	Fair value through OCI	Amortized Cost (Assets)	Amortized Cost (Liabilities)	Total
Cash	$ -	$ -	$ 11,808,850	$ -	$ 11,808,850
Investments					
Liquidity deposits	-	-	105,408,491	-	105,408,491
Central 1 Credit Union	3,038,124	-	-	-	3,038,124
Other investments	203,788	-	-	-	203,788
Derivative financial assets	387,594	-	-	-	387,594
Loans to members	-	-	632,219,616	-	632,219,616
Other receivables	-	-	783,412	-	783,412
Members' deposits	-	-	-	731,117,385	731,117,385
Derivative financial liabilities	387,594	-	-	-	387,594
Accounts payable and other liabilities	-	-	-	2,893,515	2,893,515

20. Fair Value of Financial Instruments

The following table provides an analysis of investments 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.

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Assets (000's)				
Cash	$ 13,149	$ -	$ -	$ 13,149
Liquidity deposits	-	62,260	-	62,260
Equity instruments	-	3,453	-	3,453
Derivative financial assets	-	873	-	873
Loans receivable	-	705,751	-	705,751
Other receivable	-	888	-	888
	$ 13,149	$ 773,225	$ -	$ 786,374
Financial liabilities (000's)				
Other liabilities	$ -	$ 13,833	$ -	$ 13,833
Deposits payable	-	748,704	-	748,704
Derivative financial liabilities	-	873	-	873
	$ -	$ 763,410	$ -	$ 763,410

20. Fair Value of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Assets (000's)				
Cash	$ 11,809	$ -	$ -	$ 11,809
Liquidity deposits	-	105,408	-	105,408
Equity instruments	-	3,242	-	3,242
Derivative financial assets	-	388	-	388
Loans receivable	-	632,220	-	632,220
	$ 11,809	$ 741,258	$ -	$ 753,067
Financial liabilities (000's)				
Other liabilities	$ -	$ 2,894	$ -	$ 2,894
Deposits payable	-	731,117	-	731,117
Derivative financial liabilities	-	388	-	388
	$ -	$ 734,399	$ -	$ 734,399

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as derivative financial instruments that use observable market data and require little management judgement and estimation.

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

20. Fair Value of Financial Instruments (continued)

The following table sets out the assets and liabilities for which fair values are disclosed in the notes.

Description	2019 Fair Value	2018 Fair Value	Valuation Technique	Fair Value Hierarchy Level	Significant Unobservable Inputs
Cash and deposits	$ 13,149,012	$ 11,850,850	The carrying amount of the funds on hand and on deposit approximates their fair value.	Level 1	Not applicable.
Liquidity deposits	$ 62,260,462	$ 105,408,491	The fair market value of liquidity deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Discount spot rates vary between 0.0% (2018 - 0.0%) and 1.87% (2018 - 2.15%) based on the maturity date of the deposit.
Other assets	$ 3,917,290	$ 3,241,912	The carrying amount of short-term trade receivables (less than 12 months) approximate their fair value.	Level 2	Not applicable.
Loans receivable	$ 713,454,000	$ 631,760,000	The fair market value of loans receivable is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Discount spot rates vary between 0.0% (2018 - 1.08%) and 7.945% (2018 - 4.53%) for consumer loans and 0.0% (2018 - 0.0%) and 3.159% (2018 - 2.628%) for commercial loans based on the maturity date of the loan.
Other liabilities	$ 2,822,151	$ 2,873,692	The carrying amount of other short-term liabilities (less than 12 months) approximates their fair value.	Level 2	Not applicable.
Member deposits	$ 749,953,000	$ 729,492,000	The fair market value of member deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Discount spot rates vary between 1.086% (2018 - 2.87%) and 3.208% (2018 - 0.54%) based on the maturity date of the deposit.

21. Financial Instrument Risk Management

The Credit Union is exposed to various types of risks as a result of the nature of its business activities. This note describes the Credit Union's objectives, policies and processes for managing the risk arising from financial instruments and the methods used to measure them. Further quantitative information, in respect of these risks, is presented throughout these consolidated financial statements.

General Objectives, Policies and Processes
Senior management is responsible for identifying risks and developing appropriate and prudent risk management policies. The Board of Directors (the "Board"), through various committees, reviews and approves all risk management policies and provides oversight to the risk management framework and processes.

Within the various risks inherent in business activities, those related to financial instruments are: credit risk, market risk and liquidity risk.

i) Credit Risk
Credit risk is the risk that a financial loss will be incurred if a counterparty fails to meet its contractual obligations to the Credit Union and fails to make payments of interest and principal when due. This risk can relate to balance sheet assets such as loans, as well as, off-balance-sheet assets such as commitments and letters of credit.

Risk Measurement
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 credit history, ability to pay, net worth, value of collateral available to secure the loan, as well as current and future economic conditions.

Objectives, Policies and Processes
The Credit Union’s credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Board approves and annually reviews lending policies, establishes lending limits for the Credit Union, and delegates lending limits.

21. Financial Instrument Risk Management (continued)

Credit risk policies and principles used to manage credit risk exposure include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration;
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears;
- Appointment of personnel engaged in credit granting who are qualified;
- Management of growth within quality objectives; and
- Internal audit procedures and processes in existence for all levels of Credit Union lending activities.

The principal collateral and other credit enhancement the Credit Union holds as security for loans include i) insurance and mortgages over residential lots and properties; ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; iii) recourse to the commercial real estate properties being financed; and iv) recourse to liquid assets, guarantees and securities.

The Credit Union allocates a credit risk grade at initial recognition based on available information about the borrower. Under this system, the credit risk grades are defined as follows:

Level 1 – Low - assigned to undoubted member loans with virtually no risk
Level 2 – Medium - assigned to member loans that have normal risk of any loss
Level 3 – High – assigned to member loans that have an elevated risk of any loss and require monitoring

Member loans are subject to ongoing monitoring, which may result in the member loan being moved to a different credit risk grade. The monitoring typically involves the use of information obtained during periodic review of customer files, for example, audited financial statements, data from credit reference agencies, actual and expected significant changes in the regulatory and technological environment of the borrower or in its business activities, payment record including overdue status and existing and forecast changes in business, financial and economic conditions.

Loan Portfolio Oversight
With respect to credit risk, the Credit and Market Risk Committee receives quarterly reports summarizing new loans, delinquent loans and lines of credit. The Credit and Market Risk Committee also receives an analysis of the provision for credit losses on member loans and allowance for loan losses quarterly.

21. Financial Instrument Risk Management (continued)

A sizeable portfolio of the loan book is secured by residential property in and around Salmon Arm, Sicamous and Sorrento in British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

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.

Amounts arising from Expected Credit Loss (ECL):

The Credit Union recognizes allowance for loan losses for ECL on member loans.

The ECL model uses the concept of “staging” in that all financial assets subject to the impairment provisions of IFRS 9 are initially classified as “stage 1”, and then move through the stages (which affect the measurement of impairment) based on various triggers linked to credit risk and default. The requirements are summarized below:

Stage	1 – No Significant Increase in Credit Risk ("SICR") 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 in the credit risk grading is approved by credit managers. For personal loans, migration back to stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied and the member has 6 months of principal and interest payments made with no delinquency.	The Credit Union determines a SICR has occurred when: • the loan moves to the Credit Union’s watch list; • the member migrates to a credit risk grade of 2 (medium); or • a contractual payment is more than 30 days past due. Additionally, the Credit Union incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.	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; or • it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to 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.

21. Financial Instrument Risk Management (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, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. 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 stage 2, based on historical default and loss experiences for those types of member loans, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, letters of credit). For member loans in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information.	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 in stage 2 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. For member loans in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.	
Key forward-looking information	Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.		

21. Financial Instrument Risk Management (continued)

Credit quality analysis

The following tables set out information about the credit quality of member loans based on the Credit Union's credit risk rating grade. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2019 Total	2018 Total
Residential Mortgages and Personal Loans					
Level 1- Low	$ 484,093,720	$ -	$ -	$ 484,093,720	$ 434,134,558
Level 2- Moderate	-	36,659,006	-	36,659,006	30,105,142
Level 3- High	-	-	2,992,376	2,992,376	3,817,226
	484,093,720	36,659,006	2,992,376	523,745,102	468,056,926
Allowance for loan losses	(256,141)	(20,885)	(54,766)	(331,792)	(299,439)
Carrying amount	$ 483,837,579	$ 36,638,121	$ 2,937,610	$ 523,413,310	$ 467,757,487
Commercial Loans and Mortgages					
Level 1- Low	$ 39,382,302	$ -	$ -	$ 39,382,302	$ 41,084,795
Level 2- Moderate	-	98,796,024	-	98,796,024	87,518,334
Level 3- High	-	-	43,447,174	43,447,174	35,201,638
	39,382,302	98,796,024	43,447,174	181,625,500	163,804,767
Allowance for loan losses	(119,341)	(172,541)	(376,540)	(668,422)	(591,438)
Carrying amount	$ 39,262,961	$ 98,623,483	$ 43,070,634	$ 180,957,078	$ 163,213,329
Balance, December 31	$ 523,100,540	$ 135,261,604	$ 46,008,244	$ 704,370,388	$ 630,970,816

21. Financial Instrument Risk Management (continued)

ii) Liquidity Risk

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

Risk Measurement

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

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is monitored by the Asset Liability Committee (ALCO), made up of senior management, and policies are approved by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Legislation requires that the Credit Union maintain liquid assets at Central 1 Credit Union at least equal to 8.00% of the deposit and other debt liabilities. Regulatory liquidity and reporting of available cash resources and utilization rates are reported to the Board monthly. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as, diversified funding sources such as asset sale or securitization and wholesale borrowings. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2019, the Credit Union's pooled liquidity ratio was 9.90% (2018 - 14.35%).

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.

21. Financial Instrument Risk Management (continued)

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

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

Risk Measurement
The Credit Union measures its interest rate risk on a quarterly basis. Measures include the sensitivity of net interest income and equity value to changes in rates, duration parameters, as well as, simulation modelling.

Objectives, Policies and Procedures
ALCO meets regularly to monitor the Credit Union's position as set by the Board policy and ALCO operational guidelines, and to decide future strategy. These policies and guidelines define the standards and limits within which risk to net interest income and the value of equity are to be contained. An asset/liability risk report is reviewed by ALCO and the Board on a quarterly basis. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to changes in interest rates at December 31, 2019 is provided below. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

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 on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

21. Financial Instrument Risk Management (continued)

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / (Liability) Gap
Interest sensitive (000's)					
0 - 3 months	$ 131,350	4.05	$ 339,904	1.52	$ (208,554)
4 - 12 months	102,247	3.10	191,453	2.11	(89,206)
1 - 2 years	116,556	3.05	70,623	2.10	45,933
2 - 5 years	240,641	3.32	47,172	2.75	193,469
> 5 years	185,099	3.45	14,908	2.71	170,191
Interest sensitive	$ 775,893	3.41	$ 664,060	1.87	$ 111,833
Non-interest sensitive (000's)	$ 31,980	-	$ 143,813	-	$ (111,833)
Total	$ 807,873	3.28	$ 807,873	1.54	$ -

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 a decrease to net interest income of $ 12,800 while a decrease in interest rates of 1% could result in a decrease to net interest income of $ 31,800.

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.

21. Financial Instrument Risk Management (continued)

v) Currency Risk
Currency risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union has assets and liabilities denominated in US dollars.

Risk Measurement
The Credit Union's position is measured daily by determining the net foreign exchange position of the Credit Union.

Objectives, Policies and Procedures
The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between foreign currency assets and liabilities. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2019 and December 31, 2018, the Credit Union's exposure to currency risk was not material.

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.

22. Capital Management

As a provincially incorporated credit union, Salmon Arm Savings and Credit Union is required to measure its capital adequacy based on the British Columbia Financial Services Authority (BCFSA) regulations. SASCU Wealth Inc., SASCU Insurance Services Ltd. and Shuswap Insurance 2018 Ltd. are not provincially incorporated credit unions. Therefore, BCFSA only requires the non-consolidated Salmon Arm Savings and Credit Union financial figures to be used in capital adequacy calculations, as described below.

Regulatory capital must have the following fundamental characteristics: i) permanency; ii) free of fixed charges against earnings; and iii) subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may need to be deducted from capital to arrive at the Total Capital Base (TCB).

22. Capital Management (continued)

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0.00% to 150.00%. The regulatory ratio is then computed by dividing the TCB by the Credit Union's risk weighted assets, including off-balance-sheet commitments. Regulation currently requires that credit unions maintain a minimum capital to risk-weighted assets ratio of 8.00%. As at December 31, 2019, the Credit Union was in compliance with its capital requirements.

The capital ratio over the past 5 years is as follows:

	2019	2018	2017	2016	2015
Capital adequacy ratio	13.76 %	14.77 %	14.53 %	13.83 %	13.97 %

Capital in the Credit Union is comprised of:

	2019	2018
Capital		
Primary capital		
Retained earnings	$42,557,232	$ 39,117,274
Membership equity shares including dividends	753,913	768,132
	43,311,145	39,885,406
Secondary capital		
Share of system retained earnings	7,945,871	7,962,531
	51,257,016	47,847,937
Other additions (deductions) from capital		
Intangible assets	(2,444,927)	(1,460,909)
Deferred income taxes	389,910	274,348
Total capital base	$49,201,999	$ 46,661,376

The Credit Union manages its capital and its composition based on its statutory requirements. The ratio is reviewed monthly and is addressed in short and long-term planning to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the Credit and Market Risk Committee. There have been no changes in what the Credit Union considers to be capital since the previous period. In accordance with BCFSA requirements, the capital adequacy ratio and total capital base are derived from the Credit Union's non-consolidated operations, as well as, information provided by BCFSA.

23. Commitments

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling $ 23,100,000 (2018 - $ 26,100,000) and $ 100,000 US (2018 - $ 100,000 US). These credit facility is secured by a demand debenture and the general assignment of book debts. The balance outstanding as at December 31, 2019 was $11,000,000 (2018 - $Nil), see Note 13.

The Credit Union has a second line of Credit with another financial institution totaling $10,000,000. The credit facility is secured by assigned Canada Mortgage and Housing Corporation insured first mortgages.

Member Loans

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

Unadvanced loans	$ 12,317,558
Unused lines of credit	120,742,453
Letters of credit	1,151,339

Contractual Obligations

The Credit Union has entered into a contract for online data processing services that expire on December 31, 2023. The Credit Union is committed to payments for data processing services and system improvements of approximately $ 505,000 (2018 - $ 495,000) per annum.

24. Pension Plan

The Credit Union and its employees contribute and participate in a Defined Contribution Pension Plan, also sometimes called a money purchase pension plan, offered and administered by Co-operative Superannuation Society Pension Plan.

The money purchase plan is a multi-employer pension plan with several active contributors from various co-operatives and credit unions. Under this pension plan, the Credit Union contributes to an employee's pension plan account an amount based on a percentage of the employee's earnings and expenses the contributions to the plan in the year in which payments are made.