

Spruce Credit Union
Financial Statements
December 31, 2019

Spruce Credit Union Contents

For the year ended December 31, 2019

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Management's Responsibility

To the Members of Spruce Credit Union:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. 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 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 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 has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. 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 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 24, 2020



Chief Executive Officer

Independent Auditor's Report

To the Members of Spruce Credit Union:

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Abbotsford, British Columbia

March 24, 2020

MNP LLP

Chartered Professional Accountants

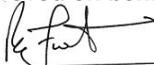
Spruce Credit Union

Statement of Financial Position

As at December 31, 2019

	2019	2018
Assets		
Cash and cash equivalents <i>(Note 5)</i>	3,735,678	10,163,957
Investments <i>(Note 6)</i>	19,951,035	25,639,979
Loans to members <i>(Note 7)</i>	146,546,812	139,486,732
Income taxes recoverable	9,036	-
Property and equipment <i>(Note 8)</i>	2,291,866	1,607,362
Intangible assets <i>(Note 9)</i>	1,143,981	1,304,602
Other assets	220,124	178,701
	173,898,532	178,381,333
Liabilities		
Deposits from members <i>(Note 10)</i>	158,656,586	167,419,546
Income taxes payable	-	18,127
Borrowings <i>(Note 11)</i>	4,500,000	-
Accounts payable and accrued liabilities	733,194	865,604
Lease liability <i>(Note 12)</i>	294,085	-
Deferred income tax liability <i>(Note 13)</i>	137,000	148,000
Membership shares <i>(Note 14)</i>	217,954	772,555
	164,538,819	169,223,832
 Event after the reporting period <i>(Note 21)</i>		
Members' equity		
Retained earnings	9,359,713	9,157,501
	173,898,532	178,381,333

Approved on behalf of the Board



Director



Director

Spruce Credit Union
Statement of Comprehensive Income
For the year ended December 31, 2019

	2019	2018
Interest income		
Member loans	5,935,272	5,449,608
Investment income	589,098	435,979
	6,524,370	5,885,587
Interest expense		
Member deposits	2,361,754	1,974,810
Other interest expense	30,048	20,287
	2,391,802	1,995,097
Net interest margin	4,132,568	3,890,490
Provision for (recovery of) credit losses (Note 19)	192,818	(76,118)
Net interest income	3,939,750	3,966,608
Other operating income (Note 15)	1,084,083	1,311,834
Total operating income	5,023,833	5,278,442
Operating expenses		
Depreciation	422,838	335,976
General and administrative	134,234	191,453
Marketing	105,387	72,719
Occupancy	246,137	215,077
Organizational	1,264,418	1,281,864
Personnel	2,650,631	2,443,661
Total operating expenses	4,823,645	4,540,750
Income before income taxes	200,188	737,692
Income tax expense (recovery) (Note 13)		
Current	8,976	21,874
Deferred	(11,000)	99,000
	(2,024)	120,874
Comprehensive income	202,212	616,818

The accompanying notes are an integral part of these financial statements

Spruce Credit Union
Statement of Changes in Members' Equity
For the year ended December 31, 2019

Retained earnings

Balance December 31, 2017	8,540,683
Comprehensive income	616,818
Balance December 31, 2018	9,157,501
Comprehensive income	202,212
Balance December 31, 2019	9,359,713

Spruce Credit Union
Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Comprehensive income	202,212	616,818
Depreciation of property, plant and equipment	226,168	155,716
Depreciation of intangible assets	176,114	180,260
Depreciation of right-of-use buildings	20,556	-
Interest expense on lease liability	4,946	-
Deferred income tax	(11,000)	99,000
Provision for (recovery of) credit losses	192,818	(76,118)
Loss on disposal of property, plant and equipment	2,892	-
Changes in working capital accounts:		
Income taxes payable/recoverable	(27,163)	91,127
Other assets	(41,423)	3,657
Accounts payable and accrued liabilities	(152,461)	(72,427)
Accrued interest on loans to members	(33,043)	(56,345)
Accrued interest on deposits from members	35,368	313,795
	595,984	1,255,483
Financing activities		
Net proceeds from borrowings	4,500,000	-
Repayments of borrowings	-	(1,000,000)
Net change in member deposits	(8,798,328)	25,099,461
Net change in membership shares	(534,550)	(1,225,114)
Repayment of loan securitization financing	-	(516,502)
Repayments of lease liability	(19,200)	-
	(4,852,078)	22,357,845
Investing activities		
Net change in investments	5,688,944	(14,852,712)
Net change in loans to members	(7,219,855)	(5,117,702)
Proceeds from disposal of property and equipment	-	280
Purchases of property and equipment	(625,781)	(163,036)
Purchases of intangible assets	(15,493)	(13,440)
	(2,172,185)	(20,146,610)
Increase (decrease) in cash and cash equivalents	(6,428,279)	3,466,718
Cash and cash equivalents, beginning of year	10,163,957	6,697,239
Cash and cash equivalents, end of year	3,735,678	10,163,957

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Spruce Credit Union (the "Credit Union") was formed pursuant to the Credit Union Incorporations Act of the British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia ("the Act").

The Credit Union serves members in the Prince George area of British Columbia and the surrounding areas. The address of the Credit Union's registered office is 879 Victoria Street, Prince George, British Columbia.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

These financial statements for the year ended December 31, 2019 were approved by the Board of Directors on March 24, 2020.

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 effect on the Credit Union's financial statements.

- IAS 1 *Presentation of financial statements*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*

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

The Credit Union recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using its incremental borrowing rate at the initial date of application. The incremental borrowing rate applied is 2.47%.

The application of the standard at January 1, 2019, has resulted in an increase in property and equipment of \$308,339 and an increase in lease liability of \$308,339.

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

3. Basis of preparation *(Continued from previous page)*

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Allowance for expected credit losses

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

- Expected significant changes in unemployment rates, interest rates and home prices
- 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 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
- Inflation
- Loan to Value ratios

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.

3. **Basis of preparation** *(Continued from previous page)*

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.

Income taxes

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

4. **Summary of significant accounting policies**

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits. Other investments (term deposits and certificates of deposit) maturing in less than three months or that are cashable at the Credit Union's discretion are also reported as cash.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central 1 term deposits

Central 1 term deposits are accounted for at amortized cost.

Other Investments

Investments in securities are measured at fair value, with adjustments recognized in profit or loss.

Property held for resale

Property held for resale is initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Property held for resale is subsequently valued at the lower of the carrying amount and fair value less cost to sell. Losses arising on reduction of the net realizable value are charged to comprehensive income.

Loans to members

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Significant (>\$2,500) loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Syndication

The Credit Union syndicates groups of assets with various other financial institutions primarily to create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's Statement of Financial Position. All loans syndicated by the Credit Union have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

4. Summary of significant accounting policies *(Continued from previous page)*

Property and equipment and intangible assets with a limited life

Property and equipment and intangible assets with a limited life 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 equipment have different useful lives, they are accounted for as separate items of equipment.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Assets are depreciated from the date put in use.

	Rate
Buildings	40 years
Furniture and equipment	2 - 20 years
Computer equipment	3 - 5 years
Leaseholds	10 years
Building improvements	5 years
Parking lot	20 years
Intangible assets (other software)	1 - 10 years
Intangible assets (banking platform)	10 years
Right-of-use buildings	10 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

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 comprehensive income.

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 comprehensive income.

Deposits from members

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

4. Summary of significant accounting policies *(Continued from previous page)*

Membership 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*.

Accounts payable and accrued liabilities

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Income taxes

Current tax and deferred tax are recognized in comprehensive income 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 or 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.

Leases (prior to January 1, 2019)

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and building are classified separately and the minimum lease payments are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease.

Assets under finance lease are amortized on a straight-line basis, over the shorter of the useful life and the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned by the Credit Union. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

All other leases are accounted for as operating leases, and payments are expensed on a straight-line basis over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leases (subsequent to January 1, 2019)

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

4. Summary of significant accounting policies *(Continued from previous page)*

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases and low value leases. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of \$5,000 USD or less. The Credit Union recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in comprehensive income for the current period.

Pension plan

The Credit Union participates in a multi-credit union co-operative defined contribution pension plan and recognizes contributions as an expense in the year to which they relate. The amount contributed to the plan for 2019 was \$45,322 (2018 - \$41,562).

4. Summary of significant accounting policies *(Continued from previous page)*

Financial instruments

Financial assets

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.

Debt instruments are 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 loans to members, other receivables and Central 1 term deposits.
- 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.
- 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 charges in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments and cash and cash equivalents 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 Central 1 shares and investments in other co-operative entities.

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 period.

4. Summary of significant accounting policies *(Continued from previous page)*

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, 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

Expected credit loss model

The Credit Union's allowance for credit losses follows an expected credit loss ("ECL") impairment model. The ECL impairment model reflects the present value of cash shortfalls related to default events either over the following twelve months, or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased and probability-weighted amount which considers a variety of scenarios based on reasonable and supportable information. Forward-looking-information ("FLI") is incorporated into the estimation of ECL allowances, which involves significant judgement (see note 18 for additional details). The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

ECL stage development

On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within 12 months after the reporting date.

If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, the Credit Union compares the risk of default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days past due on its contractual payment obligations or the financial instrument has had an unfavourable movement in internal risk ratings. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union reverts to recognizing 12 months of ECL.

When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency over 90 days has occurred. Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears is automatically considered impaired.

4. Summary of significant accounting policies *(Continued from previous page)*

Recognition

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 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 statement of financial position as a deduction from the gross carrying amount of the financial asset.

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

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.

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 instruments - 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.

4. Summary of significant accounting policies *(Continued from previous page)*

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

Financial instruments classified as other financial liabilities include all member deposits, borrowings, and payables and accruals. All financial liabilities are initially measured at fair value.

Subsequent to initial recognition, financial liabilities are measured at amortized cost. 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.

Revenue Recognition

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

Investment income

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Interest

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

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

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

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

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

Other income

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

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.

Spruce Credit Union
Notes to the Financial Statements
For the year ended December 31, 2019

4. Summary of significant accounting policies *(Continued from previous page)*

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.

5. Cash and cash equivalents

	2019	2018
Cash on hand	819,929	1,167,384
Cash held with Central 1	2,915,749	8,884,862
Term deposits maturing in three months or less	-	111,711
	3,735,678	10,163,957

Total cash and cash equivalents include \$417,571 (2018 - \$330,626) in US currency denominated in Canadian dollars.

Liquidity reserve deposit

The Credit Union is required to always maintain on deposit at Central 1 an amount equal to 8% of the Credit Union's total deposits and borrowings less cash holdings of up to 1% of the Credit Union's aggregate deposit and other debt liabilities. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice. At December 31, 2019, the Credit Union deposits exceeded the minimum required by \$10,204,000 (2018 - \$21,653,000).

6. Investments

	2019	2018
Shares:		
Central 1	696,039	677,766
CUPP Services Ltd.	66,406	66,406
Credit Union Insurance Services	29,703	13,061
Other	132	132
Term deposits maturing after three months	19,158,755	24,882,614
	19,951,035	25,639,979

Spruce Credit Union
Notes to the Financial Statements
For the year ended December 31, 2019

7. **Loans to members**

Principal and allowance by loan type:

		2019	
	Principal	Allowance for credit losses (Note 19)	Net carrying value
Mortgages	116,869,569	232,882	116,636,687
Personal	16,873,921	126,375	16,747,546
Commercial	12,947,565	65,979	12,881,586
Accrued interest	280,993	-	280,993
Total	146,410,062	425,236	146,546,812

		2018	
	Principal	Allowance for credit losses	Net carrying value
Mortgages	105,087,505	149,146	104,938,359
Personal	18,514,984	136,123	18,378,861
Commercial	15,963,188	41,626	15,921,562
Accrued interest	247,950	-	247,950
Total	139,565,677	326,895	139,486,732

Spruce Credit Union
Notes to the Financial Statements
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8. Property and equipment

	<i>Land</i>	<i>Parking lot</i>	<i>Buildings</i>	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Furniture and equipment</i>	<i>Right-of-use buildings</i>	<i>Total</i>
Cost								
Balance at January 1, 2018	215,563	53,243	2,220,586	52,302	1,951,559	629,584	-	5,122,837
Additions	-	-	22,661	-	134,558	5,817	-	163,036
Disposals	-	-	-	-	(12,586)	-	-	(12,586)
Balance at December 31, 2018	215,563	53,243	2,243,247	52,302	2,073,531	635,401	-	5,273,287
Balance at January 1, 2019	215,563	53,243	2,243,247	52,302	2,073,531	635,401	-	5,273,287
Additions	-	7,322	9,351	401,103	129,083	78,922	308,339	934,120
Disposals	-	-	-	-	(8,086)	-	-	(8,086)
Balance at December 31, 2019	215,563	60,565	2,252,598	453,405	2,194,528	714,323	308,339	6,199,321
Depreciation								
Balance at January 1, 2018	-	32,736	1,236,760	11,611	1,695,647	545,760	-	3,522,514
Depreciation	-	6,836	39,353	10,173	69,334	30,020	-	155,716
Disposals	-	-	-	-	(12,305)	-	-	(12,305)
Balance at December 31, 2018	-	39,572	1,276,113	21,784	1,752,676	575,780	-	3,665,925
Balance at January 1, 2019	-	39,572	1,276,113	21,784	1,752,676	575,780	-	3,665,925
Depreciation	-	6,988	43,322	36,913	106,527	32,418	-	226,168
Depreciation - right-of-use buildings	-	-	-	-	-	-	20,556	20,556
Disposals	-	-	-	-	(5,194)	-	-	(5,194)
Balance at December 31, 2019	-	46,560	1,319,435	58,697	1,854,009	608,198	20,556	3,907,455
Net book value								
At December 31, 2018	215,563	13,671	967,134	30,518	320,855	59,621	-	1,607,362
At December 31, 2019	215,563	14,005	933,163	394,708	340,519	106,125	287,783	2,291,866

Spruce Credit Union
Notes to the Financial Statements
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9. Intangible assets

	<i>Banking platform</i>
Cost	
Balance at January 1, 2018	2,173,572
Additions	13,440
Disposals	(533,333)
Balance at December 31, 2018	1,653,679
Balance at January 1, 2019	1,653,679
Additions	15,493
Balance at December 31, 2019	1,669,172
Depreciation	
Balance at January 1, 2018	702,150
Depreciation	180,260
Disposals	(533,333)
Balance at December 31, 2018	349,077
Balance at January 1, 2019	349,077
Depreciation	176,114
Balance at December 31, 2019	525,191
Net book value	
At December 31, 2018	1,304,602
At December 31, 2019	1,143,981

Spruce Credit Union
Notes to the Financial Statements
For the year ended December 31, 2019

10. Member deposits

	<i>2019</i>	<i>2018</i>
Chequing	32,252,733	28,139,591
Savings	35,688,874	41,803,003
Term deposits	56,970,013	64,505,702
Registered plans	32,693,052	31,954,703
Accrued interest	1,051,914	1,016,547
	158,656,586	167,419,546

Total member deposits include \$430,910 (2018 - \$332,535) of US dollar deposits denominated in Canadian dollars.

11. Borrowings

The Credit Union has operating lines of credit available with Central 1 for \$1,500,000 CDN and \$100,000 USD. The Credit Union has a term loan arrangement with Central 1 for \$13,000,000. At December 31, 2019, there was \$4,500,000 (2018 - \$nil) funds borrowed under the agreements. A debenture charge on certain assets of the Credit Union has been provided as security.

12. Lease liability

Leases as lessee

The Credit Union leases one building. The lease term spans 5 years and includes an option to renew the lease for one consecutive five year terms.

Right-of-use buildings

Right-of-use buildings of the Credit Union have been presented with property, plant and equipment in the statement of financial position.

Lease liability

The following table sets out a maturity analysis of the lease liability:

	<i>2019</i>
Maturity analysis – contractual undiscounted cash flows	
Less than one year	34,830
One to five years	139,320
More than five years	150,930
	325,080
Total undiscounted lease liabilities at December 31, 2019	325,080
Lease liabilities included in the statement of financial position at December 31, 2019	294,085

In 2019 the Credit Union recognized \$4,946 in interest expense on lease liability in income.

Spruce Credit Union
Notes to the Financial Statements
For the year ended December 31, 2019

13. Income tax

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

	2019	2018
Income tax at the statutory rate	54,051	199,177
Items not deductible for tax purposes	274,019	209,039
Items deductible for tax purposes	(301,027)	(236,811)
Other	(18,067)	(149,531)
	8,976	21,874

The movement in 2019 deferred income tax assets (liabilities) are:

	Jan 1, 2019	Recognized in income	Dec 31, 2019
Deferred income tax assets (liabilities):			
Allowance for credit losses	34,000	14,000	48,000
Property and equipment	(239,000)	10,000	(229,000)
Other	57,000	(13,000)	44,000
	(148,000)	11,000	(137,000)

The movements in 2018 deferred income tax assets (liabilities) are:

	Jan 1, 2018	Recognized in income	Dec 31, 2018
Deferred income tax assets (liabilities):			
Non-capital loss carry-forward	77,000	(77,000)	-
Allowance for credit losses	71,000	(37,000)	34,000
Property and equipment	(259,000)	20,000	(239,000)
Other	62,000	(5,000)	57,000
	(49,000)	(99,000)	(148,000)

Spruce Credit Union
Notes to the Financial Statements
For the year ended December 31, 2019

14. Membership shares

Authorized:

Unlimited number of Class A membership shares
 Unlimited number of Class D non-equity shares

Issued:

	2019	2018
Membership shares classified as liabilities		
Class A shares	217,955	230,641
Class D shares	-	541,914
	217,955	772,555

Membership shares are classified as liabilities in accordance with IFRIC 2 are redeemable at the option of the member, either on demand or on withdrawal from membership. The total amount of shares that are redeemable at December 31, 2019 as part of the Credit Union's regulatory capital requirements are classified as liabilities.

Terms and conditions

The Credit Union is authorized to issue an unlimited number of non-transferable, voting membership shares, redeemable at par value of \$1. With certain exceptions, all members are required to own a minimum number of Class A membership shares which, under certain occurrences, are redeemable at the option of the member.

Class A membership shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

15. Other operating income

	2019	2018
Commissions and fees	157,192	185,951
Administration charges	97,234	98,012
Account service fees	697,695	683,970
Financial planner commissions	98,583	140,053
Safety deposit box rental	15,505	14,441
Miscellaneous income	40,138	118,640
Foreign exchange gain (loss)	(22,264)	70,767
	1,084,083	1,311,834

16. Related party transactions

Key management compensation of the Credit Union

Key management of the Credit Union are defined by IAS 24 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

Key management personnel ("KMP") remuneration includes the following expenses:

	2019	2018
Salary and short term benefits	471,634	625,915
Post-employment benefits	12,915	19,753
	484,549	645,668

Directors in their capacity as Directors, received remuneration of \$55,409 (2018 - \$45,780) and expense reimbursements of \$52,271 (2018 - \$28,750).

Transactions with key management personnel

There are no loans that are impaired in relation to loan balances with KMP.

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

	2019	2018
Loans to KMP	1,821,215	1,720,504

	2019	2018
During the year the aggregate value of loans disbursed to KMP amounted to:		
Loans to KMP	579,900	361,645

	2019	2018
Interest and other revenue earned on loans and revolving credit facilities to KMP	48,783	44,350
Interest paid on deposits to KMP	63,352	47,966

	2019	2018
The total value of member deposits from KMP as at the year-end:		
Member deposits	2,034,606	2,540,570
Membership shares	5,261	5,813
	2,039,867	2,546,383

17. Capital requirements and management

In managing its capital, the Credit Union's primary objective is to ensure it maintains adequate liquidity to meet its financial obligations, make necessary capital purchases and support ongoing business. The Credit Union monitors and assesses its financial performance to ensure it is meeting its objectives.

The Financial Institutions Act (British Columbia) 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.

The Financial Institutions Act (British Columbia) regulations prescribe that the minimum required capital ratio exceeds 8.0% for the Credit Union's fiscal year. At December 31, 2019, the Credit Union's capital ratio is 17.44% (2018 - 20.94%), exceeding the minimum requirement.

The Credit Union considers its capital to include membership shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Financial Institutions Act, which establishes the applicable percentage for each class of assets.

	2019	2018
Primary capital		
Retained earnings	9,359,713	9,157,501
Membership shares	217,954	230,641
Deferred income tax liability	137,000	148,000
Dividends to be paid as primary capital	10,617	9,226
	9,725,284	9,545,368
Secondary capital		
Share of system retained earnings	1,717,181	1,835,893
Deductions from capital	(1,143,981)	(1,304,602)
Capital base	10,298,484	10,076,659

18. 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
	('000s)	('000s)	('000s)	('000s)
Assets				
Cash and cash equivalents	3,736	3,736	-	-
Investments - shares	792	-	792	-
Total recurring fair value measurements	4,528	3,736	792	-

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18. Fair value measurements (Continued from previous page)

	Fair Value	Level 1	Level 2	2018 Level 3
	('000s)	('000s)	('000s)	('000s)
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	10,164	10,164	-	-
Investments - shares	757	-	757	-
Total recurring fair value measurements	10,921	10,164	757	-

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
	Fair value approximates par value for shares as transactions occur at par value on a regular and recurring basis.	
Investments - shares		Value of shares

Non-recurring fair value measurements

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

	Fair Value	Level 1	Level 2	2019 Level 3
	('000s)	('000s)	('000s)	('000s)
Assets				
Loans to members	143,384	-	143,384	-
Investments - Central 1 term deposits	19,337	-	19,337	-
Total assets	162,721	-	162,721	-
Liabilities				
Deposits from members	155,636	-	155,636	-
Borrowings	4,500	-	4,500	-
Accounts payable and accrued liabilities	733	-	733	-
Membership shares	218	-	-	218
Total liabilities	161,087	-	160,869	218

18. Fair value measurements (Continued from previous page)

	Fair Value ('000s)	Level 1 ('000s)	Level 2 ('000s)	2018 Level 3 ('000s)
Assets				
Loans to members	139,496	-	139,496	-
Investments - Central 1 term deposits	25,049	-	25,049	-
Total assets	164,545	-	164,545	-
Liabilities				
Deposits from members	166,939	-	166,939	-
Accounts payable and accrued liabilities	866	-	866	-
Membership shares	773	-	-	773
Total liabilities	168,578	-	167,805	773

19. Financial instruments

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

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable, investments in debt securities, and the Credit Union's lending activities.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes
- Loan syndication processes.

19. Financial instruments *(Continued from previous page)*

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.

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 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 (e.g., 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).

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its members. 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 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. 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 considering regional economic journals and forecasts, 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.

19. Financial instruments *(Continued from previous page)*

Write-offs

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

Exposure to credit risk

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

Except as noted below, the gross carrying amount represents the maximum exposure to credit risk for that class of financial asset.

	2019			Total
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Mortgages				
Low risk	105,788,496	-	-	105,788,496
Medium risk	-	11,019,023	-	11,019,023
Default	-	-	62,050	62,050
Total gross carrying amount	105,788,496	11,019,023	62,050	116,869,569
Less: allowance for credit losses	99,594	72,283	61,005	232,882
Total carrying amount	105,688,902	10,946,740	1,045	116,636,687
Personal				
Low risk	16,578,924	-	-	16,578,924
Medium risk	-	195,729	-	195,729
Default	-	-	99,268	99,268
Total gross carrying amount	16,578,924	195,729	99,268	16,873,921
Less: allowance for credit losses	27,078	1,701	97,596	126,375
Total carrying amount	16,551,846	194,028	1,672	16,747,546

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19. **Financial instruments** (Continued from previous page)

	2019			Total
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Commercial				
Low risk	10,363,193	-	-	10,363,193
Medium risk	-	2,584,372	-	2,584,372
Default	-	-	-	-
Total gross carrying amount	10,363,193	2,584,372	-	12,947,565
Less: allowance for credit losses	29,423	36,556	-	65,979
Total carrying amount	10,333,770	2,547,816	-	12,881,586
Total gross carrying amount	132,730,613	13,799,124	161,318	146,691,055
Less: allowance for credit losses	156,095	110,540	158,601	425,236
Add: accrued interest	-	-	-	280,993
Total carrying amount	132,574,518	13,688,584	2,717	146,546,812

	2018			Total
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Mortgages				
Low risk	97,823,455	-	-	97,823,455
Medium risk	-	6,523,250	-	6,523,250
Default	-	-	740,800	740,800
Total gross carrying amount	97,823,455	6,523,250	740,800	105,087,505
Less: allowance for credit losses	101,609	27,964	19,573	149,146
Total carrying amount	97,721,846	6,495,286	721,227	104,938,359
Personal				
Low risk	18,046,166	-	-	18,046,166
Medium risk	-	342,278	-	342,278
Default	-	-	126,540	126,540
Total gross carrying amount	18,046,166	342,278	126,540	18,514,984
Less: allowance for credit losses	10,388	1,579	124,156	136,123
Total carrying amount	18,035,778	340,699	2,384	18,378,861

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For the year ended December 31, 2019

19. **Financial instruments** *(Continued from previous page)*

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Commercial				
Low risk	13,848,337	-	-	13,848,337
Medium risk	-	2,114,851	-	2,114,851
Default	-	-	-	-
Total gross carrying amount	13,848,337	2,114,851	-	15,963,188
Less: allowance for credit losses	23,800	17,826	-	41,626
Total carrying amount	13,824,537	2,097,025	-	15,921,562
Total gross carrying amount	129,717,958	8,980,379	867,340	139,565,677
Less: allowance for credit losses	135,797	47,369	143,729	326,895
Add: accrued interest	-	-	-	247,950
Total carrying amount	129,582,161	8,933,010	723,611	139,486,732

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 allowance for credit losses by class of financial instrument.

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Allowance for loan impairment				
Balance at January 1, 2018	411,615	-	11,820	423,435
Write-offs	-	-	(58,929)	(58,929)
Collection of loans previously written off	-	-	38,507	38,507
Provision for (recovery of) credit losses	(275,818)	47,369	152,331	(76,118)
Balance at December 31, 2018	135,797	47,369	143,729	326,895
Balance at January 1, 2019	135,797	47,369	143,729	326,895
Transfer to 12-month ECL	43,997	-	-	43,997
Transfer to lifetime ECL (not credit impaired)	-	13,048	-	13,048
Transfer to lifetime ECL (credit impaired)	-	-	(57,045)	(57,045)
Write-offs	(94,477)	-	-	(94,477)
Provision for credit losses	70,778	50,123	71,917	192,818
Balance at December 31, 2019	156,095	110,540	158,601	425,236

Credit commitments

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 contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

19. Financial instruments *(Continued from previous page)*

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, lines of credit, guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2019	2018
Guarantees and standby letters of credit	46,000	48,000
Commitments to extend credit	12,538,797	11,027,368
Outstanding gurantees of Mastercard balances	179,750	60,750

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. The Credit Union does not hedge its interest rate risk. See below for further information on interest rate sensitivity.

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19. **Financial instruments** (Continued from previous page)

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

					2019	2018
	<i>Within three months</i>	<i>Four months to one year</i>	<i>Over one year to five years</i>	<i>Non-Interest Sensitive</i>	<i>Total</i>	<i>Total</i>
Assets						
Cash and cash equivalents	2,487,775	-	-	1,247,903	3,735,678	10,163,957
Average yield %	1.90	-	-	-	1.27	1.55
Investments	-	4,504,401	14,654,354	792,280	19,951,035	25,639,979
Average yield %	-	2.47	2.28	-	2.22	2.28
Loans to members	26,293,757	17,510,609	102,742,446	-	146,546,812	139,486,732
Average yield %	5.97	3.89	3.61	-	4.07	4.07
	28,781,532	22,015,010	117,396,800	2,040,183	170,233,525	175,290,668
Liabilities						
Deposits from members	54,983,191	24,466,697	46,955,698	32,251,000	158,656,586	167,419,546
Average yield %	1.35	2.09	2.22	-	1.45	1.39
Borrowings	3,500,000	1,000,000	-	-	4,500,000	-
Average yield %	2.08	2.08	-	-	2.08	-
Accounts payable and accrued liabilities	-	-	-	733,194	733,194	865,604
Membership shares	-	-	-	217,954	217,954	772,555
Lease liability	11,507	30,350	252,228	-	294,085	-
Average yield %	2.47	2.47	2.47	-	2.47	-
	58,494,698	25,497,047	47,207,926	33,202,148	164,401,819	169,057,705
Net sensitivity	(29,713,166)	(3,482,037)	70,188,874	(31,161,965)	5,831,706	6,232,963

Based on the current financial instruments, it is estimated that a 1% increase in the interest rate would increase financial margin by \$23,400 (2018 - \$113,000). A 1% decrease in the interest rate would decrease financial margin by \$38,000 (2018 - \$171,200).

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk. The acceptable amount of risk is defined by policies approved by the board and monitored by the Investment & Lending Committee.

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

The Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements;

19. Financial instruments *(Continued from previous page)*

- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union's responses thereto.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with Central 1;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits.

20. Comparative figures

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

21. Event after the reporting period

Subsequent to year-end, the COVID-19 pandemic is causing significant financial market and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Credit Union continues to monitor the situation and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Credit Union is uncertain.