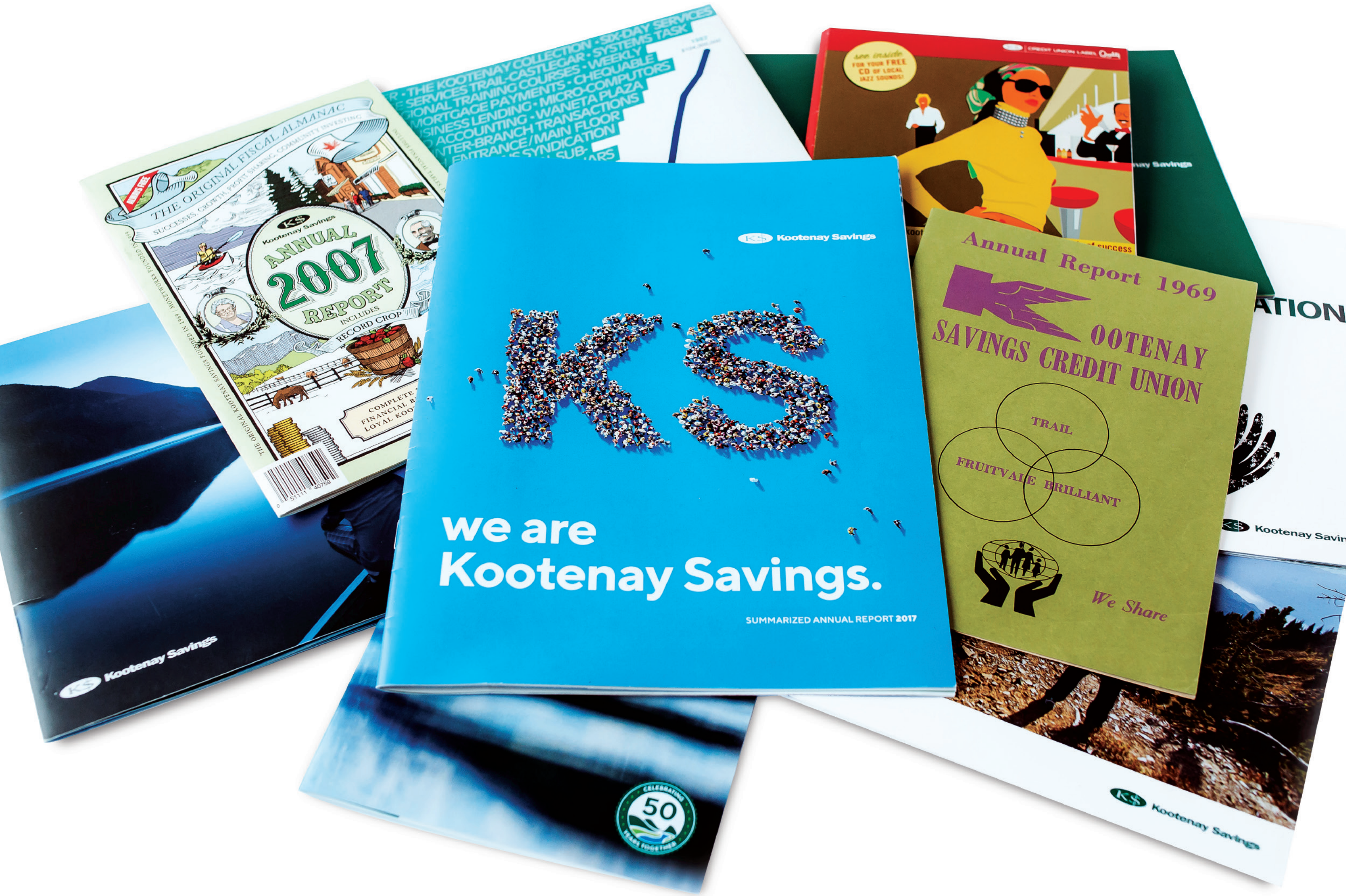
Kootenay Savings

50 years together



CONSOLIDATED FINANCIAL STATEMENTS **2019**

Kootenay Savings Credit Union
Consolidated Financial Statements
December 31, 2019

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For the year ended December 31, 2019

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Management's Responsibility

To the Members of Kootenay Savings Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 5, 2020

President & CEO

VP: Finance & CFO

Independent Auditor's Report

To the Members of Kootenay Savings Credit Union:

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Kelowna, British Columbia

MNP LLP

March 5, 2020

Chartered Professional Accountants

MNP LLP

Kootenay Savings Credit Union
Consolidated Statement of Financial Position
As at December 31, 2019
($ in thousands)

	2019	*2018*
Assets		
Cash and interest-bearing deposits *(Note 6)*	**202,495**	172,584
Member loans receivable *(Note 23)*	**992,646**	971,603
Property, plant and equipment *(Note 7)*	**17,046**	17,110
Income taxes receivable	**336**	-
Intangible assets *(Note 8)*	**1,319**	1,724
Investment property *(Note 9)*	**6,067**	5,972
Other assets *(Note 10)*	**19,536**	19,045
Investment in associate *(Note 11)*	**2,054**	2,274
Other investments *(Note 12)*	**29,742**	15,614
	1,271,241	1,205,926

Liabilities

Member deposits *(Note 13)*	**1,137,708**	1,077,994
Income taxes payable	**-**	24
Borrowings *(Note 14)*	**43,293**	38,880
Deferred tax liabilities *(Note 15)*	**136**	170
Other liabilities *(Note 16)*	**11,686**	11,210
Patronage payable *(Note 17)*	**615**	747
Member shares *(Note 18)*	**3,280**	3,420
	1,196,718	1,132,445

Commitments and contingencies *(Note 23), (Note 25)*

Members' equity

Member equity shares *(Note 18)*	**14,000**	14,567
Retained earnings	**60,540**	58,504
Accumulated other comprehensive income (loss)	**(17)**	410
	74,523	73,481
	1,271,241	1,205,926

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Kootenay Savings Credit Union
Consolidated Statement of Income
For the year ended December 31, 2019
($ in thousands)

	2019	*2018*
Interest income		
Member loans	**35,924**	35,290
Investments	**4,347**	3,889
	40,271	39,179
Interest expense		
Member deposits	**15,353**	12,000
Borrowings	**1,208**	108
	16,561	12,108
Net interest income	**23,710**	27,071
Provision for (recovery of) credit losses *(Note 23)*	**(1,014)**	1,981
Net interest income after provision for (recovery of) credit losses	**24,724**	25,090
Securitized loan income (expense)	**(195)**	161
Other income	**8,145**	8,111
Net interest and other income, after provision for (recovery of) credit losses	**32,674**	33,362
Operating expenses		
Personnel	**19,095**	17,972
General business	**6,811**	7,446
Occupancy	**3,606**	3,559
	29,512	28,977
Net income, before property development, other items and taxes	**3,162**	4,385
Property development		
Property sales	**120**	-
Cost of property	**(117)**	-
Operating expenses	**(101)**	-
Net income, before other items and taxes	**3,064**	4,385
Patronage and dividends *(Note 17)*	**(345)**	(400)
Gain (loss) on assets	**91**	(176)
Contributions to Kootenay Savings Community Foundation	**-**	(50)
Net income, before taxes	**2,810**	3,759
Income taxes *(Note 15)*		
Current	**583**	828
Deferred	**(30)**	(218)
	553	610
Net income	**2,257**	3,149

The accompanying notes are an integral part of these financial statements

Kootenay Savings Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2019
($ in thousands)

	2019	*2018*
Net income	**2,257**	3,149
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss		
Actuarial losses on defined benefit plans, net of tax	**(63)**	-
Unrealized loss, net of tax	**(288)**	(8)
Items that will be reclassified subsequently to profit or loss		
Change in unrealized losses on cash flow hedges, net of tax	**(76)**	-
Other comprehensive loss for the year, net of income tax	**(427)**	(8)
Total comprehensive income for the year	**1,830**	3,141

The accompanying notes are an integral part of these financial statements

Kootenay Savings Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2019
($ in thousands)

	Member shares	*Retained earnings*	*Accumulated other comprehensive income (loss)*	*Total equity*
Balance December 31, 2017	**15,474**	**55,614**	**418**	**71,506**
Net income	**-**	**3,149**	**-**	**3,149**
Patronage, net of tax *(Note 17)*	**-**	**(259)**	**-**	**(259)**
Net redemption of member shares	**(907)**	**-**	**-**	**(907)**
Unrealized loss, net of tax	**-**	**-**	**(8)**	**(8)**
Balance December 31, 2018	**14,567**	**58,504**	**410**	**73,481**
Net income	**-**	**2,257**	**-**	**2,257**
Patronage, net of tax *(Note 17)*	**-**	**(221)**	**-**	**(221)**
Net redemption of member shares	**(567)**	**-**	**-**	**(567)**
Actuarial losses on defined benefit plans, net of tax	**-**	**-**	**(63)**	**(63)**
Unrealized loss, net of tax	**-**	**-**	**(288)**	**(288)**
Change in unrealized loss on cash flow hedges, net of tax	**-**	**-**	**(76)**	**(76)**
Balance December 31, 2019	**14,000**	**60,540**	**(17)**	**74,523**

The accompanying notes are an integral part of these financial statements

Kootenay Savings Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2019
($ in thousands)

	2019	*2018*
Cash provided by (used for) the following activities		
Operating activities		
Net income	**2,257**	3,149
Interest income	**(40,289)**	(39,171)
Interest expense	**16,561**	12,108
Depreciation and amortization	**1,985**	1,961
Increase in fair value of investment properties	**(95)**	(183)
Provision for (recovery of) credit losses	**(933)**	1,981
Dividend received from associate	**100**	80
Equity pickup of investment in associate	**(167)**	(137)
Provision for income taxes	**553**	610
Decrease in the fair value of properties held for resale	**-**	506
	(20,028)	(19,096)
Changes in non-cash working capital items:		
Accounts receivable	**(706)**	181
Other current assets/liabilities	**(2,767)**	(1,108)
Patronage payable	**(132)**	259
Interest received on member loans and investments	**40,192**	34,503
Interest paid	**(14,831)**	(10,918)
Income taxes paid	**995**	1,016
	2,723	4,837
Financing activities		
Net increase in member deposits	**59,714**	54,459
Decrease in member shares	**(707)**	(1,135)
Equity portion of patronage dividends, net of income tax	**(221)**	(259)
Repayments from securitized mortgages, net	**(25,725)**	(45,568)
Increase in borrowings	**4,413**	38,951
	37,474	46,448
Investing activities		
Net (increase) decrease in lending activity	**5,259**	(20,198)
Purchases of other investments	**(14,002)**	(283)
Proceeds on disposal of other investments	**-**	130
Additions to property, plant and equipment	**(1,518)**	(1,699)
Proceeds from disposal of property, plant and equipment and investment property	**43**	72
Additions to intangible assets	**(68)**	(41)
Additions to investment property	**-**	(39)
	(10,286)	(22,058)
Increase in cash and interest-bearing deposits	**29,911**	29,227
Cash and interest-bearing deposits, beginning of year	**172,584**	143,357
Cash and interest-bearing deposits, end of year	**202,495**	172,584

1. Reporting entity information

Entity information

Kootenay Savings Credit Union (the "Credit Union") is incorporated under the laws of British Columbia and is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members in the Kootenay region and provides financial services through 11 branches, telephone and on-line banking. The address of the Credit Union's registered office is 220-1101 Dewdney Avenue, Trail, British Columbia.

Basis of presentation

These consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of Kootenay Savings Insurance Services Ltd. ("KSIS"), Kootenay Savings MoneyWorks Ltd. ("KSMW"), KS Property Management Inc. ("KSPM"), Osprey Landing Development Corp. ("Osprey") and Twin Rivers Estates Ltd. ("Twin Rivers"), which are wholly-owned subsidiaries of Kootenay Savings Credit Union. All inter-entity balances and transactions are eliminated on consolidation.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2019.

These financial statements for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on March 5, 2020.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2019. Adoption of these amendments had no material effect on the Credit Union's financial statements.

- IFRS 3 *Business combinations*
- IFRS 10 *Consolidated financial statements*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*
- IAS 40 *Investment property*

Leases

Effective January 1, 2019 (hereafter referred to as the "date of initial application"), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives*, and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards.

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

Initial application of IFRS 16

There was no material impact on the consolidated financial statements from the retrospective application of IFRS 16 *Leases*.

3. Significant accounting judgments, estimates and assumptions

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

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

Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers’ ability to meet debt obligations:

- Expected significant increase in unemployment rates or interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

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

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

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

Income tax

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

Classification of financial assets

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

Hedge accounting

In applying hedge accounting, the Credit Union uses the following key judgments:

1. An economic relationship exists between the hedged item and the hedging instrument based on a hedge ratio

The Credit Union uses the same hedge rating for the hedging relationship as the one that results from the actual quantity of the portfolio of loans (hedged item) and the interest rate swap (hedging instrument). Interest rate swaps (hedging instruments) are specifically transacted to economically hedge the portfolio of loans (hedged items). The fair values of the hedging instruments and the hedged items move in the opposite direction because of the interest rate risk. Therefore, there is an economic relationship between the porfolios of loans (or a portion thereof) and the swaps.

2. Critical terms of the hedged item and hedging instrument

The Credit Union assesses at inception and in subsequent periods whether the following critical terms of the hedged item and the hedging instrument have changed.

- Notional amount

- Maturity
- Correlation between 3 month Canadian Dealer Offered Rate ("CDOR") and Prime rate
- Weighted average interest rate

3. Effect of credit risk

The Credit Union enters into interest rate swaps as hedging instruments with a highly rated counterparty (Concentra) (A rated). Therefore, Credit Valuation Adjustment on the hedging instument is expected to not be material or volatile in a manner to dominate the value changes resulting from the economic relationship.

Further, the Credit Union considers its own credit risk as low (at December 31, 2019 the Credit Union was above policy and target for all capital measures) and as a consequence, Debt Valuation Adjustment on the hedged item is not expected to dominate the hedge effectiveness assessment.

As interest rate swaps are specifically transacted to economically hedge existing loans, application of hedge accounting will align with the risk management strategy of the Credit Union and therefore, the Credit Union's hedging relationship and risk management objective contributes to executing the overall risk management strategy.

For more information refer to Note 22.

4. Significant accounting policies

Basis of consolidation

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

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

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

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

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

Cash and interest-bearing deposits

Cash and interest-bearing deposits includes cash on hand and operating deposits with financial institutions.

Investments

Investments which meet the definition of financial instruments are measured and recorded on a basis consistent with the appropriate financial instrument designation.

Investment in associate

The Credit Union's investment in its associate, Kootenay Insurance Services Ltd. ("KIS"), is accounted for using the equity method. An associate is an entity in which the Credit Union has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Credit Union's share of net assets of the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Credit Union recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Credit Union and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Credit Union determines whether it is necessary to recognize an additional impairment loss on the Credit Union's investment in its associate. The Credit Union determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Credit Union calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in earnings.

Upon loss of significant influence over the associate, the Credit Union measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in earnings.

Member loans receivable

All member loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans receivable are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans receivable are subsequently measured at amortized cost, using the effective interest rate method, less any allowance for estimated credit losses. Interest is accounted for on the accrual basis for all loans.

Acquisition of property in settlement of loans

Property acquired in settlement of loans is recorded at the lower of estimated net realizable value and the amount owing on the loan. Losses arising on realization or reduction of the realizable value of such property are charged to earnings.

Inventories - property under development

Inventories are comprised of property under development and are valued at the lower of cost and net realizable value. Cost is determined based on specific identification. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing inventories to a saleable condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and sellling costs.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is provided using the straight-line method at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Years
Buildings	15-50
Buildings - HVAC	10-25
Building - improvements	10-15
Building - roof	25
Furniture	15
Equipment	5-25
Computer equipment	4
Vehicles	5

The useful lives of items of property, plant and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets

Depreciation of limited life intangible assets is charged to earnings on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives for intangibles with finite lives are as follows:

Computer software	4 - 16 years

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Investment property

The Credit Union’s investment property consists of land and building held to earn rental income or for capital appreciation. Investment property is initially recognized at cost, including directly attributable transaction costs. Subsequent to initial recognition, investment property is carried at fair value which reflects market conditions at each reporting date, with any gain or loss arising from a change in fair value recognized in earnings in the period.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Investment in insurance policies

Investment in insurance policies represents the cash surrender value ("CSV") of life insurance policies on the lives of indemnitors on foreclosed members' loans where the Credit Union is the owner and beneficiary of the policy. The CSV of the policies is recorded as an asset. Increases in the CSV of the policies, as well as death benefits received, net of any CSV, are recorded in non-interest income.

Accrued liabilities and accounts payable

Accrued liabilities and accounts payable are stated at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member deposits

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

Securitization

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

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

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

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Pensions and post retirement benefits

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services. The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

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

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable income.

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

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of deposits with Central 1 and Concentra, member loans receivable, accrued interest receivable and accounts receivable.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash, certain other investments and derivatives.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares in Central 1 and Concentra and other equity investments.

Refer to Note 23 for more information about financial instruments held by the Credit Union, their measurement bases, and their carrying value.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and the significance and frequency of sales in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union’s claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member loans receivable, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for other receivables that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision; and
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

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

Refer to Note 23 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

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

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

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

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

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

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

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

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Derivatives and hedge accounting

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

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

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

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

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to variable interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges include hedges of floating rate loans.

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

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

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

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

Rebalancing and discontinuation of hedging relationships

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

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

Revenue recognition

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

Interest income

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from other revenue streams including service charges, ATM surcharges, prepayment penalties, mutual fund commissions, and insurance commissions. Revenue is recognized as services are rendered.

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

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

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method.

The consideration for each acquisition is measured at the aggregated of the fair values, at the date of exchange, of assets transferred, liabilities assumed, and equity instruments issued by the Credit Union in exchange for control of the acquirees. Acquisition-related costs are recognized in profit or loss as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value (the date in which the Credit Union acquired control of the acquiree). Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognized in profit or loss. Changes in the fair value of contingent consideration classified as equity are not recognized.

The Credit Union recognizes any non-controlling interests in its subsidiaries either at fair value or at the non-controlling interest's proportionate share of the subsidiaries assets.

The acquired identifiable assets, and liabilities are recognized at their acquisition date fair values if they meet the definitions of assets and liabilities for the preparation and presentation of consolidated financial statements at acquisition date and they were exchanged as part of the business combination rather than as the result of separate transactions.

The following are exceptions to this recognition and measurement principle:

- Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income taxes*;
- Liabilities or assets related to the aquiree's employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee benefits*.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Credit Union believes there is no impact of these amendments on its financial statements.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union believes there is no impact of these amendments on its financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union believes there is no impact of these amendments on its financial statements.

($ in thousands)

5. Business combinations

Business acquisitions are accounted for using the acquisition method. The results of the acquired businesses are included in the consolidated financial statements from the respective dates of acquisition.

Acquisition costs in 2019 amounted to $nil (2018 - $nil). The purchase prices of the acquired subsidiaries were settled in cash and shares of the company.

Acquisitions in 2018 included Twin River Estates Ltd. and Osprey Landing Development Corp. acquired on December 10, 2018 and December 6, 2018, respectively, by KS Property Management Inc. The entities are primarily involved in the development of residential land**.**

Gain on the bargain purchases of these acquisitions totalled $201, and has been included in (gain) loss on assets in the consolidated statement of income.

	Twin River Estates Ltd.	**Osprey Landing Development Corp.**
Consideration transferred	1,500	7,100
Less: fair value of identifiable net assets acquired	(2,195)	(7,799)
Plus: deferred income tax	494	699
	(201)	-

The acquisitions had the following effect on the Credit Union's assets and liabilities on acquisition date:

	Pre-acquisition carrying amount	**Fair-value adjustment**	**Fair value at the acquisition date**
Acquired assets and assumed liabilities			
Inventories	10,014	1,831	11,845
Other current assets	8,364	-	8,364
Cash and cash equivalents	6	-	6
Other liabilities	(14,407)	2,770	(11,637)
Deferred taxes	1,416	(1,193)	223
Net identifiable asset and liabilities	5,393	3,408	8,801
Gain on bargain purchase recognized			201
Total cost of acquisition			8,600

6. Cash and interest-bearing deposits

	2019	*2018*
Cash	**36,997**	33,288
Interest-bearing deposits with Central 1	**135,468**	129,296
Other interest-bearing deposits	**30,030**	10,000
	202,495	172,584

($ in thousands)

7. Property, plant and equipment

	Land	*Buildings*	*Buildings HVAC*	*Building improvements*	*Building roof*	*Equipment*	*Computer equipment*	*Furniture*	*Vehicles*	*Total*
Cost										
Balance at December 31, 2017	**1,613**	**12,169**	**2,264**	**8,269**	**721**	**6,797**	**1,341**	**2,369**	**64**	**35,607**
Additions	**-**	**9**	**10**	**379**	**29**	**1,030**	**249**	**2**	**-**	**1,708**
Disposals	**-**	**-**	**-**	**-**	**(19)**	**(980)**	**(79)**	**-**	**-**	**(1,078)**
Transfer from investment property	**-**	**296**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**296**
Balance at December 31, 2018	**1,613**	**12,474**	**2,274**	**8,648**	**731**	**6,847**	**1,511**	**2,371**	**64**	**36,533**
Additions	**-**	**-**	**41**	**560**	**-**	**689**	**151**	**77**	**-**	**1,518**
Disposals	**-**	**-**	**-**	**-**	**-**	**(357)**	**(135)**	**-**	**-**	**(492)**
Balance at December 31, 2019	**1,613**	**12,474**	**2,315**	**9,208**	**731**	**7,179**	**1,527**	**2,448**	**64**	**37,559**
Depreciation										
Balance at December 31, 2017	**-**	**4,505**	**952**	**4,815**	**472**	**5,206**	**955**	**2,015**	**64**	**18,984**
Depreciation	**-**	**266**	**80**	**410**	**18**	**423**	**199**	**59**	**-**	**1,455**
Disposals	**-**	**-**	**-**	**-**	**(19)**	**(918)**	**(79)**	**-**	**-**	**(1,016)**
Balance at December 31, 2018	**-**	**4,771**	**1,032**	**5,225**	**471**	**4,711**	**1,075**	**2,074**	**64**	**19,423**
Depreciation	**-**	**272**	**75**	**419**	**20**	**475**	**194**	**57**	**-**	**1,512**
Disposals	**-**	**-**	**-**	**-**	**-**	**(287)**	**(135)**	**-**	**-**	**(422)**
Balance at December 31, 2019	**-**	**5,043**	**1,107**	**5,644**	**491**	**4,899**	**1,134**	**2,131**	**64**	**20,513**
Net book value										
At December 31, 2018	1,613	7,703	1,242	3,423	260	2,136	436	297	-	17,110
At December 31, 2019	**1,613**	**7,431**	**1,208**	**3,564**	**240**	**2,280**	**393**	**317**	**-**	**17,046**

($ in thousands)

8. Intangible assets

	Computer software
Cost	
Balance at December 31, 2017	**6,284**
Additions	**41**
Balance at December 31, 2018	**6,325**
Additions	**68**
Balance at December 31, 2019	**6,393**
Amortization and impairment losses	
Balance at December 31, 2017	**4,096**
Amortization	**505**
Balance at December 31, 2018	**4,601**
Amortization	**473**
Balance at December 31, 2019	**5,074**
Net book value	
At December 31, 2018	1,724
At December 31, 2019	**1,319**

($ in thousands)

9. Investment property

	2019	*2018*
Investment property, at fair value		
Carrying amount, beginning of year	**5,972**	6,046
Additions to properties	**-**	39
Fair value adjustments	**95**	183
Transfer to property, plant and equipment	**-**	(296)
	6,067	5,972

Investment properties are subject to external valuation performed by qualified valuation professionals on a regular basis. The fair value of investment property is determined by discounting the expected cash flows of the parties based upon internal plans and assumptions and comparable market transactions.

During the year, $498 of rental income from investment properties were recognized in earnings (2018 - $452) with direct operating expenses of $243 (2018 - $287).

10. Other assets

	2019	*2018*
Inventories - property under development	**11,899**	11,868
Accrued interest receivable	**2,991**	2,894
Prepaid expenses	**1,619**	1,129
Accounts receivable	**1,569**	863
Property held for resale	**816**	1,635
Deferred expenses	**543**	621
Derivative asset	**63**	-
Other	**36**	35
	19,536	19,045

($ in thousands)

11. Investment in associate

The Credit Union has a 25% interest in Kootenay Insurance Services Ltd. ("KIS"). As each of the investors have equal voting rights and board representation, none are deemed to have control. The following table illustrates summarized financial information of the Credit Union's investment in KIS:

	2019	*2018*
Share of the associate's statement of financial position:		
Current assets	**355**	262
Non-current assets	**2,588**	2,724
Current liabilities	**(397)**	(378)
Non-current liabilities	**(189)**	(30)
Equity	**2,357**	2,578
Share of the associate's revenue and profit (loss):		
Revenue	**1,532**	1,452
Profit (loss)	**(120)**	137
Dividends received	**(100)**	(80)
Revaluation surplus	**-**	-
Carrying amount of the investment	**2,054**	2,274

12. Other investments

	2019	*2018*
Equity investments		
Fair value through profit or loss		
Shares, Central 1	**5,292**	4,875
Shares, Concentra	**5,000**	5,000
Investment in Truvera Mortgage (Senior) 1 Limited Partnership	**1,600**	800
Investment in GCR Capital Inc.	**250**	250
Units of Southern Interior Innovation Fund	**189**	190
Investment in Ficanex Technology Limited Partnership	**180**	180
Investment in Ficanex Services Limited Partnership	**136**	136
	12,647	11,431
Investments		
Amortized cost		
Investment in Central 1 bonds	**12,490**	-
Fair value through profit or loss		
Investment in insurance policies	**4,298**	3,876
Other investments	**307**	307
	4,605	4,183
	29,742	15,614

($ in thousands)

13. Member deposits

	2019	*2018*
Demand deposits	**570,649**	572,142
Term deposits	**363,500**	314,585
Registered savings plans	**203,559**	191,267
	1,137,708	1,077,994

14. Borrowings

The Credit Union has loan payables and operating lines of credit in favour of Central 1 and Concentra Bank ("Concentra"). As at December 31, 2019, the Credit Union had not utilized either of these facilities (2018 - $nil).

The Credit Union may borrow a maximum of $3,113 utilizing operating lines of credit, term loan facilities and capital markets lines of credit with Central 1, secured by a demand debenture and the general assignment of book debts.

The Credit Union may also borrow a maximum of $15,000 utilizing a revolving loan with Concentra, secured by a second charge security interest, mortgage, pledge and charge over all of the Credit Union's present and after-acquired property.

As at December 31, 2019, $43,293 (2018 - $38,880) of securitized debt obligations were recorded in relation to MBS/CHT program securitizations relating to member loans receivable of $42,398 (2018 - $39,159).

15. Income tax

The total provision for income taxes in the statement of income is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	Amount	***2019 % of Pre-tax income***	*Amount*	*2018 % of Pre-tax income*
Combined federal and provincial statutory income tax rates	**764**	**27.0 %**	1,013	27.0 %
Credit Union and other reductions	**(55)**	**(1.9)%**	(375)	(10.0)%
Non-deductible and other items	**(121)**	**(4.3)%**	(28)	(0.7)%
Tax effects of amounts recorded in other comprehensive income	**(35)**	**(1.2)%**	-	- %
	553	**19.6 %**	610	16.3 %

The tax effects of temporary differences which give rise to the deferred tax liability reported on the statement of financial position is from differences between amounts deducted for accounting and income tax purposes.

($ in thousands)

Net deferred income tax is comprised of the following:

	2019	*2018*
Deferred tax liability		
Property and equipment	**(521)**	(609)
Securitization adjustments	**(14)**	(60)
Other temporary differences	**(191)**	(191)
	(726)	(860)
Deferred tax asset		
Allowance for impaired loans	**146**	243
Post retirement benefits	**259**	220
Securitization adjustments	**1**	4
Recognized on business combination	**-**	223
Other temporary differences	**184**	-
	590	690
Net deferred tax liability	**(136)**	(170)

16. Other liabilities

	2019	*2018*
Accrued liabilities and accounts payable	**4,846**	6,100
Accrued interest payable	**6,840**	5,110
	11,686	11,210

17. Distributions to members

		2019		*2018*
	Net income	**Equity**	Net income	Equity
Patronage distributions	**280**	**-**	324	-
Dividends on patronage shares	**62**	**263**	73	309
Dividends on equity shares	**3**	**13**	3	15
Less: related income taxes	**-**	**(55)**	-	(65)
	345	**221**	400	259

($ in thousands)

18. Member shares

Authorized:

Unlimited number of Class A shares, at an issue price of $1
Unlimited number of Class B shares, at an issue price of $1
Unlimited number of Class B (registered) shares, at an issue price of $1

Member shares issued:

	2019	*2018*
Member shares classified as equity		
Class A, par value $1 each	**875**	882
Class B, par value $1 each	**3,600**	3,641
Class B (registered), par value $1 each	**9,525**	10,044
	14,000	14,567
Member shares classified as liability		
Class B, par value $1 each	**900**	910
Class B (registered), par value $1 each	**2,380**	2,510
	3,280	3,420
	17,280	17,987

The Credit Union has two classes of equity shares. Class A equity shares are a membership requirement with a minimum of 5 shares per junior member and 25 shares for all other members. Class A shares may be withdrawn only upon close of membership. Class B shares are patronage shares received by the membership through patronage refunds and dividends. Class B share withdrawal limits and restrictions are set at the discretion of the Board of Directors based on the capital requirements of the Credit Union. During 2019, up to 20% of the total Class B shares held by a member were available for withdrawal. Full redemption of a member's Class B shares is allowed if the member is 65 years of age or older, upon the death of the member, or upon close of membership due to a move to an area not serviced by the Credit Union.

Class B shares may be registered in a RRSP, RRIF or TFSA. In addition to the previous Class B withdrawal restrictions, full redemption is allowed upon marital breakdown and in cases of over contribution, transferred back to non-registered Class B shares.

As an overall restriction, in a given year, the maximum aggregate withdrawal cannot exceed 40% of the total Class B shares within the Credit Union, unless approved by the Board. Funds invested in Class A and Class B shares are not insured by Credit Union Deposit Insurance Corporation ("CUDIC").

($ in thousands)

	Class A	***Class B***	***Class B (registered)***	***2019***	*2018*
Balance, beginning of year	**882**	**4,551**	**12,554**	**17,987**	19,123
New shares issued	**36**	-	-	**36**	55
Transfer between share classes	**-**	**(53)**	**53**	**-**	-
Shares redeemed	**(43)**	**(446)**	**(1,006)**	**(1,495)**	(1,808)
Dividends paid to members*	**-**	**448**	**304**	**752**	617
Balance, end of year	**875**	**4,500**	**11,905**	**17,280**	17,987

* Class A share dividends are paid in the form of Class B shares. Class B registered share redemptions are net of transfers from Class B non-registered and Class B registered redemptions.

19. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") 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 the Board of Directors, ALCO Committee, executives and senior management.

	2019	*2018*
Salaries and short-term benefits	**2,116**	1,997

CEO Compensation

For the fiscal year ending December 31, 2019 the CEO of Kootenay Savings Credit Union received a compensation package that includes the following:

Base Annual salary	$278	
Bonus (Short term incentive)	$nil	(see below)

Compensation for the CEO is intended to be aligned with the organization's overall short and long term objectives and results, be competitive within the credit union system and be affordable within the economic environment.

The CEO's base salary is determined by the Board of Directors. For the fiscal year ending December 31, 2019, the CEO received a base salary of $278. The CEO is currently paid in the 25th percentile for CEOs of similar size credit unions.

The CEO has the opportunity to earn up to 35% of base annual salary as a short term incentive bonus based on the achievement of financial, member, employee and community goals set out in our Member Experience Strategy. Based on 2019 performance goals and financial results, the CEO received a variable compensation bonus of $nil.

The CEO receives the same non-cash benefits as all other Kootenay Savings employees. In 2019, the value of these Credit Union paid benefits was 16.26% of the CEO's annual base salary.

The CEO also participates in a Supplemental Employee Retirement Plan ("SERP"), which Central 1 established to compensate credit union employees whose benefits under the Pension Plan are restricted by limits imposed under the Income Tax Act. In 2019, the CEO received 3.4% of base annual salary through the SERP.

($ in thousands)

Credit Union compensation policy and practices

Kootenay Savings' compensation philosophy is designed to attract and retain a high performance team that will be motivated to effectively execute our Member Experience Strategy and achieve our mission to improve each member's financial life. This is achieved through a combination of cash compensation, variable compensation (bonus pay) and non-cash benefits.

Kootenay Savings aims to maintain base salary levels in the median range (50th percentile), compared with credit unions of similar size and those included in annual credit union compensation survey data provided by Central 1 Credit Union. In 2019, most management positions fell within the target range, while most non-union and union support employees' annual base salaries were near or above the 75th percentile.

Management and non-union employees are eligible for short term variable compensation (bonus pay) based on the achievement of financial, member, employee and community goals set out in our Member Experience Strategy. These employees received a partial variable compensation bonus in 2019 which was based on corporate target achievements and the amount available to fund the plan.

All full-time and part-time employees receive a competitive benefit package, including employer paid healthcare benefits and pension plan contributions.

Transactions with key management personnel

Loans made to Directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. There are no loans that are impaired in relation to loan balances with Directors and KMP.

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

	2019	*2018*
Aggregate of loans to Directors and KMP	**3,339**	3,655
Total value of revolving credit facilities to Directors and KMP	**1,656**	1,278
Less: Member shares included as liabilities	**(2)**	(2)
	4,993	4,931

	2019	*2018*
During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Mortgages	**-**	2,142
Loans	**45**	113
Lines of credit	**55**	-
	100	2,255

($ in thousands)

	2019	*2018*
Interest and other revenue earned on loans to Directors and KMP	**148**	119
Total interest paid on deposits to Directors and KMP	**54**	49

The total value of member deposits from the Directors and KMP as at the year-end:		
Chequing and demand deposits	**4,097**	4,061
Term deposits	**1,571**	394
Registered savings plans	**1,173**	546
Total value of member deposits due to Directors and KMP	**6,841**	5,001

Directors' fees and expenses

	Total meetings	**Meetings attended**	**Stipend**	**Expense reimbursement**
Anderson, Ron	12	11	$ 14	$ 5
Drinnan, Forrest	12	12	10	6
Konkin, Mike	12	8	9	1
MacDermid, Linda	12	12	9	2
Martin, Mark	12	9	9	3
Martin, Mike	12	12	9	2
Morris, Owen	9	8	6	3
Naqvi, Am	3	3	3	1
Parkinson, D. Robert (Bob)	12	12	12	9
Schnider, Roberta	12	11	10	8
Smyth, Keith	12	12	9	1
Other expenses				194
Total			$ 100	$ 235

As approved by the Credit Union membership in 2010, aggregate payments paid during the year to Directors in their capacity as Directors, including stipend, amounted to $100 (2018 - $100). During the year, expense reimbursements related to meeting, training and conference costs amounted to $235 (2018 - $75).

		Governance & Human Resources	Audit & Operational Risk	Conduct Review	Credit & Market Risk	Nominating & Elections	Member & Community Relations
Anderson, Ron	Meetings attended	6 of 9	5 of 5	n/a	n/a	0 of 2	n/a
Drinnan, Forrest	Meetings attended	5 of 5	3 of 3	3 of 3	5 of 6	2 of 2	n/a
Konkin, Mike	Meetings attended	2 of 3	3 of 3	n/a	3 of 6	2 of 2	4 of 4
MacDermid, Linda	Meetings attended	9 of 9	3 of 3	5 of 5	n/a	4 of 4	2 of 2
Martin, Mark	Meetings attended	n/a	3 of 3	n/a	14 of 16	2 of 2	4 of 4
Martin, Mike	Meetings attended	9 of 9	n/a	n/a	14 of 16	2 of 2	2 of 2
Morris, Owen	Meetings attended	4 of 4	n/a	3 of 3	n/a	2 of 2	n/a
Naqvi, Am	Meetings attended	4 of 4	2 of 2	n/a	n/a	0 of 0	1 of 1
Parkinson, D. Robert (Bob)	Meetings attended	5 of 5	3 of 3	2 of 2	15 of 16	2 of 2	n/a
Schnider, Roberta	Meetings attended	n/a	n/a	2 of 2	8 of 10	2 of 2	2 of 2
Smyth, Keith	Meetings attended	n/a	3 of 3	n/a	16 of 16	4 of 4	2 of 2

n/a - not a committee member
of # attendance -Director was only a committee member prior to or after the AGM

($ in thousands)

Director Background

	Tenure	***Profile***
Anderson, Ron *Board Chair*	Apr 2016 - Current	Ron, a Partner with Grant Thornton LLP, is a Chartered Professional Accountant, (CPA, CA). He is currently the President of the Castlegar Curling Club and the Treasurer of BC Summer Swimming Association's KO Region. Ron is a Past Board Chair and Lifetime Board Member of Selkirk College and a Past President of the Castlegar Aquanauts Swim Club.
Parkinson, D. Robert (Bob) *Board Vice Chair*	Apr 2010 - Current	After a career of over 45 years in the credit union movement, Bob retired as President & CEO of the Vancouver based, Community Savings Credit Union. Now a resident in the Arrow Lakes region, he is actively involved in many aspects of his community. Bob has served as Chair of the Credit & Market Risk Committee for eight years.
Drinnan, Forrest	Apr 1997 - Current	Retired from West Kootenay Power in 2000, Forrest has been a director for 24 years. He is a past Peer Group 3 representative on Central 1 Credit Union Board. He is also past President of Rotary, Trail Retirees Curling and Rossland Trail Country Club; as well as past Chair of the LeRoi Community Foundation, and Trail Regional Hospital Foundation. He is presently Vice Chair of Kootenay Insurance Services.
Konkin, Mike *Audit & Operational Risk Chair*	Apr 2010 - Current	Mike is a Business Instructor at Selkirk College, as well as the owner of Mike Konkin, CPA - a tax advisory firm. He is a Chartered Professional Accountant (CPA, CGA), and has a Master of Business Administration degree (MBA).
MacDermid, Linda *Conduct Review Chair Member & Community Relations Chair*	Apr 2011 - Current	Linda has retired as a Commercial and Residential Property Manager after more than 30 years in the Trail - Okanagan area. As as director in the credit union system for 28 years, she has been actively promoting credit unions and the communities in the Kootenay area that they support.
Martin, Mark *Credit & Market Risk Chair*	Apr 2016 - Current	Mark is a consultant specializing in project management services and development, following a 20-year professional career with the City of Rossland, throughout the major planning process of turning Rossland into a Mountain Resort Community. He has been a Credit Union Director for 13 years. Mark has been involved in many community organizations during the past 30 years from Emergency Services to local service organizations, keeping with the community spirit. Mark and his wife MaryEllen have two children, a daughter-in-law and two grandchildren.
Martin, Mike *Governance & Human Resources Chair*	1990 - 2000 Apr 2014 - Current	After a 40-year career with Teck Trail Operations, Mike retired as the General Manager in 2012 and was elected as the Mayor of Trail, BC in 2014. During his 4 - year tenure as Mayor he also served as a Director on the Regional District of Kootenay Boundary Board as well as an executive member of the West Kootenay Boundary Regional Hospital District Board. Mike and his wife Debbie reside in Trail and remain actively involved with the community. Both he and Debbie, along with other investors, are partners in the on-going development and operation of the Trail Beer Refinery, a local craft brewery with restaurant and tap room. Mike has been a Board Director for 15 years and is a past Board Chair. Mike has a Bachelor of Applied Science (Chemical Engineering) from the University of British Columbia.

Morris, Owen	Apr 2019 - Current	Owen has been a resident of the Kootenays and a member of the Credit Union for over 30 years. He has a Masters Degree in Business Administration and an undergraduate degree in Theology. As a younger person he flew jets in the Canadian Armed Forces and was a volunteer fire fighter with the Robson Fire Hall. He has taught Business, Marketing and Budgeting at Selkirk College. He enjoys serving his community and working on his hobby farm.
Schnider, Roberta	Apr 2013 - Current	Roberta has a diploma in Business Administration and has owned and operated Full View Curtains for over 20 years. She has been an active volunteer in her community and served on the Board of Education SD#6, the Columbia Valley Community Foundation Board and has participated on many committees throughout the community and Regional District. Roberta currently sits on the Edgewater Utility Advisory Committee for the RDEK.
Smyth, Keith *Nominations & Elections Chair*	Apr 2010 - Current	A retired education administrator, Keith has served as a Director for 18 years. Having been involved in numerous community volunteer events, his most recent project was as Operations Manager for the newly resurrected Trail Silver City Days. Keith lives in Trail with his wife Gale. Always busy, he's fortunate to have his two married daughters close by with their children; in total seven grandchildren.

($ in thousands)

20. Capital management

The Financial Institutions Act requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk-weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. Management considers capital to be comprised of the net assets of the Credit Union and all components of members' equity on the same risk weighted basis as is prescribed by the Financial Institutions Act and which amounts to $86,315 as at December 31, 2019 (2018 - $84,879).

The Financial Institutions Act regulations prescribe that the minimum required capital base ratio is 8%. As at December 31, 2019, the Credit Union has a capital base of 18% (2018 - 19%).

	2019	*2018*
Primary capital		
Retained earnings - consolidated	**60,304**	58,301
Member shares	**17,897**	18,735
Deferred income tax	**108**	209
	78,309	77,245
Secondary capital		
Share of system retained earnings	**12,524**	12,399
Deductions from capital	**(4,516)**	(4,765)
	86,317	84,879

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. In addition, the Credit Union develops and works within a 5-Year Capital Plan. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

21. Pension plan and other employee benefits

The Credit Union has a Supplemental Employee Retirement Plan ("SERP") and a Retiree Benefits Plan covering certain employees of the Credit Union and its subsidiaries. The annual cost of the pension benefits has been determined by an independent actuary based on the accrued benefit actuarial cost method.

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. As of December 31, 2019, this Division covered about 3,625 active employees and approximately 1,125 retired plan members, with reported assets of approximately $847,200. At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan as at December 31, 2018 indicated a going concern surplus of $31,600 and a solvency deficiency of $99,500, based on market value assets of approximately $735,000. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is for the reporting date of December 31, 2021 although the Trustees have the discretion of conducting a valuation for an earlier reporting date. The Credit Union paid $1,844 (2018 - $1,828) in employer contributions to the plan in fiscal year 2019.

The Credit Union also provides additional pension benefits to certain eligible employees who are members of a

($ in thousands)

Supplemental Pension Plan. These non-pension benefits consist of contributions up to certain annual maximum limits outlined in the plan agreement with respect to medical and dental benefits. Both plans are unfunded defined benefit plans.

Funding of the registered retirement plans complies with applicable regulations that require actuarial valuations of the pension funds at least once every three years in Canada, depending on the funding status. The most recent actuarial valuations were as of December 31, 2019 for the Retiree Benefits Plan and the SERP.

	2019 Supplemental pension plan	*2018 Supplemental pension plan*	***2019 Post retirement benefit plan***	*2018 Post retirement benefit plan*
Accrued benefit obligation				
Benefit obligation, opening	**153**	158	**478**	991
Current service costs	**9**	10	**10**	60
Interest costs	**7**	6	**19**	36
Benefits paid	**-**	-	**(22)**	(22)
Actuarial gains (losses)	**17**	(21)	**70**	(587)
Accrued benefit obligation, ending	**186**	153	**555**	478

Significant assumptions:

	2019 Supplemental pension plan	*2018 Supplemental pension plan*	***2019 Post retirement benefit plan***	*2018 Post retirement benefit plan*
Weighted average:				
Discount rate	**3.00 %**	4.00 %	**3.00 %**	4.00 %
Rate of compensation increase	**2.00 %**	2.00 %	**- %**	- %
Inflation	**2.00 %**	2.00 %	**2.00 %**	2.00 %

22. Derivative financial instruments

	Notional amount	Interest payable	Risk weighted balance
Interest rate options purchased	30,000	-	-
Interest rate swaps	30,000	(3)	-
Index-linked options	193	-	3

Equity options are transactions in which the Credit Union manages its exposure to changes in the value of index-linked deposit products. Equity options purchased by the Credit Union, for a premium, provide the right, but not the obligation, to buy or sell to the writer of the option, an underlying stock index. These options contracts are transacted on an over-the-counter basis. Two parties exchange cash flows on a specified notional amount for a predetermined period based on the increase or decrease in an underlying stock market index versus a fixed interest rate. Notional amounts are not exchanged.

Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount, based on agreed upon fixed and floating rates for a specified time period. Notional amounts are the contract amounts used to calculate the cash flows to be exchanged.

Foreign exchange forward contracts are used as needed to hedge the Credit Union's exposure to foreign exchange risk.

23. Financial instrument risk management

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

Risk management policy

The Credit Union’s risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management and management report to the Board on compliance with the risk management policies of the Credit Union. In addition, the Credit Union maintains an Internal Audit function which is responsible for independent review of risk management and the Credit Union’s control environment.

Financial instruments comprise the majority of the Credit Union’s assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally mortgages. The primary types of financial risk which arise from this activity are interest rate risk, credit risk, liquidity risk, price risk and foreign exchange risk.

($ in thousands)

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	***Risk***	***Method***
Fixed rate savings products and funding activities involving fixed rate instruments	Sensitivity to changes in interest rates	Sensitivity Analysis and stress-testing
Fixed rate mortgages	Sensitivity to changes in interest rates	Sensitivity Analysis and stress-testing
Equity linked deposit products	Sensitivity to changes in Canadian equity indices	Options
Foreign currencies	Sensitivity to changes in foreign currency	Minimize overall Credit Union exposure
Investment of liquid resources in fixed income securities	Sensitivity to changes in obligor credit risk leading to default	Monitoring of investment restrictions and counterparty risk

The main financial risks inherent in the Credit Union environment are credit, liquidity and interest rate risks.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union’s financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the profit or loss may increase or decrease in response to changes in market interest rates.

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union's Treasury department and reported to the Asset and Liabilities Committee ("ALCO") which is responsible for managing interest rate risk. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the ALCO committee. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $2,197 (2018 - $1,285) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rate would decrease net interest income by $2,047 (2018 - $2,245) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristic; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to ALCO.

($ in thousands)

Interest rate sensitivity

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of financial instruments are presented in the periods in which they next re-price to market rates or mature and are summed to show the net interest rate sensitivity gap.

	Variable rate	*Within one year*	*One to two years*	*Two to three years*	*Three to four years*	*Over four years*	*Non-Interest Sensitive*	*2019 Total*	*2018 Total*
Financial assets									
Cash and investments	-	124,304	23,179	28,036	14,650	5,292	36,776	**232,237**	188,198
Member loans	173,242	168,003	144,278	173,653	178,914	153,859	697	**992,646**	971,603
Other	-	-	-	-	-	-	4,596	**4,596**	3,792
Total weighted average interest rate %	*4.41*	*2.84*	*3.01*	*3.07*	*3.27*	*3.47*	*1.15*	*3.14*	*3.23*
	173,242	**292,307**	**167,457**	**201,689**	**193,564**	**159,151**	**42,069**	**1,229,479**	1,163,593
Financial liabilities									
Demand deposits	566,295	-	-	-	-	-	4,354	**570,649**	572,142
Term deposits	-	204,118	96,334	35,291	2,949	24,999	(191)	**363,500**	314,585
Registered plans	28,020	78,879	53,077	28,460	2,113	11,942	1,068	**203,559**	191,267
Member shares	-	-	-	-	-	-	3,280	**3,280**	3,420
Borrowings	-	7,264	12,560	11,084	12,464	-	(79)	**43,293**	38,880
Other	-	-	-	-	-	-	12,301	**12,301**	11,890
Total weighted average interest rate %	*0.60*	*2.16*	*2.46*	*2.62*	*2.78*	*2.77*	*-*	*1.36*	*1.26*
	594,315	**290,261**	**161,971**	**74,835**	**17,526**	**36,941**	**20,733**	**1,196,582**	1,132,136
On balance sheet mismatch	**(421,073)**	**2,046**	**5,486**	**126,854**	**176,038**	**122,210**	**21,336**	**32,897**	31,457
Derivatives notional amount	-	30,000	-	-	(10,000)	-	-	20,000	-
Net sensitivity	**(421,073)**	**32,046**	**5,486**	**126,854**	**166,038**	**122,210**	**21,336**	**52,897**	31,457

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum of 8% liquidity at all times, based on total members' deposits and non equity shares. At year-end, the Credit Union's liquidity exceeded the required level.

The level of restricted cash resources required is based on total deposits and other debt liabilities. Included in cash resources are restricted cash resources of $89,967 (2018 – $77,816). The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union's Board of Directors has set an overall borrowing limit of $100,000 (2018 - $100,000) as an integral part of its liquidity management strategy.

Foreign currency risk

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period. Based on current differences between foreign currency financial assets and financial liabilities as at year-end, the Credit Union estimates that a positive/adverse change in the US – Canadian foreign currency exchange rate of 1% would result in a change in the post tax income of $6 (2018 - $7) principally as a result of the retranslation of foreign currency denominated cash resources.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy of British Columbia and the Kootenay region of BC or deteriorations in lending sectors which represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at year end.

Risk management process

Credit risk management is integral to the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally as a result of the Credit Union's lending activities that result in member loans and advances and treasury activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is centralized in the Credit Market Risk Committee which reports to the Board of Directors and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure from any one member. The Credit Market Risk Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures which it does through review and approval of the Credit Union's lending policies and credit scoring system and through setting limits on credit exposures from individual members across sectors. The Credit Union maintains levels of borrowing approval limits and, prior to advancing funds to a member, an assessment of the credit quality of that member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes loans that are within the member's ability to repay, rather than relying exclusively on collateral.

Loans to members

Loans to members consist of $959,407 (2018 - $948,705) residential and commercial loans/mortgages which are secured against real property with a further $17,668 (2018 - $18,563) secured by other collateral. Loans to members also include $16,571 (2018 - $17,757) of unsecured loans/lines of credit which consists of personal and commercial loans and lines of credit.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union takes additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the loan portfolio for those loans which are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of default using internal rating tools and takes into account both statistical analysis as well as the experience and judgment of the Credit department. Retail member loans are assessed based on a comparison of the loan to value ratio of the loan principal compared to the estimated fair value of collateral. Commercial member loans are divided into five segments and are regularly reviewed and updated as appropriate. Commercial member loans in the lower classes are not considered to be impaired taking into account the repayment status of the loans and estimated fair value of collateral, except where indicated as impaired.

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2019	*2018*
Unadvanced lines of credit	**127,572**	126,825
Commitments to extend credit	**32,685**	20,197
	160,257	147,022

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers).

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

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower’s initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when the borrower has demonstrated consistently good payment behaviour for 2 – 3 months against the modified contractual terms. Subsequently, management monitors these assets by tracking payment behaviours and relapse rates to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid, or when other factors indicate there is no reasonable expectation of recovery. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

($ in thousands)

	12-month ECL	2019 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Retail mortgages				
Low risk	478,434	-	-	478,434
Medium risk	-	221,195	-	221,195
Default	-	-	1,704	1,704
Total gross carrying amount	478,434	221,195	1,704	701,333
Less: loss allowance	36	236	96	368
Total carrying amount	478,398	220,959	1,608	700,965
Commercial mortgages				
Low risk	170,112	-	-	170,112
Medium risk	-	25,133	-	25,133
Default	-	-	1,200	1,200
Total gross carrying amount	170,112	25,133	1,200	196,445
Less: loss allowance	38	116	134	288
Total carrying amount	170,074	25,017	1,066	196,157
Retail loans and lines of credit				
Low risk	58,648	-	-	58,648
Medium risk	-	27,893	-	27,893
Default	-	-	555	555
Total gross carrying amount	58,648	27,893	555	87,096
Less: loss allowance	24	48	92	164
Total carrying amount	58,624	27,845	463	86,932
Commercial loans and lines of credit				
Low risk	5,979	-	-	5,979
Medium risk	-	2,302	-	2,302
Default	-	-	491	491
Total gross carrying amount	5,979	2,302	491	8,772
Less: loss allowance	4	2	174	180
Total carrying amount	5,975	2,300	317	8,592
Total members' loans receivable				
Total gross carrying amount	713,173	276,523	3,950	993,646
Less: loss allowance	102	402	496	1,000
Total carrying amount	713,071	276,121	3,454	992,646

($ in thousands)

	12-month ECL	*2018 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Retail mortgages				
Low risk	461,601	-	-	461,601
Medium risk	-	211,130	-	211,130
Default	-	-	2,797	2,797
Total gross carrying amount	461,601	211,130	2,797	675,528
Less: loss allowance	119	202	147	468
Total carrying amount	461,482	210,928	2,650	675,060
Commercial mortgages				
Low risk	186,260	-	-	186,260
Medium risk	-	6,733	-	6,733
Default	-	-	1,603	1,603
Total gross carrying amount	186,260	6,733	1,603	194,596
Less: loss allowance	510	55	216	781
Total carrying amount	185,750	6,678	1,387	193,815
Retail loans and lines of credit				
Low risk	66,161	-	-	66,161
Medium risk	-	27,316	-	27,316
Default	-	-	685	685
Total gross carrying amount	66,161	27,316	685	94,162
Less: loss allowance	65	60	195	320
Total carrying amount	66,096	27,256	490	93,842
Commercial loans and lines of credit				
Low risk	7,833	-	-	7,833
Medium risk	-	1,062	-	1,062
Default	-	-	-	-
Total gross carrying amount	7,833	1,062	-	8,895
Less: loss allowance	-	1	8	9
Total carrying amount	7,833	1,061	(8)	8,886
Total members' loans receivable				
Total gross carrying amount	721,855	246,241	5,085	973,181
Less: loss allowance	694	318	566	1,578
Total carrying amount	721,161	245,923	4,519	971,603

($ in thousands)

As at December 31, 2019, the maximum exposure to credit risk with respect to financial assets without taking into account collateral held or other credit enhancements is $1,357,258 (2018 - $1,293,983). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Included in the Credit Union's maximum exposure to credit risk noted above is $2,054 (2018 - $2,274) for the maximum exposure loss in its interest in Kootenay Insurance Services Ltd. This is the total adjusted cost base of the investment in associate, which approximates the Credit Union's maximum credit risk exposure.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Member loans receivable				
Balance at January 1, 2018	**902**	**413**	**2,700**	**4,015**
Provision for impaired loans	**1,762**	**786**	**(567)**	**1,981**
Write-offs	**(1,970)**	**(881)**	**(1,567)**	**(4,418)**
Balance at December 31, 2018	**694**	**318**	**566**	**1,578**
Provision for impaired loans	**(103)**	**(408)**	**(503)**	**(1,014)**
Write-offs	**(489)**	**492**	**433**	**436**
Balance at December 31, 2019	**102**	**402**	**496**	**1,000**

24. Fair value measurements

Assets and liabilities measured at fair value

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

	Fair Value	*Level 1*	*Level 2*	*2019 Level 3*
Assets				
Cash	**36,997**	**36,997**	**-**	**-**
Shares in Central 1	**5,292**	**-**	**-**	**5,292**
Other investments	**11,960**	**-**	**4,605**	**7,355**
Derivatives	**63**	**-**	**63**	**-**
Total assets	**54,312**	**36,997**	**4,668**	**12,647**
Liabilities				
Index-linked deposits	**193**	**-**	**193**	**-**

($ in thousands)

	Fair Value	*Level 1*	*Level 2*	*2018 Level 3*
Assets				
Cash	33,288	33,288	-	-
Shares in Central 1	4,875	-	-	4,875
Other investments	10,739	-	4,183	6,556
Total assets	48,902	33,288	4,183	11,431
Liabilities				
Index-linked deposits	136	-	136	-

Level 2 fair value measurements

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

Line item	***Valuation technique(s)***	***Inputs***
Other investments	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on credit spread adjusted swap rates.
Index-linked deposits	Fair value is determined using the net present value of cash flows attributable to the investments.	Discount rates based on current investment rates.
Derivatives	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset/liability	Discount rates based on CDOR and swap rates.

($ in thousands)

Financial instruments not measured at fair value

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

					2019
	Carrying amount	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
Assets					
Interest-bearing deposits	**165,498**	**167,771**	**-**	**167,771**	**-**
Member loans receivable	**992,646**	**984,904**	**-**	**984,904**	**-**
Other assets	**4,596**	**4,596**	**-**	**4,596**	**-**
Total assets	**1,162,740**	**1,157,271**	**-**	**1,157,271**	**-**
Liabilities					
Member deposits	**1,137,708**	**1,135,354**	**-**	**1,135,354**	**-**
Borrowings	**43,293**	**44,451**	**-**	**44,451**	**-**
Other liabilities	**12,301**	**12,301**	**-**	**12,301**	**-**
Member shares - liability	**3,280**	**3,280**	**-**	**-**	**3,280**
Total liabilities	**1,196,582**	**1,195,386**	**-**	**1,192,106**	**3,280**

					2018
	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
Assets					
Interest-bearing deposits	139,296	139,296	-	139,296	-
Member loans receivable	971,603	967,491	-	967,491	-
Other assets	3,792	3,792	-	3,792	-
Total assets	1,114,691	1,110,579	-	1,110,579	-
Liabilities					
Member deposits	1,077,994	1,046,852	-	1,046,852	-
Borrowings	38,880	38,880	-	38,880	-
Other liabilities	11,973	11,973	-	11,973	-
Member shares - liability	3,420	3,420	-	-	3,420
Total liabilities	1,132,267	1,101,125	-	1,097,705	3,420

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

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

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

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

($ in thousands)

25. Commitments and contingencies

Letters of credit

As of December 31, 2019, the Credit Union had issued letters of credit on behalf of members in the amount of $744 (2018 - $765). Of these letters of credit, $703 (2018 - $723) are secured by securities and/or monies on deposit; the remainder by indemnities or personal guarantees.

Commitments

The Credit Union has entered in various agreements for services with estimated minimum annual payments as follows:

2020	1,702
2021	1,396
2022	996
2023	774
2024	155

Contingencies

From time to time, various claims and legal proceedings may arise against the Credit Union. The Credit Union vigorously defends itself where appropriate and in instances where it considers it more likely than not to prevail, no provision is recorded in the consolidated financial statements.

The Credit Union has been named in a class action suit, along with seven other British Columbia credit unions. No claimants have come forward that are actual members of the Credit Union. The Credit Union feels that they are in a strong position to successfully defend the suit, and as such, no provision is recorded in the consolidated financial statements.

Kootenay Savings

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Castlegar, BC

FRUITVALE
1945 Main Street
Fruitvale, BC

INVERMERE
1028 7th Avenue
Invermere, BC

KASLO
437 Front Street
Kaslo, BC

KIMBERLEY
200 Wallinger Avenue
Kimberley, BC

NAKUSP
502 Broadway Street
Nakusp, BC

NEW DENVER
411 6th Avenue
New Denver, BC

RADIUM HOT SPRINGS
7517 Main Street West
Radium Hot Springs, BC

SALMO
619 Highway 6
Salmo, BC

SOUTH SLOCAN
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