Westminster Savings Management Discussion and Analysis

2018

Westminster Savings

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2018 financial highlights

For Westminster Savings, 2018 was a strong year where we made significant investments for the credit union, while achieving solid performance and strong asset growth. We are pleased to report that Westminster Savings produced its strongest operating results in many years.

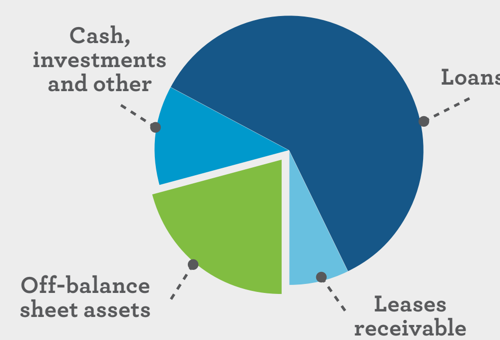
Operating Income*

$15.3 million ↑ 15.7%

Loans and leases receivable

$2.9 billion ↑ 6.2%

Assets under management



$4.2 billion ↑ 4.0%

Members' deposits

$2.8 billion ↑ 4.1%

Members' equity

$199.3 million ↑ 2.2%

66,976 customers

Key industry ratios

0.42% Return on average assets	16.1% Capital ratio
82.1% Operating efficiency	6.6% Return on equity

Investment in communities

$500,000 Contributed to the Westminster Savings Foundation

$357,000 Contributions to charities and sponsorships

$320,000 Contributions through the Westminster Savings Foundation

Percentage calculations are based on whole numbers.

** Operating Income: Income before taxes, WS Foundation, merger expense and unrealized gains/ losses.*

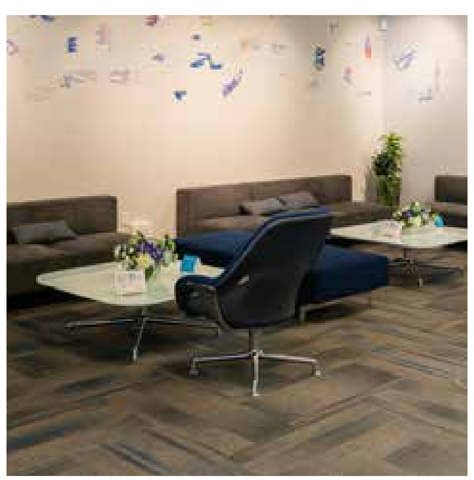
General business overview

Westminster Savings Credit Union (Westminster Savings or the credit union) is a full-service financial institution, in business to *enrich the lives of our customers*. The credit union provides retail banking services and related loans, mortgages and wealth management services to some 67,000 members and customers, and has very close to $4.2 billion in assets under management. The credit union also offers a full suite of commercial lending and other services to real estate developers, small- and medium-sized enterprises and micro-businesses. Additionally, we offer new and used passenger vehicle leasing through our wholly-owned subsidiary, WS Leasing Ltd. and its network of independent dealers and brokers in all provinces and territories in Canada except Quebec. Through a second wholly-owned subsidiary, Mercado Capital Corporation, we provide small- and mid-ticket equipment leasing services in all provinces and territories in Canada, except Quebec.

We evaluate our success using a balance of financial and non-financial measures. Financially, success is measured using conventional banking industry indicators such as asset growth, financial returns and measures of capital, liquidity and operating efficiency. The credit union uses a variety of measures to assess our acceptance in the markets we serve, and to assess our performance in areas that are important to our members. Employee engagement and performance, which is measured semi-annually, is another important aspect of how we evaluate success. Highly engaged employees take great pride in what they do and will go above and beyond in their duties to provide the exceptional service to our members and customers that we aim to deliver. Westminster Savings strives to continuously improve its performance against these measures over time.

The most significant source of revenue for Westminster Savings is net interest income from financial intermediation. This represents the yield earned from loans, leases and investments, offset by deposit and other funding costs. The credit union also earns fee and commission income from these activities as well as its wealth management services, or from non-intermediation products and services such as payment services or sales commissions. Ancillary to this business, the credit union may realize gains or losses on the sale of financial instruments such as investments. It is also typical to record impairment losses, to reflect the expectation that some loans or leases will suffer credit losses.

To support these business activities, the credit union's operating expenses include staff compensation, as well as premises, systems, marketing and other administration costs. The credit union is also subject to federal and provincial income taxes.



We also measure comprehensive income, which takes a broader view of income measurement by including changes to the estimated value of employee pension plan assets and obligations.

Through the Westminster Savings Foundation, we support community organizations that work to improve the quality of life within our general trade areas. In addition to our foundation's contributions, the credit union makes direct community investments.

Building solid customer relationships is the hallmark of our customer-focused business strategy. Our employees are also a key part of this strategy. The 435 employees at Westminster Savings and its subsidiary companies all share a commitment to delivering high-quality personal service.

Much of 2018 was devoted to exploring a merger with Prospera Credit Union. Westminster Savings and Prospera worked together to identify the opportunities associated with merging the two credit unions. We believe we owe it to our members to examine the benefits of bringing the two organizations together to create a single, stronger credit union.

We completed the merger due diligence process in Fall 2018. A detailed business case and merger application was submitted to the Financial Institutions Commission (FICOM), the provincial agency that regulates credit unions, in early 2019.

Provided FICOM grants consent, the next phase would be consultation and engagement with members of both credit unions, ultimately culminating in a member vote on the proposed merger. A positive vote from members of both credit unions is the final required step in the process. We look forward to sharing more information on this exciting opportunity with members over the coming months.

Lines of Business

Westminster Savings provides a full range of retail and commercial banking, wealth management and leasing solutions to meet our members' evolving needs. Known for its customer and community focus, people-oriented culture and sound financial and operating practices, the credit union aims to be the financial partner of choice for busy families and small businesses in Metro Vancouver and the Fraser Valley, helping them to achieve their most important goals.

CONSUMER OPERATIONS

2018 was a solid year for the consumer operations division as we continued to focus our efforts on providing sound banking solutions for our members and making it easier and more convenient for them to conduct business with us. We enhanced both our online banking and mobile app platforms and added a new "call-back" feature at our Member Service Center that allows our members to avoid having to wait on hold. Electronic signature pads were also introduced in all of our branches, greatly reducing the need to print paper documents. Looking ahead, we'll be introducing "remote electronic signing" – enabling members to electronically sign documents remotely from their smartphone or desktop computer without needing to come into a branch. Improvements were also made to our mortgage renewal process thanks to the great work and commitment by our employees to find enhancements that will make banking easier and simpler for our members.

Another major initiative was the introduction of a new and more robust credit card solution. By changing our credit card platform to Collabria, members could now access some of the best and most competitive credit cards in the marketplace, with related products and services to meet their needs. Members now have eight cards to choose from including our new US dollar and Cash-Back cards and a more flexible points rewards program.

Some highlights from the year included:

Saving over 100,000 sheets of paper by switching to electronic signatures

More than 20,000 members have now chosen to go paperless with e-statements

Over 7,500 members used our new call-back feature at the Member Service Centre

Over 102,000 calls and 12,000 emails were handled by the Member Service Centre

More than 5,000 members have downloaded our Mobile App and completed over 211,000 online banking transactions

WEALTH MANAGEMENT

Saving for the future and building a wealth management plan can be daunting for many consumers and business owners. At Westminster Savings we've worked hard to build a dedicated team of licensed wealth management professionals that can provide expert advice and help our members to plan for their financial future. It's an important responsibility that we take very seriously. As a credit union, we are committed to a client-centric approach that starts by learning about and regularly assessing our members' investment goals. More specifically, we provide assistance in the following areas:

- financial planning
- estate planning
- tax planning
- income protection
- investment management

Last year our team was extremely proud to work with nearly 8,000 of our members and manage over $760 million of their assets. 2018 was a year of considerable instability in investment markets both in Canada and abroad and our wealth management advisors needed to make extra efforts to keep members informed and educated. Last year we continued to expand our wealth management service offerings by adding an additional Investment Advisor to our team, allowing us to continue to broaden the scope of investment alternatives we provide. We also completed our wealth management conversion to the Investment Industry Regulator Organization of Canada (IIROC) platform, allowing us to expand our services and products and to offer individual stocks, bonds and managed accounts to meet members' ever-changing investment objectives. Also in 2018, we took an important step to enhance our Socially Responsible Investing (SRI) alternatives by leveraging our emerging partnership with Northwest Ethical Investments. This is a growing area of focus for the credit union over the years to come.

Some highlights from the year included:

We managed $762 million in assets

We helped 7,800 clients reach their financial goals

COMMERCIAL BANKING

The Commercial Banking team provides financial services to three distinct groups of customers – small business owners, mid-sized operating companies and real estate developers – and provides them with meaningful advice and customized solutions from a comprehensive suite of commercial banking products.

The team continued to fulfill on its mission to support and strengthen business activity within our communities throughout 2018 while taking internal steps to build on the team's overall effectiveness. Business Process Improvement sessions throughout the year increased efficiencies and developed our capacity to serve members. Training and coaching sessions helped deepen the skill sets of our Business Relationship Managers and, where appropriate, external candidates were brought in to fill roles. Our efforts are paying off, as both staff and member engagement scores improved significantly in 2018.

Some highlights from the year included:

171 new loans were financed in 2018, totalling more than $271 million

Approximately 1,900 customers served by our Commercial Banking division, with more than 800 customers served by our Small Business team

We financed 57 new construction developments in 2018, providing new housing for more than 1,660 families in our communities

LEASING

Our leasing division affords Westminster Savings the strategic capability to diversify the balance sheet and earnings with a national presence in consumer and commercial vehicle, equipment and fleet leases in all provinces and territories across Canada (except Quebec), through our two subsidiaries, WS Leasing Ltd. and Mercado Capital Corporation.

WS Leasing offers fast, efficient and competitive lease structures for new and used vehicles for individual and business customers. While Metro Vancouver and the Fraser Valley represent the largest portion of our vehicle leasing portfolio, we continued to see strategic growth in 2018 in markets in other provinces. Aggressive market competition from other financing options, such as long-term loans, has put significant pressure on our leasing operations. Despite these challenges, our niche product offerings have consistently outperformed overall market growth.

Mercado Capital Corporation is a small- to mid-ticket equipment financing company with a focus on the transportation and construction sectors. The portfolio experienced solid growth in the Ontario market and continued to see the Manitoba, Alberta and British Columbia markets contribute consistent volume in 2018, despite increasingly aggressive competition.

Some highlights from the year included:

A $337 million lease portfolio balance at the end of 2018, representing 12% growth over 2017

Leasing operating expenses were 8% lower than 2017

Overall delinquency in the automotive portfolio remained very low, while delinquency in the equipment portfolio improved by 33% vs 2017 reflecting stronger credit profiles

More than 1,900 customers acquired a vehicle in 2018 with financing from WS Leasing Ltd., amid new volume growth of over 40% in comparison to 2017

More than 370 customers acquired revenue-generating commercial equipment contributing to Canada's economy, thanks to financing from Mercado Capital

CORPORATE

Our corporate division encompasses various departments, including Finance, Human Resources, Information Technology, Marketing, Communications, Treasury and other administration. The corporate division outsources non-core functions that support the credit union's banking system operations, software development and investment management to best-in-class service providers to achieve efficiency gains.

Market Environment

The credit union operates within a broad and very competitive financial services market, which includes Canada's chartered banks, other credit unions, virtual, specialty and niche non-regulated financial services providers, and new emerging competitors. In British Columbia, credit unions serve almost two million members (approximately 40% of the provincial population. *Source: Central 1 Credit Union*).

As financial products and services continue to become increasingly automated, commoditized and available electronically, consumers are more likely to engage multiple financial institutions in pursuit of the best value. Increasingly, full-service financial institutions like Westminster Savings are competing with virtual, specialty and niche financial services providers. The trend toward lower-cost financial services providers, increased consumer choice and market fragmentation is expected to continue in the years ahead.

Our wealth management division offers a full suite of investment and insurance products, competing in a very active market with other financial institutions and independent firms. Investment and insurance products are complex and highly regulated financial products, with consumer choice being influenced by advisor relationships, expectation of investment returns and fees.

Our vehicle leasing operation competes against other financial institutions, finance companies and vehicle manufacturers' captive finance companies. Consumer leasing volumes are influenced by consumer confidence and other aspects of the economic environment. The market for vehicle financing continues to remain more favourable for longer-term purchase financing, which competes with leasing. Similarly, our equipment leasing subsidiary competes with other financing companies and manufacturers that are active in equipment leasing. Equipment financing volumes are also influenced by the economy and the general level of business investment activity, particularly in the resource, infrastructure and transportation sectors.

Significant changes in accounting policy – IFRS 9 – Financial Instruments

On January 1, 2018, the credit union adopted *International Reporting Standard 9 – Financial Instruments* (IFRS 9) which replaced *International Accounting Standard 39 – Financial Instruments: Recognition and Measurement* (IAS 39). The application of IFRS 9 impacted the classification and measurement of the credit union's financial assets and the methods used by the credit union in assessing and calculating impairment losses on financial assets. As permitted by IFRS 9, the credit union has applied IFRS 9 retrospectively effective January 1, 2018 without restating prior periods.

This accounting standard change has had a significant impact on the way that the credit union's results are presented, even though business operations and the related risks have remained consistent over the prior years. It should be noted that the most significant change as a result of the implementation of this standard is the reclassification of unrealized gains and losses on certain financial assets from accumulated other comprehensive income (AOCI) (within the equity component) to the statement of operations.

Accordingly, the prior year net income and the return on assets, return on equity and efficiency metrics are not directly comparable to current year results. Further information on these changes is contained on pages 10 and 11 of the detailed financial analysis.

2018 operating results

2018 was characterized by the highly effective execution of key strategic initiatives and the strongest operating income in six years. Our balance sheet assets and assets under management grew by 6.0% and 4.0% respectively, with an emphasis on the prudent management of capital and liquidity while continuing to deliver solid financial returns.

The following chart details the comparative financial and industry metrics.

Financial metrics

	2018	2017	%
Assets under management	$4.19 B	$4.03 B	↑ 4.0%
Operating Income	$15.28 M	$13.21 M	↑ 15.7%
Net income	$6.71 M	$13.24 M	↓ -49.3%
Total assets	$3.36 B	$3.17 B	↑ 6.0%
Total loans	$2.54 B	$2.41 B	↑ 5.4%
Total leases	$337 M	$300 M	↑ 12.3%
Total deposits	$2.77 B	$2.67 B	↑ 4.1%

Industry metrics

	2018	2017	%
Liquidity ratio	13.7%	13.7%	↔ 0%
Capital ratio	16.1%	15.0%	↑ 7.3%
Return on average assets	0.42%	0.44%	↓ -4.5%
Return on equity	6.6%	6.9%	↓ -4.3%
Operating efficiency	82.1%	80.4%	↓ 2.1%

Operating income

Operating income is defined as income excluding taxes, contributions to the Westminster Savings Foundation, merger expenses and unrealized gains and losses on financial investments. It measures the net operating results of the credit union's primary business operations. Operating income for the credit union was $15.3 million in 2018, compared to $13.2 million in 2017, an increase of 15.7% over the previous year. A continued focus on revenue diversification has seen all four lines of business contribute significantly to the operating performance in 2018. Interest income from commercial, consumer and leasing lines of business saw year-over-year increases. During 2018, Westminster Savings continued to expand its wealth management offerings, resulting in significantly improved revenues.

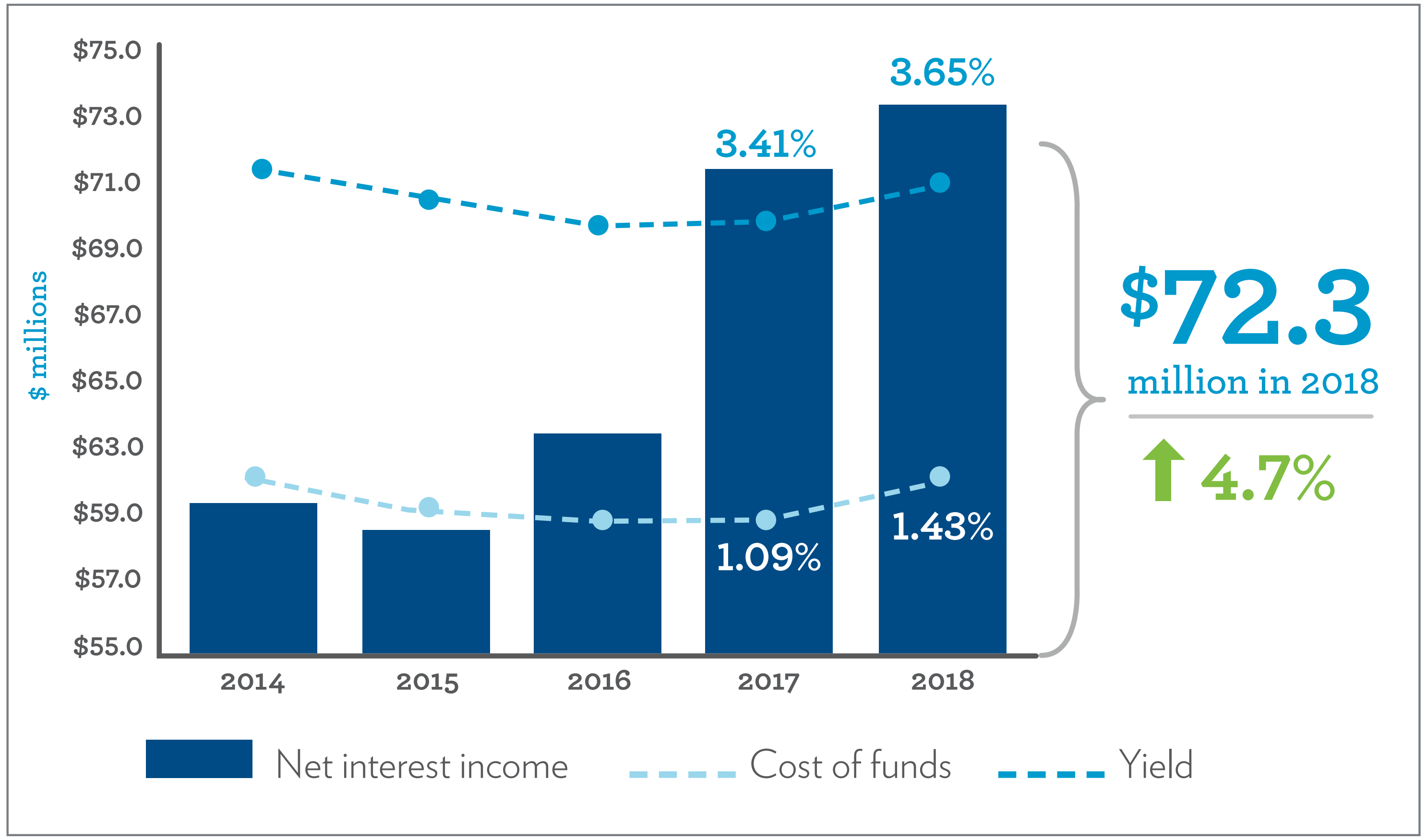
To support these business activities, the credit union continued to invest heavily in technology infrastructure and security while managing operating costs prudently. The introduction of new and enhanced product offerings, such as a new credit card platform and more sophisticated investment products, reflected a continued focus on member needs and an enhanced member experience.

Net income

Net income is $6.7 million, down from $13.2 million in 2017. As mentioned in the above discussion regarding the implementation of IFRS 9, unrealized gains and losses on financial investments were reclassified from AOCI to the statement of income. Included in the 2018 results is a loss of $4.6 million, which represents the financial markets' fair value movements that occurred during 2018. For purposes of comparability to the prior year, 2018 net income normalized to adjust for this difference in accounting treatment should result in an amount of $11.3 million.

Further analysis and discussions on the key components of net income are outlined on the next page.

Net interest income



The largest component of the credit union's operating income is net interest income.

Net interest income increased to $72.3 million up from $69.1 million in 2017. The overall increase in net interest income of $3.2 million was largely due to an increase in interest income of $17.5 million that was offset by a $14.3 million increase in interest expense.

The increase in interest income for the past year is attributable to an increase in the commercial and consumer mortgage loans balances, increases to equipment and vehicle lease receivables balances and an increase in the rates within the lending portfolio. The Bank of Canada announced increases to its prime rate in January and July 2018; the credit union adjusted loan and mortgage rates accordingly. With rate changes over the last year and the uncertainty of future interest rate movements, a shift in the consumer lending portfolio back to higher yielding fixed rate products has occurred as customers moved away from variable rate products. The increase in interest rates has resulted in a slight increase in yields across the lines of business. Interest rates remained competitive and consumer and commercial lending rates changed throughout the year in response to changing market conditions. Despite overall volume growth of 12.3% within the leasing division, the vehicle leasing portfolio, which has lower yield products, was proportionately higher. This has contributed to a total overall lower yield in the leasing portfolio.

Interest expense increased by 44.1% from 2017, primarily due to the increase in members' deposits and associated increased interest rates during the year. In addition to the increased deposit rates, the utilization of alternative funding sources such as borrowings and increased securitizations throughout 2018 also contributed to the higher cost of funds. The use of borrowing and securitization facilities to support lending and leasing growth resulted in additional interest expense of $2.6 million in 2018. Member acquisition and deposit campaigns contributed to the overall deposit growth in the year but at a higher interest cost than 2017.

Impairment losses on loans, leases receivable, investments and other assets

In assessing its loans and leases receivable portfolios for evidence of impairment, Westminster Savings considered various factors: bankruptcy, default, payment delinquency and decline in the value of mortgage security or other collateral and additional economic considerations. Individual loans or leases may be found to be impaired due to specific factors. For loans assessed as impaired, Westminster Savings continues to hold substantial security which serves to protect the credit union against loss. As well, an evaluation of the overall portfolios of mortgages, loans, vehicle leases and equipment leases occurs regularly to quantify losses that might arise from broader factors. Westminster Savings is proactive in the management of delinquency and other credit concerns to ensure that credit losses are kept as low as possible.

The credit union incurred impairment losses on financial assets, primarily related to equipment leases of $0.8 million in 2018, $1.4 million lower than the previous year. The credit union also recorded impairments on other assets of $2.3 million in 2018, 13.3% lower than in 2017. Impairment losses on equipment leases and related assets have declined in comparison to previous years due largely to tighter credit adjudication criteria on new leases and improved economic conditions in Alberta. In determining the expected credit loss provision, management considers future macroeconomic and industry-specific trends. Further details can be found by reading *Credit risk* in the *Key business risks* section on page 17. Notwithstanding the growth in the loan and lease portfolio, the credit union maintained a loss provision of $ 6.2 million in 2018, an amount consistent with the prior year. Fewer delinquencies, along with strong portfolio management and governance over credit underwriting guidelines and policies, have resulted in minimal change in the expected credit loss provision. The expected credit loss provision is extensively reviewed on a quarterly basis by credit union management.

Net fee and commission income

<u>Net fee and commission income</u> was $10.1 million, an increase of 16.9% or $1.4 million compared to 2017.

Fee and commission income increased by $1.9 million to $13.6 million in 2018 compared to $11.7 million in 2017. This was mainly driven by increases in wealth management revenues of $1.0 million, member service fees of $0.2 million, increased insurance commissions of $0.6 million and other fees of $0.1 million.

Wealth management revenues grew to $6.0 million, an increase of $1.0 million from $5.0 million in 2017. This was driven by increased revenues related to new wealth management product offerings. The credit union has now converted more than $401.2 million of assets from the Mutual Fund Dealers Association platform to the Investment Industry Regulatory Organization of Canada, which offers an expanded product offering to members. The new product offerings align the credit union with the offerings of its competitors. This strategy favours the credit union in the long-term as it will increase its competitiveness and allows for sustained asset and revenue growth over time.

Members' fees and commission increased by $0.2 million from 2017. This is composed of a slight increase in member service charges of $0.2 million as the credit union introduced fees for printed statements. Insurance commissions increased by $0.6 million as a result of lower claims experience against creditor insurance which resulted in a higher revenue share than in 2017.

Gains in fee and commission income were partially offset by a decrease in creditor insurance fees within insurance, mortgage and Visa® commission income as the volume of members choosing these insurance products declined in 2017.

<u>Fee and commission expense</u> increased in 2018 by $0.5 million to $3.5 million compared to the previous year amount of $3.0 million. This was largely driven by additional expenses of $0.1 million for securitization fees due to increased volume of securitizations and an increase of $0.1 million for vehicle registration fees. This was directly related to the additional vehicle leasing volume growth. Higher credit bureau expenses from the commercial line of business resulted in an additional member service expense of $0.1 million as well as incremental operational expenses of $0.1 million in member service fees related to the functional support of retail banking needs for Westminster Savings members.

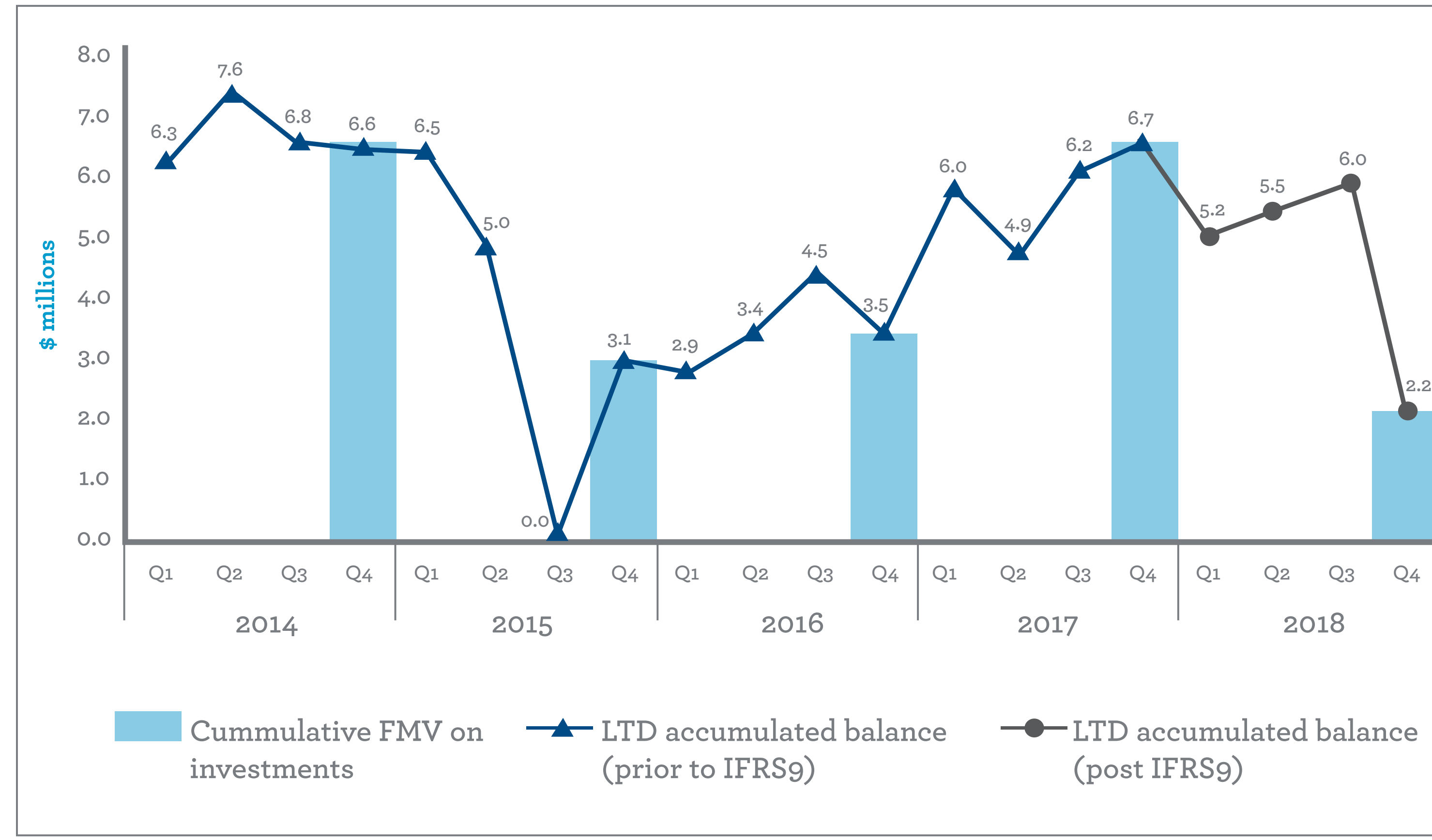
Net gains on financial instruments at fair value through profit and loss (FVTPL) and other income

The credit union saw a decline in other income of $4.4 million in 2018, from $4.8 million in 2017 to $0.4 million. During the year, Westminster Savings continued the consolidation of administrative functions to the Surrey corporate head office and disposed of a commercial property, resulting in a gain of $1.0 million. The translation of US dollar accounts to Canadian dollar resulted in losses of $0.6 million versus a gain in 2017 of $0.8 million. This excludes the translation of the credit union's US dollar investments which resulted in a foreign exchange gain of $1.6 million. This is recorded separately as detailed below. In 2017, prior to the application of IFRS 9, the credit union recognized realized gains of $3.6 million on investments that were held for sale. As stated previously, the credit union will now report both realized and unrealized gains and losses in the statement of operations.

Prior to 2018, unrealized gains or losses for the credit union's investments in equity securities, equity-linked securities and preferred shares were accounted for in AOCI. With the application of IFRS 9, the credit union records the unrealized gains or losses on these investments as FVTPL in the statement of income. The credit union recognized net losses of $4.6 million in 2018. As part of the initial implementation of IFRS 9, the credit union recorded a cumulative unrealized gain on these investments of $6.7 million in opening retained earnings. The investment portfolio is governed by a rigid investment policy and has generated positive returns from inception and is expected to do so in the future. We expect that the investment portfolio will have a degree of volatility; these risks are mitigated by Westminster Savings' investment policies and diversity of investments.

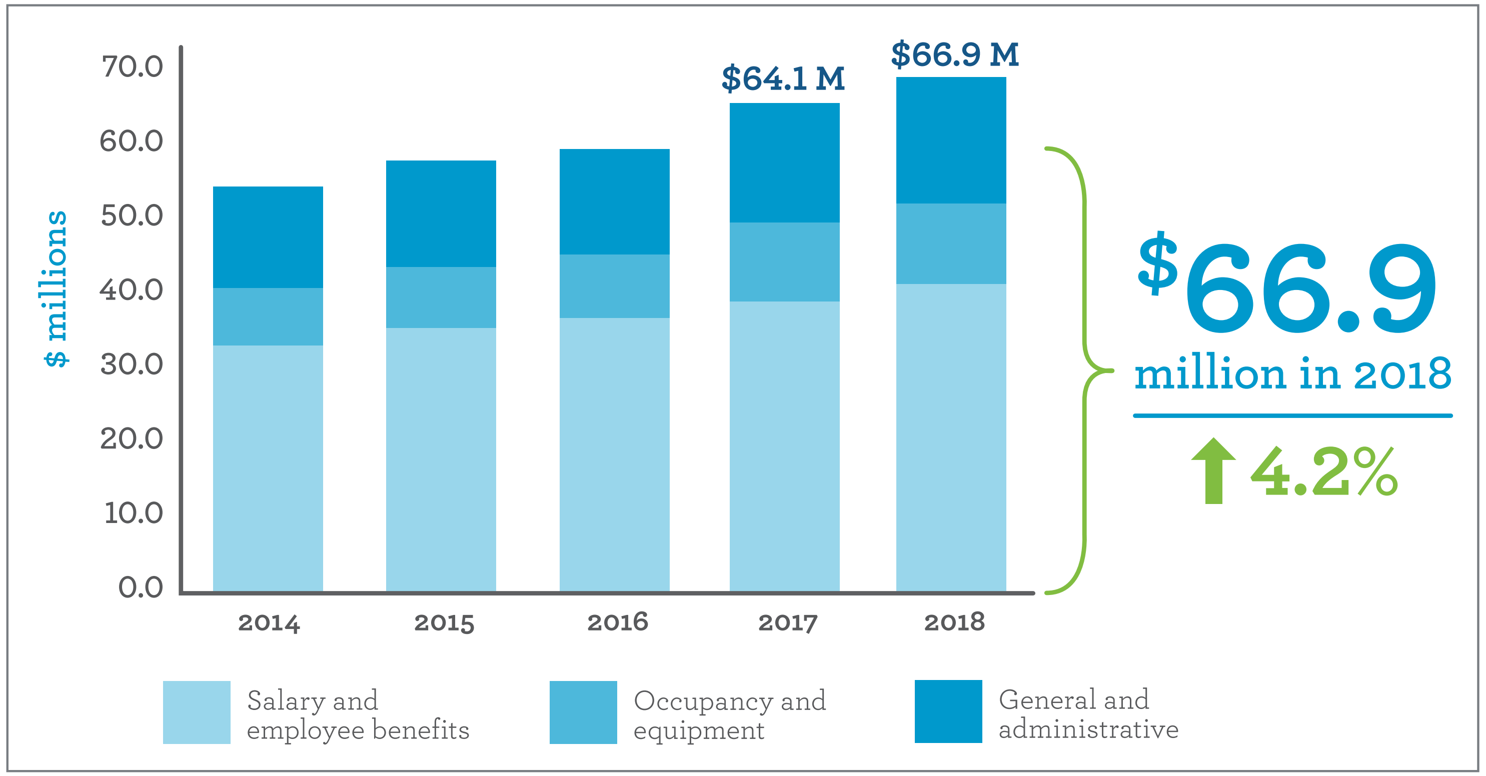
The chart below illustrates the accumulated unrealized gains from the inception of the credit union's investment portfolio and provides historical quarterly market volatility that was previously captured in other comprehensive income on the balance sheet, prior to the implementation of IFRS 9:

Cummulative FMV on investments



In addition to the unrealized and realized gains discussed above, the investment portfolio earns interest and dividend income which is included in net interest income in the statement of operations.

Operating expenses



Overall operating expenses increased 4.2% to $66.9 million in 2018. Throughout the year, Westminster Savings continued its commitment to invest in people and infrastructure to position the credit union for future growth and success.

Salary and employee benefits expense increased by 3.1% in 2018, primarily due to the credit union incurring a full year of expenses for the additional staff in the three branches opened in 2017. Higher volume sales within Leasing and increased Wealth revenues contributed to the increase in compensation expense as these roles are primarily based on sales commissions as well as annual merit increases for employees.

In 2016, Westminster Savings began an employee training program in line with the strategy to develop high-performing teams, which resulted in staff training expenses of $0.3 million in 2018. This is a decrease of $0.2 million from 2017.

Occupancy and equipment expense increased by 2.4% to $10.5 million in 2018. This was primarily due to the expansion of the branch network during 2017. The credit union incurred a full year of costs related to the occupancy of the three new branches.

General and administrative expense increased by 8.3% from 2018. The major component of this expense was related to additional data processing and electronic banking expenses of $0.5 million. This is a result of bolstering investment in the credit union's technology infrastructure and expanded cyber security programs, and the retail and commercial loan origination systems which will streamline the member experience and create efficiencies in back office administration when implemented in 2019. The existing data centre was relocated from Vancouver to Telus' new secure virtual server centre in Kamloops. Higher regulatory and legal expenses of $0.5 million were incurred, largely as a result of merger-related activities. Additional depreciation and administrative expenses were incurred as a result of having a full year of expense for the three branches opened in 2017. These expenses were offset by a decrease in marketing spend in relation to 2017 as the prior period included one-time expenses related to the opening of those branches.

Westminster Savings continues to focus on managing costs to better align with declining margins, ensuring the operations are as efficient and effective as possible while still making the necessary investments to grow the business.

Caring for our Communities

Westminster Savings Foundation

The Westminster Savings Foundation (the foundation) was founded in 1992 as a charitable society to support worthy organizations within the general trade area of the credit union. Contributions to the foundation are made at the discretion of the Westminster Savings Board of Directors. In 2018, the credit union made a contribution of $500,000 to the foundation. The foundation has a community endowment fund of $9.5 million and disbursed grants of more than $0.3 million in 2018 to support active living and arts in the communities that the credit union serves. This included the second instalment of the foundation's three-year commitment to KidSport BC, Arts Umbrella and Special Olympics totalling $675,000 ($75,000 to each organization per year from 2017 to 2019).

The credit union contributed $0.4 million ($0.3 million in 2017) directly to community activities and initiatives, such as sponsorship of the Tour de White Rock/Tour de Festival weekend, Burnaby's Hats Off Day and the 2018 Polar Plunge benefitting Special Olympics BC.

Income taxes

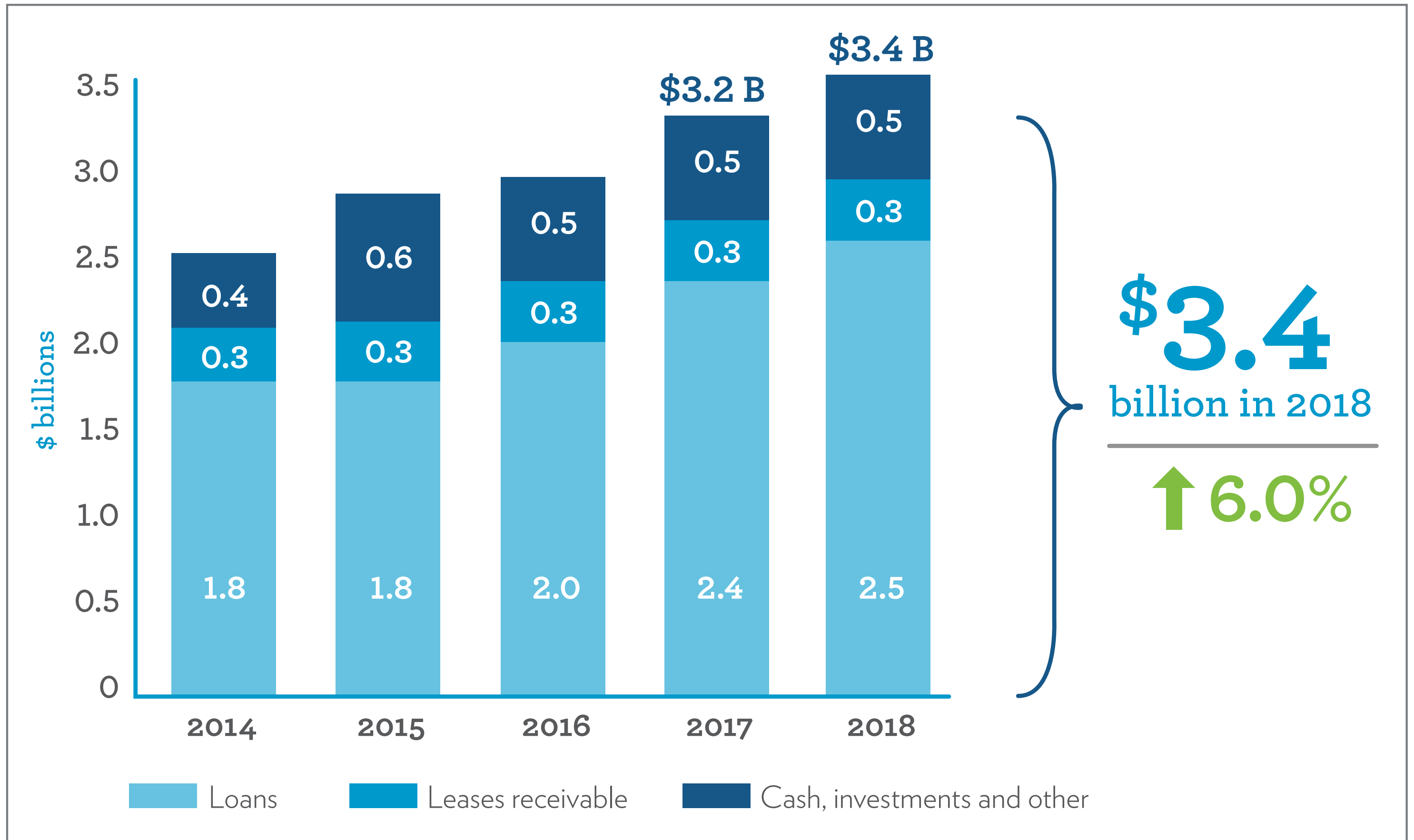
Lower taxable income levels in 2018, offset with changes in timing differences for purposes of deferred tax, have resulted in an increase in the overall level of income tax expense. The credit union is subject to current tax and deferred tax expense.

The credit union had an effective net tax rate of 9.7% for 2018 (-2.2% recovery in 2017). The credit union experienced a tax recovery in 2017 as a result of the provincial government's decision to cancel the planned phase-out of the credit union preferred rate deduction in January 2017. Comparative numbers reflect this one-time adjustment.

Balance Sheet

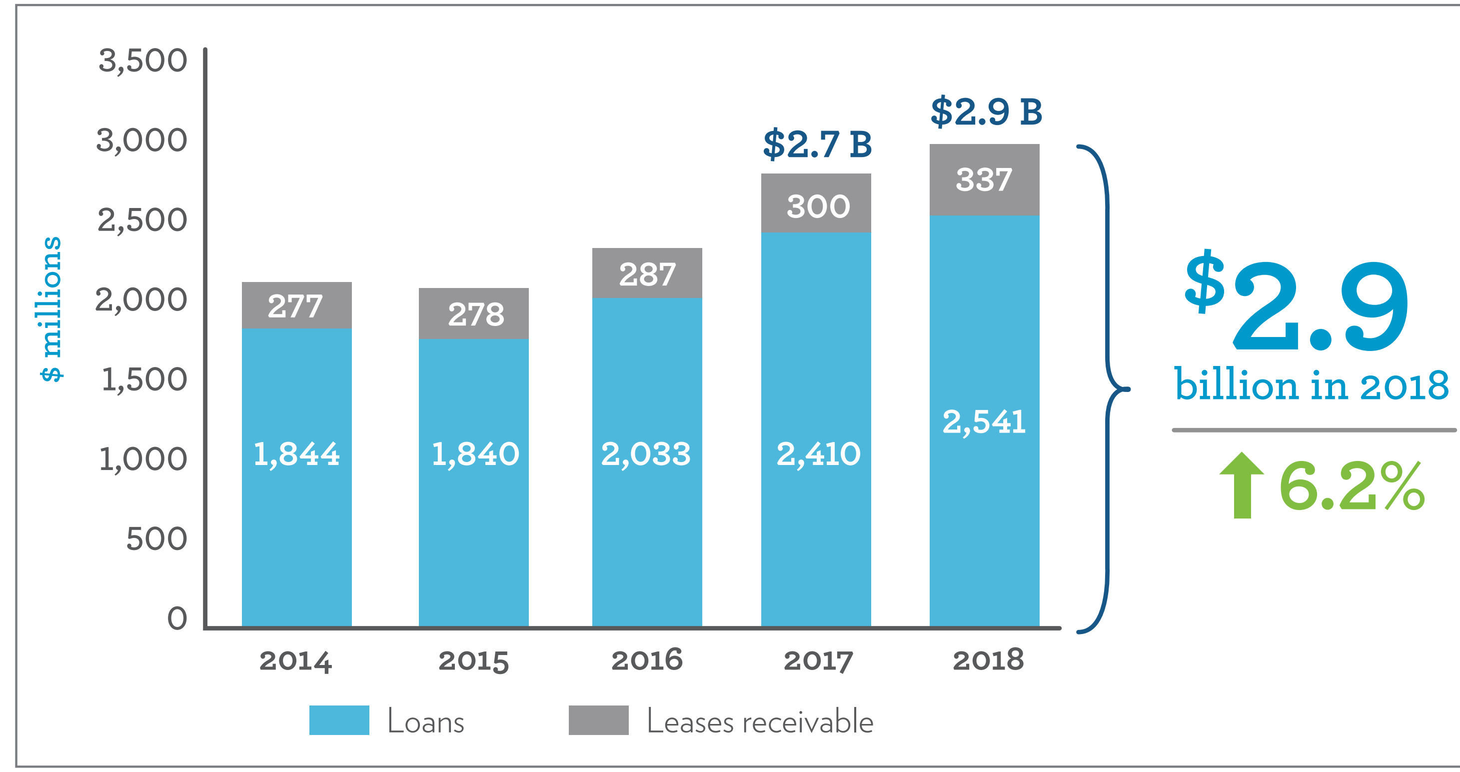
The following is a graphical analysis of total asset composition over the last five years.

Total on-balance sheet assets

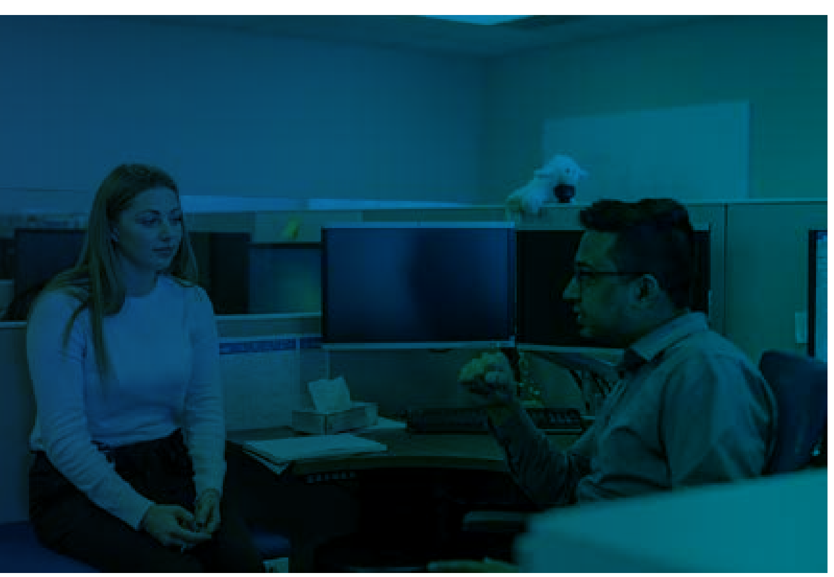


- Total assets grew by $185.5 million to $3.4 billion in 2018 compared to $3.2 billion in 2017.
- Cash, investments and other assets increased by $17.0 million.

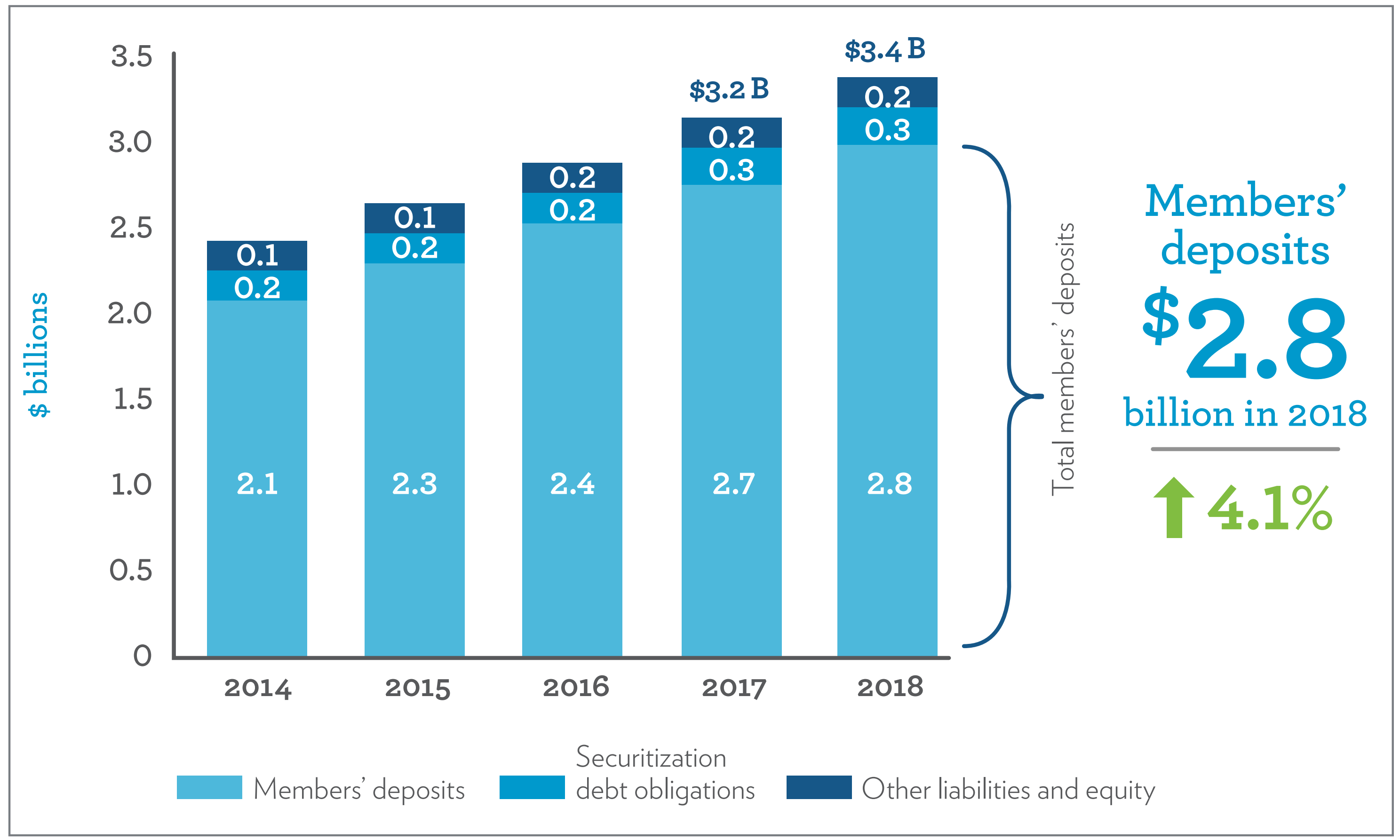
Asset portfolio - Loans & Leases receivable



- Loans increased by $131.6 million or 5.4%. Loan growth was largely driven by increases in the consumer lending portfolio. The credit union recorded an increase of $90.5 million or 4.9% in consumer loans and mortgages in 2018. This is down from 22.1% growth in 2017. The change in 2018 was a reflection of an overall decline in the demand for retail loan and mortgage products along with prudent management of the credit unions capital and liquidity.
- Leases receivable increased $37.0 million or 12.3% from 2017 to 2018. The credit union saw increases in the vehicle leasing portfolio of $33.8 million and equipment leasing portfolio of $1.7 million, which was aided by favourable net changes in the deferred leasing fees and a reduction in leases receivable impairments totalling $1.5 million.



Liabilities and members' equity



- Members' deposits increased to $2.8 billion or 4.1%.

Total asset growth was funded by an increase of $102.7 million in deposits to $2.8 billion at the end of 2018. This was primarily driven by an increase of $87.1 million in demand and term deposits and $8.8 million in registered deposits, largely achieved through successful member and deposit acquisition campaigns. This larger deposit base also increased accrued interest payable balances.

For liquidity management purposes, the credit union routinely securitizes loans and leases to raise additional funds at competitive rates. During 2018:

- Securitization debt obligations increased by $82.8 million. This increase was a result of $150.5 million in new loan securitizations and $20.8 million in new lease securitizations. This in turn was offset by $88.5 million of securitizations maturing or terminating during 2018.

- Borrowing levels remained at nil at the end of 2018. Borrowings were utilized during the year as required. However, due to continued growth in deposit balances and increased securitizations, the borrowings were short-term in nature and were repaid.

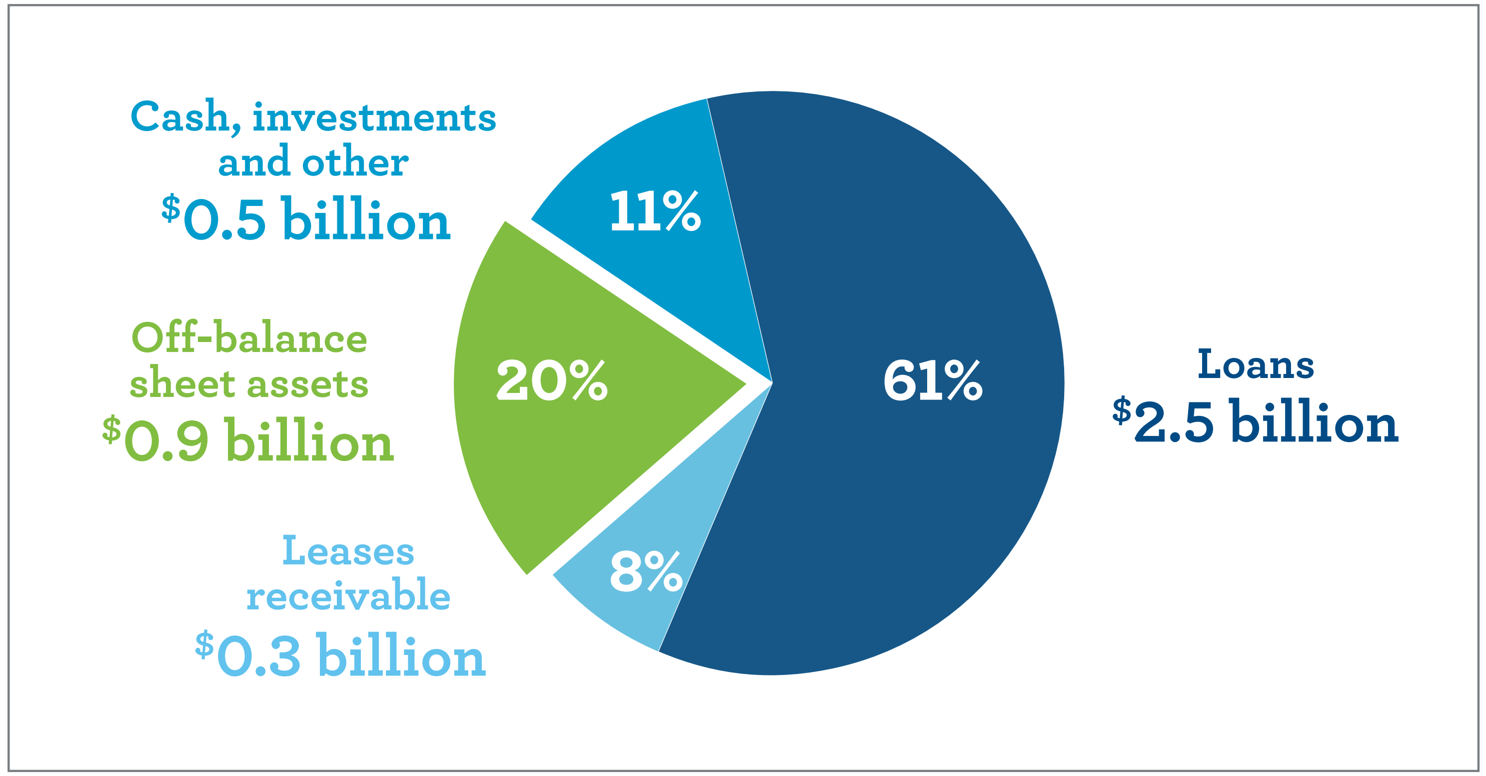
The non-financial asset and liability categories are a much smaller component of the consolidated statement of financial position when compared with customer accounts. These balances reflect the assets and liabilities used in the credit union's operations, along with certain income tax and pension-related balances. The balances in these asset and liability accounts saw modest changes from the prior year, in keeping with ongoing business activity. Pension and income tax-related asset and liability balances have fluctuated, largely due to changes in discount and tax rates. The retirement benefit obligation and income tax payable were recorded as $10.0 million and $14.7 million, compared to $8.8 million and $14.4 million in 2017.

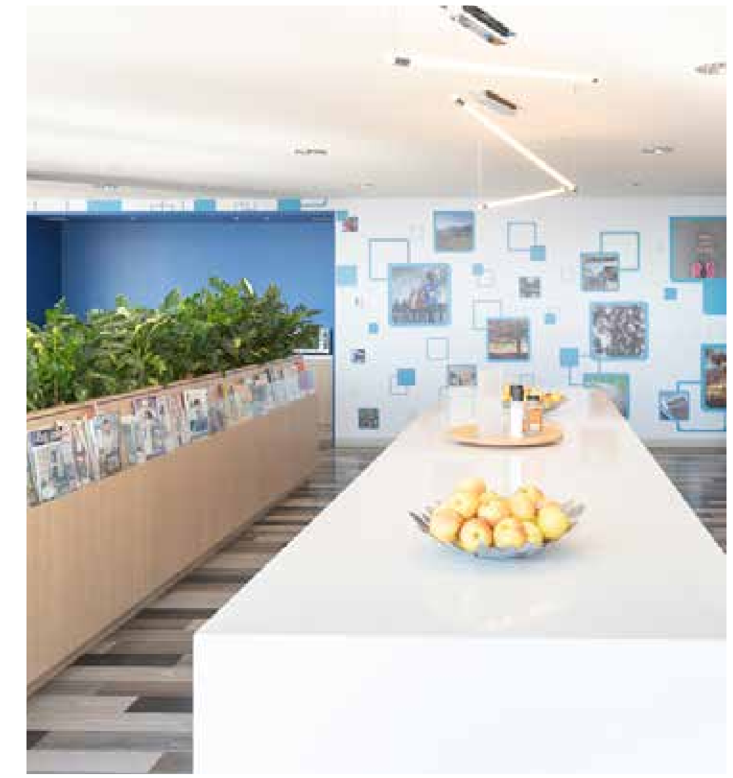
Members' equity

Members' equity comprises retained earnings, including current year income, net of changes in comprehensive income, and at the end of 2018 grew to $199.3 million. Within members' equity, the increase in retained earnings represents net income for the year of $6.7 million and changes due to the transition to IFRS 9.

Comprehensive income decreased $8.7 million in the year to $5.5 million compared to $14.2 million in 2017. This represents net income of $6.7 million combined with net actuarial losses of $1.1 million on the credit union's defined benefit plans and unfavourable fluctuations in the fair market value of the managed investment portfolio of $0.1 million. In 2017, prior to IFRS 9, the credit union recorded favourable gains of $4.6 million in other comprehensive income. These unrealized gains and losses flow through the consolidated statement of operations as described in the above section on net gains on financial instruments at fair value through profit and loss (FVTPL) and other income and are recorded annually to reflect changes in market conditions.

Assets under administration





At December 31, 2018, the credit union held $4.2 billion of assets under administration, an increase of 4% from $4.0 billion at the end of 2017. The proportionate share of asset categories to total assets under administration is unchanged from 2017.

At December 31, 2018, off-balance sheet assets under administration were $837.0 million, a decrease of $24.4 million from $861.4 million in 2017.

The largest component of off-balance sheet assets under administration is customer investment products. At December 31, 2018, the total value of customer investment products under administration was $762.0 million, ($770.4 million in 2017). These decreases reflected a downturn in market values within the capital markets during the second half of 2018.

For customers with self-directed retirement accounts, the credit union acts as administrator for a fee. Self-directed RRSP funds under administration were $26.5 million, down from $48.9 million in 2017. The reduction in self-directed RRSPs is primarily a result of customers moving their investments into our managed wealth line of business.

Periodically, other financial institutions are invited to participate in the large-dollar loans that are originated. These syndicated loans are administered for a fee and totalled $48.5 million, up from $42.1 million in 2017.

Managing Business Risks

Key business risks

Westminster Savings' operations necessitate a variety of risks that may affect future results. Our objective is to limit the credit union from unacceptable business losses or earnings volatility, and to ensure that the risks we take are prudent and in proportion to the expected business benefits.

Westminster Savings manages risk through a combination of strong corporate governance and enterprise risk management (ERM) programs. These ensure that prudent, formal policies are in place, with appropriate oversight of our ongoing risk management activities throughout the credit union.

The credit union employs ERM to identify, assess and proactively manage risks in the face of uncertainty. The process supports the creation of enterprise value and the mitigation of risks. The ERM process is embedded in all major areas of the business.

The credit union maintains a business continuity strategy, leveraging disaster recovery and business continuity plans. These plans are tested periodically and designed to cost-effectively provide for the continuity of key credit union functions should they be impacted by a disruptive event. The credit union also carries appropriate corporate insurance.

The final protection against adverse impacts is the credit union's capital. This is a key reason why Westminster Savings maintains levels of capital well in excess of regulatory minimums.

The key risks faced by the credit union include:

- Credit risk
- Financial market risk
- Competitive market risk
- Operational risk
- Liquidity risk
- Compliance and regulatory risk

Other risks that may affect future results include changes in government policy, ongoing matters affecting the credit union system, fluctuations in consumer and commercial borrowing patterns, as well as personal savings and spending patterns, and changes in technology and its use by consumers and businesses.

The credit union monitors the sensitivity of its earnings to these external risk exposures, providing the information required to ensure that possible unfavourable outcomes from risk events do not exceed the credit union's capacity.

Risk Management

Corporate governance

Westminster Savings strives to earn and retain the trust of our customers and other stakeholders through our commitment to sound corporate governance. The credit union's corporate governance practices are continually enhanced to meet high standards and industry best practice, and are reviewed at least annually.

Board and management committees review lending, investment, risk management, capital, funding, liquidity and other key policies annually. These policies cover limits, exposure, strategies, monitoring and reporting. Changes to these policies are filed with the B.C. Superintendent of Financial Institutions Commission (FICOM) as required.

The Board of Directors monitors risk, principally through five committees composed solely of independent directors:

Board of Directors				
Audit and Risk Committee	**Investment and Loan Committee**	**Governance and Conduct Review Committee**	**Human Resources Committee**	**Nominations Committee**
• Provides oversight over financial reporting, internal and external audit, and ERM processes • Reviews and approves financial statements and annual regulatory filings • Provides oversight over the adequacy and effectiveness of internal control procedures • Assesses the qualifications and independence of the external auditors and reviews the audit plan • Monitors the management of top organizational risks as outlined in the ERM framework, assesses mitigation strategies, approves the risk matrix and develops the risk appetite for the credit union • Monitors compliance with laws and regulations • Liaises with regulators	• Monitors and reviews lending and investments, and compliance with related policies • Reviews the Investment and Lending Policy and related procedures annually and recommends changes • Ensures appropriate procedures are in place to implement the Investment and Lending Policy • Monitors risk exposure, portfolio composition, delinquency, compliance and asset realization	• Establishes and maintains effective guidelines in applying governance principles • Establishes procedures to provide disclosure to members and designed to prevent or resolve conflicts of interest • Reviews and approves transactions involving related parties • Enhances the effectiveness of the board by reviewing and approving director education and development, and overseeing the annual board and director evaluation process • Reviews and approves the Governance Report provided to members annually • Reviews board compensation at least every three years • Reviews the credit union's Rules at least every five years	• Ensures the compensation philosophy, policies and programs support the business strategies of the credit union and its subsidiaries • Oversees the recruitment, selection, development, performance and compensation of the CEO • Oversees the management and administration of the Westminster Savings Employee Pension Plans	• Conducts the nomination and election of directors • Reviews the competencies and skills of the board annually • Reviews and approves policies and procedures regarding the nomination and election of directors

The Board of Directors produces an annual governance report for customers, outlining information about the governance activities and practices of the credit union.

Enterprise risk management

Enterprise risk management at Westminster Savings is designed to ensure sound and prudent operations, stable earnings and the ongoing viability of the credit union. This also helps to influence the development and implementation of appropriate business strategies. Our risk management processes involve the Board of Directors and all levels of management, along with an independent internal audit function and a compliance oversight function.

The ERM process is designed to identify risks that may affect the credit union, to analyze and understand the potential impacts these risks may have and to manage these risks within our agreed risk appetite. Through this process, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment in which we operate.

Westminster Savings' ERM Committee is composed of executive leadership and other business line leaders, and reports quarterly to the Audit and Risk Committee on the ERM process and on the assessment of monitored risks. In addition to reviewing these reports, the Board of Directors performs a formal annual review of the ERM program and its results.

Two additional management committees have direct responsibility for specific areas of enterprise risk management:

- The Management Credit Committee provides oversight of the credit approval process, including the delegation of lending limits under the lending policy. The committee authorizes material and related-party loans, within the limits established by the Board of Directors, and also monitors delinquencies, impairments and collection and recovery efforts, along with oversight of the expected loan loss provision process.

- The Asset Liability Committee is charged with optimizing net interest income within acceptable levels of risk, primarily interest rate risk. The committee oversees the strategies for managing assets, liabilities and capital, monitors asset allocation and assesses the overall balance sheet risk profile of the credit union.

Both management committees are subject to oversight by the Board of Directors.

Control environment

Westminster Savings has adopted numerous procedures throughout the organization to protect the assets of the credit union and to ensure that financial, management and other reporting is accurate and complete. Maintaining a robust control environment is an important responsibility for all managers. To support management in this regard, we have internal and external audit processes that are independent of management and a separate compliance function.

Our Business Ethics Policy provides directors, officers and employees of Westminster Savings and its subsidiaries with a framework for maintaining high standards of ethical conduct with customers and other stakeholders, and within the communities we serve.

Part of this responsibility involves protecting the privacy of our customers' and stakeholders' personal information. Under our Personal Information Protection Policy, the credit union actively monitors and fully complies with all personal information and privacy legislation.

Internal audit

The credit union maintains an independent internal audit department, accountable under a formal charter to the Audit and Risk Committee of the Board of Directors. This charter mandates a corporate-wide audit responsibility that includes the credit union's subsidiaries and provides for flexible access to external specialists if required.

To ensure that independence and objectivity is maintained, the internal audit department acts in an advisory and assurance role only, with no direct management authority. Internal audit has unrestricted discretion in discharging its responsibilities.

External audit

Westminster Savings engages a recognized international audit firm to carry out the annual external audit of the credit union's financial statements. These external audit arrangements are regularly reviewed by the Audit and Risk Committee.

Capital and balance sheet management

Balance sheet management

As an important part of the overall risk management strategy, Westminster Savings ensures that sufficient and appropriate capital is available to protect against unexpected events and support ongoing growth. A strong capital position offers protection in the face of risk and preserves the security of customer deposits. Increased capital allows the credit union to pursue new initiatives and expand services to customers. The credit union also determines the amount of capital required to support operating divisions and ensure that it is used in the most efficient and effective manner. Westminster Savings regularly monitors and completes quarterly portfolio stress testing to ensure it can support the operating divisions.

As a B.C. credit union, Westminster Savings must meet the capital requirements outlined in the *Financial Institutions Act* (FIA) of British Columbia and the related capital requirements regulation. This regulation specifies the minimum capital a credit union must maintain and how this capital is defined and measured. The calculation of the statutory capital requirement is based on FICOM's assessment of the relative risk of the assets held by a credit union, thus establishing that more capital is to be held against riskier assets.

FICOM uses three capital indicators in the assessment of credit union capital adequacy.

1) The FIA regulations require a credit union to have a capital ratio of at least 8.0% to operate without any statutory restrictions. A credit union operating below this limit will be subject to immediate statutory restrictions and may be considered non-viable by FICOM.

2) FICOM's supervisory target of 10.0% sits above the regulatory threshold and provides FICOM with sufficient time to address any threats to the solvency of the credit union before it falls below the regulatory requirement.

3) Credit unions are expected to establish their own internal capital target ratio, which should be set above the supervisory target. This internal target is used as a base for corrective internal action before capital erodes below the supervisory target.

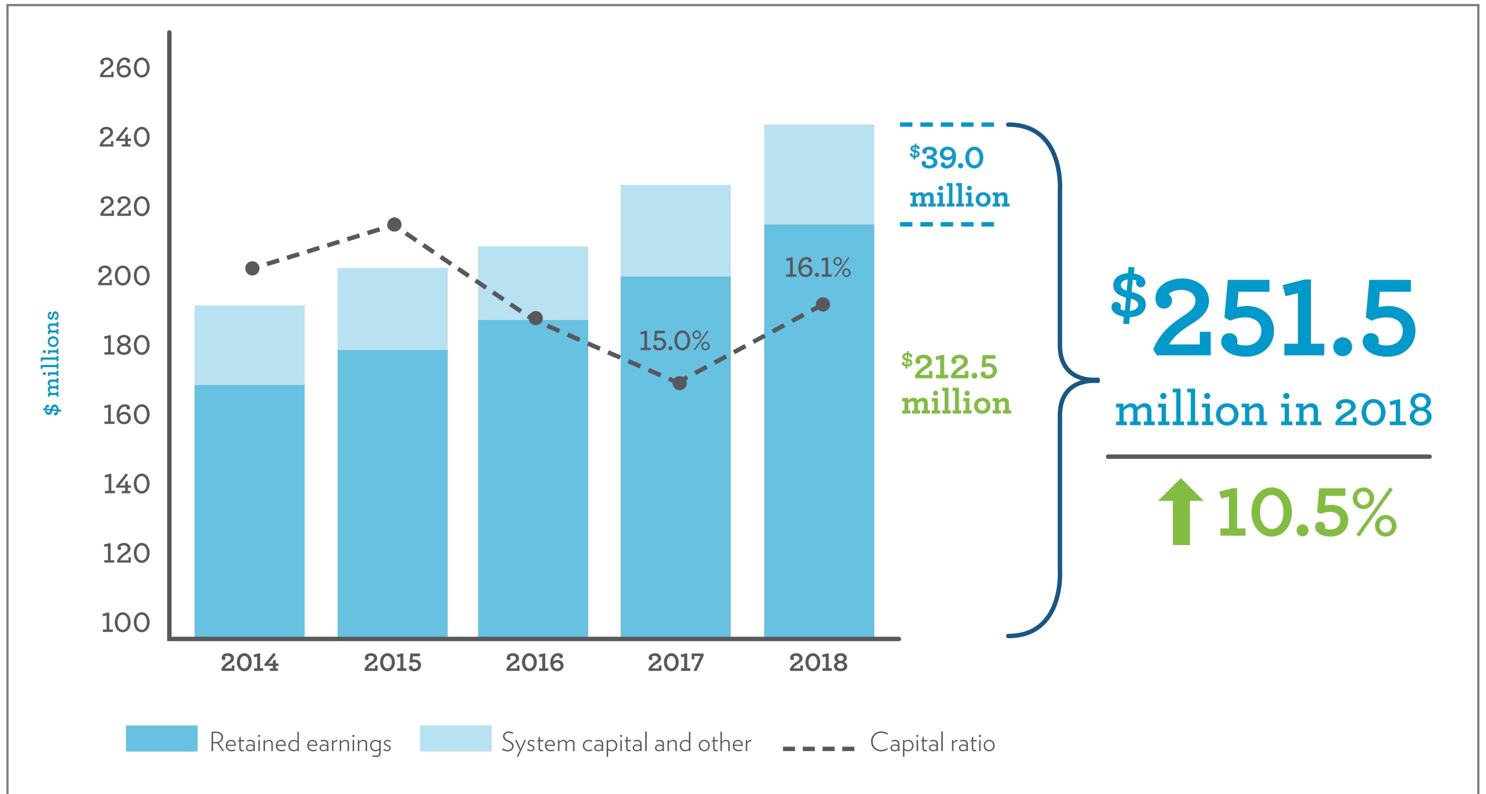
Westminster Savings' capital policy requires an annual internal capital adequacy target to be established and maintained. For 2018, the internal capital adequacy target was 10.5%. Westminster Savings forecasts the amount and composition of the balance sheet and expected levels of risk-adjusted assets, and manages within these levels to remain well-capitalized.

The main source of Westminster Savings' capital is the retention of earnings. The credit union's capital base also includes member shares and Westminster Savings' proportionate share of system capital. System capital refers to the retained earnings of the centralized credit union organizations (Credit Union Deposit Insurance Corporation, Central 1 Credit Union and Stabilization Central Credit Union), which are owned by B.C. credit unions.

- As at December 31, 2018, Westminster Savings' total capital base was $251.5 million compared with $227.5 million in 2017.

- Westminster Savings' capital adequacy ratio, including system capital, was 16.1% at December 31, 2018, compared with 15.0% in 2017. This exceeded regulatory requirements and adhered to Westminster Savings' internal policy requirements.

Capital



The credit union's retained earnings and total capital has continued to remain strong over the years. As outlined above, the capital ratio is impacted by the composition of asset portfolios and the associated underlying risks. The growth of the consumer, commercial and lease portfolios resulted in a slight increase in the risk-weighted asset values in 2018. The increases in retained earnings and systems capital contributed to a healthy capital base resulting in a strengthening of the capital ratio to 16.1% at December 31, 2018.

Liquidity

The credit union carefully manages its liquidity to ensure that customers' requirements are met at all times. By ensuring that sufficient, readily accessible or liquid assets are available, Westminster Savings is able to meet customer demand for withdrawals and deposit redemptions, fund loans, leases and business operations, and protect the credit union against sudden, unforeseen cash needs.

As a B.C. credit union, Westminster Savings must meet the liquidity requirements outlined in the FIA and the related liquidity requirement regulation. This regulation specifies the minimum liquid assets a credit union must maintain, and how liquidity is determined. The legislation requires that liquid assets representing at least 8.0% of deposit and debt obligations be held by a credit union. This liquidity ratio is intended to ensure that liquidity is adequate in relation to the business being conducted.

- Westminster Savings' liquidity ratio was 13.7% at December 31, 2018, compared with 13.7% at December 31, 2017. The combination of increases in lending volume, net of the increase in members' deposits and securitizations, resulted in minimal change in the liquidity ratio in 2018.

- Liquidity levels exceeded both the regulatory and internal policy requirements.

Loans and lease securitization

Westminster Savings routinely enters into transactions whereby the credit union or a subsidiary securitizes (sells) consumer mortgage loans or leases receivable to third party investors. This is used by the credit union to access cost-effective funding for additional growth and to manage liquidity risk, credit risk and interest rate risk. Securitization transactions have no impact on customers who have a consumer mortgage or lease with the credit union.

During the year, the credit union continued to participate in securitization programs to issue mortgage-backed securities included in the Canada Mortgage Bonds program and within an Asset-Backed Commercial Paper program. These conduits were established to reduce liquidity risk by further diversifying funding sources.

In 2018, Westminster Savings had securitized consumer mortgage loans receivables of $241.2 million ($170.9 million in 2017) and securitized leases receivables of $58.9 million ($60.2 million in 2017).

Borrowing facilities

In addition to its borrowing facility with Central 1 Credit Union, Westminster Savings maintains credit facilities with other major financial institutions. The credit union can draw on these facilities as required to finance operations. Westminster Savings' credit lines provide borrowing capacity of approximately 7.4% of credit union assets (7.8% in 2017).

The credit union did not have any borrowings from credit facilities at December 31, 2018 or at December 31, 2017.

2019 economic outlook

The operating environment in 2019 will be influenced by factors such as slower economic growth following a strong period of expansion, slower housing activity, and a highly competitive financial services market.

Due to weaker than expected oil prices, housing activity and consumer spending, Canada's real GDP was revised downward by 0.4% from the previous forecast, with 2019 growth now expected at 1.7%. This revised forecast reflects a temporary slowdown in Q4 2018 and Q1 2019 mainly as a result of lower oil prices. Economic activity should continue to be supported by strong employment, expanding foreign demand and accommodative financial conditions. Business investments and exports outside the energy sector are projected to grow steadily.

In its latest announcement on March 6, 2019, the Bank of Canada (BoC) kept its key interest rate at 1.75%. The BoC indicated that the slowdown in the global economy has been more pronounced and widespread than previously anticipated and that the Canadian economy will be weaker in the first half of 2019 than previous forecast. The BoC acknowledged that there is increased uncertainty about the timing of future interest rate increases; they will be watching closely developments in household spending, oil markets and global trade policy.

The BoC identified the following key sources of upside and downside risks to the outlook: trade conflict between the United States and China, outlook for oil prices, stronger Canadian business investments and exports, sharp tightening of global financial conditions, and a pronounced decline in house prices in certain regions.

Despite growing labour headwinds and a sharp drop in housing market activity, BC's economy is expected to grow by 2.0% in 2019. The $40-billion liquefied natural gas project approved in 2018 will start construction in 2019 and is expected to provide a boost to the provincial economy (0.1% in 2019 and 0.6% in 2020). Strong wage gains and population growth will continue to provide support for household spending in the province.

The BC housing market is expected to have low sales and flat prices in 2019. While mortgage interest rates are forecast to be steady, with a chance of cuts due to declining bond yields, the federal mortgage 'stress test' and provincial government tax policies will continue to curtail demand. In the 2019 Federal Budget, a First-Time Home Buyer Incentive measure was introduced to make home ownership more affordable. The incentive would allow eligible first-time home buyers to finance a portion of their home purchase through a shared equity mortgage with Canada Mortgage Housing Corporation (CMHC). CMHC would provide up to $1.25-billion over three years for this incentive.

Outside BC, growth is expected to moderate in all provinces in 2019. Cooling housing markets, the winding down of major capital projects, and the unanticipated drop in crude prices since October 2018 will be among the restraining factors in some of the provinces. The forecast growth for the Alberta economy is 1.5% in 2019. In Ontario, forecast economic growth is 1.9% in 2019.

Overall, the broad economic environment and outlook remains solid and supported by business investment, a tight labour market and population growth. Despite the expected slowdown in the economy, factors that contribute to economic growth and its knock-on effects are supportive of all of Westminster Savings' lines of business.

Glossary of terms

Assets under management include on-balance sheet assets and third party investment assets that the credit union originates and manages in return for administration fees and/or commissions. Although third party assets are not recorded on the credit union's balance sheet, they represent expanded investment options for our customers, while providing the credit union with a reliable revenue stream.

Balance sheet is a statement of position that reflects the assets, liabilities and capital of the credit union at a particular point in time, detailing the balance of income and expenditure over the preceding period.

Compensation expense includes salary, benefits, employee training and development costs.

Competitive market risk is the risk of customer attrition, increased cost or other business impacts due to changes in the competitive markets for financial services, investment products, vehicle leasing and equipment leasing.

Compliance and regulatory risk is the risk of non-compliance with legislative and regulatory requirements arising from inadequate policies and operational procedures or lack of highly qualified staff.

Comprehensive income includes the net income of the credit union, along with certain unrealized gains or losses, which reflect the accounting requirement to value certain investments and pension obligations at fair value in the consolidated statement of financial position.

Credit risk is the risk of loss resulting from a borrower's inability or unwillingness to repay a loan in conjunction with inadequate collateral, or from a counterparty's inability to complete or fulfill financial obligations.

Deferred taxes reflect an amount of income tax expense related to the difference between the deferred tax assets and deferred tax liabilities between the beginning of the year and the end of the year. Deferred tax assets and liabilities are a result of temporary differences between accounting and tax carrying values, and are calculated based on estimates of the timing and amount of future reversals at the applicable future tax rates. The judgment required in assessing the future timing of reversals, amounts and future tax rates in respect of deferred taxes may result in effective tax rates that may not be consistent from year to year.

Fee and commission expense includes costs related to our delivery of transactional account services and leasing services, ATM and Interac® Direct Payment transaction processing costs, cheque clearing costs, investment management costs, custodial and other loan processing fees.

Fee and commission income comprises various fees, service charges, penalties and other miscellaneous revenues that are earned but not part of net interest income.

Financial market risk is the risk of loss that results from changes in external markets, including interest rates, foreign exchange rates, equity and commodity prices, and credit spreads.

General and administrative expense includes data processing, marketing and other costs of administration.

Interest rate risk represents the potential adverse impact that changes to market interest rates may have on the earnings and value of the credit union. It generally arises from differences between the term to maturity of investments, loans and leases receivable, and those of the credit union's sources of funding.

Liquidity risk refers to the risk of being unable to obtain funds at reasonable prices or within a reasonable time period to meet obligations as they come due.

Members' equity comprises retained earnings and other comprehensive income.

Net fee and commission income includes fee and commission income netted with fee and commission expense.

Net income is the sum of net interest income, net fee and commission income and other income less operating expenses and taxes.

Net interest income is the difference between financial income (interest earned on investments, loans and leases receivable) and financial expense (interest paid on members' deposits and other financing). It is the largest component of the credit union's income.

Occupancy and equipment expense includes premises rent, maintenance and other property-related costs.

Operating expenses consists of compensation expense, occupancy and equipment expense, and other general and administrative expense.

Operational risk refers to the risk of loss resulting from the failure or inadequacy of internal systems and processes, or from external events that may negatively impact the credit union. These risks are carefully managed under Westminster Savings' ERM program.

Consolidated financial statements

YEAR ENDED DECEMBER 31, 2018

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Westminster Savings Credit Union have been prepared by management in accordance with the requirements of the *Financial Institutions Act* and International Financial Reporting Standards ("IFRS"). The statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal accounting, operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and safeguarding the assets of the organization.

The consolidated financial statements are approved by the Board of Directors. The Audit and Risk Committee, comprised of four directors of the board, has reviewed the statements with management and the external auditors in detail.

KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements. They have had full and free access to the internal audit staff, other management staff and the Audit and Risk Committee of the board.

Gavin Toy, President and CEO

Mary Falconer, SVP, CFO and Corporate Secretary

March 6, 2019

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INDEPENDENT AUDITORS' REPORT

To the Members of Westminster Savings Credit Union

Opinion

We have audited the consolidated financial statements of Westminster Savings Credit Union (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 5 to the financial statements which indicates that the Entity has changed its accounting policies for accounting for financial instruments in 2018 due to the adoption of IFRS 9 - Financial Instruments.

Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.

- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 6, 2019

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of financial position
(Expressed in thousands of dollars)

December 31, 2018, with comparative information for 2017

	Notes	2018	2017 (Restated- Note 4)
Assets			
Cash and cash equivalents	7	$ 111,996	$ 90,650
Investments	8	342,358	341,218
Loans	9	2,541,127	2,409,509
Leases receivable	9	336,911	299,956
Current taxes receivable	24	934	2,203
Premises and equipment	14	8,223	10,670
Intangible assets	15	1,679	1,830
Deferred tax assets	24	8,710	8,130
Other assets	16	4,665	6,896
		$ 3,356,603	$ 3,171,062
Liabilities and Members' Equity			
Members' deposits	10	$ 2,771,344	$ 2,668,641
Accounts payable and accrued liabilities		13,259	17,879
Securitization debt obligations	9(c), 9(d)	348,007	265,193
Current taxes payable	24	-	1,119
Deferred tax liabilities	24	14,694	14,424
Retirement benefit obligations	17	10,049	8,783
		3,157,353	2,976,039
Members' equity			
Retained earnings		212,460	198,934
Accumulated other comprehensive loss		(13,210)	(3,911)
		199,250	195,023
		$ 3,356,603	$ 3,171,062

Commitments	25
Contingencies	26
Subsequent events	28

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

Approved on behalf of the board:

Director — Art Van Pelt, Chair

Director — Kathleen Kennedy-Strath, Vice-Chair

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of income
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Interest income	18	$ 118,998	$ 101,493
Interest expense	18	(46,710)	(32,429)
Net interest income		72,288	69,064
Fee and commission income	19	13,614	11,702
Fee and commission expense	19	(3,487)	(3,042)
Net fee and commission income		10,127	8,660
Realized gains on financial instruments measured at fair value through profit or loss		73	-
Realized gains on available-for-sale investments		-	3,632
Net unrealized losses on financial instruments measured at fair value through profit or loss	20	(4,620)	-
Impairment losses on financial assets, net	13(a)	(820)	(2,209)
Impairment losses on other assets	16	(2,286)	(2,640)
Other income	21	376	1,170
Net interest and other income		75,138	77,677
Operating expenses:			
Salary and employee benefits	22	(39,681)	(38,486)
General and administrative	23	(16,645)	(15,368)
Occupancy and equipment	25	(10,524)	(10,282)
		(66,850)	(64,136)
Income before the undernoted		8,288	13,541
Contribution to Westminster Savings Foundation	27	(500)	(250)
Community investment		(357)	(333)
Income before income taxes		7,431	12,958
Provision for income taxes:			
Current	24	(820)	(1,445)
Deferred	24	103	1,725
		(717)	280
Net income		$ 6,714	$ 13,238

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

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of comprehensive income
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Net income	$ 6,714	$ 13,238
Other comprehensive income (loss), net of tax:		
Items that will be reclassified to net income:		
Losses on debt instruments measured at fair value through other comprehensive income	(94)	-
Gains on available for sale financial assets	-	8,823
Reclassification for realized gains recognized in net income	-	(3,632)
Reclassification for impairment losses recognized in net income	-	431
Deferred tax recovery (expense) in OCI	16	(963)
Items that will never be reclassified to net income:		
Net actuarial losses on defined benefit pension plans	(1,322)	(3,711)
Deferred tax recovery (expense) in OCI	207	(22)
	(1,193)	926
Total comprehensive income	$ 5,521	$ 14,164

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

WESTMINSTER SAVINGS CREDIT UNION
Consolidated statement of changes in members' equity
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

2018	Fair value reserve (AOCI)	Defined benefit plans (AOCI) (Restated- Note 4)	Retained earnings (Restated- Note 4)	Total equity
Members' equity - at January 1	$ 8,200	$ (12,111)	$ 198,934	$ 195,023
Adjustment on initial application of IFRS 9	(8,106)	-	6,812	(1,294)
Members' equity - at January 1 (adjusted)	94	(12,111)	205,746	193,729
Net income	-	-	6,714	6,714
Other comprehensive income (loss), net of tax	(78)	(1,115)	-	(1,193)
Total comprehensive income (loss)	(78)	(1,115)	6,714	5,521
Members' equity - at December 31	$ 16	$ (13,226)	$ 212,460	$ 199,250

2017	Fair value reserve (AOCI)	Defined benefit plans (AOCI) (Restated- Note 4)	Retained earnings (Restated- Note 4)	Total equity
Members' equity - at January 1	$ 3,541	$ (8,378)	$ 185,696	$ 180,859
Net income	-	-	13,238	13,238
Other comprehensive income (loss), net of tax	4,659	(3,733)	-	926
Total comprehensive income (loss)	4,659	(3,733)	13,238	14,164
Members' equity - at December 31	$ 8,200	$ (12,111)	$ 198,934	$ 195,023

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

WESTMINSTER SAVINGS CREDIT UNION
Consolidated statement of cash flows
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Cash provided by (used in):			
Cash flows from operating activities:			
Net income		$ 6,714	$ 13,238
Items not affecting cash:			
Depreciation of premises and equipment	14	1,962	1,875
Amortization of intangible assets	15	538	600
Impairment losses on financial assets	13(a)	820	2,209
Impairment losses on other assets	16	2,286	2,640
Net interest income	18	(72,288)	(69,064)
Realized gains on financial instruments measured at fair value through profit or loss		(73)	-
Realized gains on available-for-sale investments		-	(3,632)
Net unrealized losses on financial instruments measured at fair value through profit or loss	20	4,620	-
Gain on disposal of premises and equipment	14	(971)	-
Provision for income taxes - current	24	820	1,445
Provision for income taxes - deferred	24	(103)	(1,725)
Defined benefit pension expense	17	4,524	3,808
		(51,151)	(48,606)
Changes in non-cash operating working accounts:			
Loans		(131,965)	(359,133)
Leases receivable		(37,040)	(14,659)
Other assets		(55)	(2,285)
Members' deposits		95,930	276,357
Accounts payable and accrued liabilities		(4,621)	3,332
Interest paid		(39,943)	(32,946)
Interest received		117,740	100,765
Income tax paid		(2,313)	(2,476)
Income tax refund		1,903	-
Defined benefit pension plan contributions	17	(4,580)	(2,722)
Net cash flows used in operating activities		(56,095)	(82,373)
Cash flows from financing activities:			
Securitization debt increases		173,669	141,786
Securitization debt retirement		(90,847)	(78,077)
Net cash flows provided by financing activities		82,822	63,709
Cash flows from investing activities:			
Sale of assets	14	2,452	-
Net purchase of liquidity deposits		(7,601)	(26,900)
Net sale of investments		1,151	10,270
Net investments in premises and equipment	14	(996)	(3,436)
Net investment in intangible assets	15	(387)	(429)
Net cash flows used in investing activities		(5,381)	(20,495)
Increase (decrease) in cash and cash equivalents		21,346	(39,159)
Cash and cash equivalents, beginning of year		90,650	129,809
Cash and cash equivalents, end of year		$ 111,996	$ 90,650

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

1. General information:

Westminster Savings Credit Union ("Westminster Savings" or the "credit union") is a full-service financial institution providing retail, wealth and commercial financial services to the residents of the Greater Vancouver area. Through its subsidiaries, WS Leasing Ltd. and Mercado Capital Corporation, Westminster Savings offers vehicle and equipment leasing to individuals and businesses in all provinces and territories in Canada, except Quebec. Westminster Savings has 15 full-service retail branches in the Greater Vancouver area.

Westminster Savings, domiciled in Canada with its registered office at Suite 1900 - 13450 102 Avenue, Surrey, British Columbia, is incorporated under the Credit Union Incorporation Act of British Columbia, and its subsidiaries are incorporated under the Company Act of British Columbia. The credit union is regulated under the Financial Institutions Act of British Columbia ("FIA") and the Credit Union Incorporation Act of British Columbia ("CUIA"), and is authorized to serve members within British Columbia. WS Leasing Ltd. and Mercado Capital Corporation, wholly owned subsidiaries of Westminster Savings, are permitted to conduct financial leasing business extra-provincially under the Credit Union Extra-provincial Business of Subsidiaries Regulations of the CUIA.

These consolidated financial statements for the year ended December 31, 2018 were approved by the Westminster Savings Board of Directors on March 6, 2019.

2. Basis of preparation:

(a) Statement of compliance:

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

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, the functional currency of the credit union and its subsidiaries.

(c) Comparative information:

Certain of the comparative information presented in these consolidated financial statements have been reclassified, where appropriate, to conform to the current year's presentation.

WESTMINSTER SAVINGS CREDIT UNION
Notes to consolidated financial statements
(Expressed in thousands of dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are set out below.

(a) Basis of measurement:

These consolidated financial statements have been prepared using the historical cost basis, except for the following:

- certain financial assets and financial liabilities which are measured at fair value;
- certain assets which have been written down to fair value less cost to sell; and
- retirement benefit obligations, which are measured at the present value of the defined benefit obligation, less the fair value of plan assets, and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(b) Basis of consolidation:

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Westminster Savings and its wholly-owned subsidiaries, Westminster Savings Financial Planning Ltd., WS Leasing Ltd., Mercado Capital Corporation and its subsidiary Mercado Financing Ltd. Subsidiaries are entities controlled by the credit union.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Upon consolidation, intercompany balances, income, expenses and cash flows arising from intercompany transactions are fully eliminated. Intercompany losses are eliminated unless the transaction provides evidence of impairment of the asset.

3. Significant accounting policies (continued)

(c) Foreign currency transactions:

Foreign currency transactions are recorded, on initial recognition, in Canadian dollars, using the spot exchange rates on the dates of the transactions. At the end of each reporting period:

- monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the closing exchange rate at the reporting date;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items denominated in foreign currencies and from translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in net income in the period they arise in accordance with the nature of the foreign exchange gain or loss.

Foreign exchange gains or losses related to monetary financial assets or monetary financial liabilities measured at fair value through profit or loss ("FVTPL") are included in the net gains or losses recognized on the financial assets or financial liabilities in the consolidated statement of income. Foreign exchange gains or losses related to monetary financial assets or monetary financial liabilities measured at amortized cost are included in other income in the consolidated statement of income. For monetary financial assets measured at fair value through other comprehensive income ("FVOCI"), foreign exchange gains or losses related to the fair value adjustments are recognized in other comprehensive income, while foreign exchange gains or losses related to the amortized cost component are recognized in other income in the consolidated statement of income.

For non-monetary items for which a gain or loss is recognized in net income, the gain or loss includes any related exchange component. For non-monetary items for which a gain or loss is recognized in other comprehensive income, the gain or loss includes any related exchange component. Foreign exchange gains or losses related to non-monetary financial assets measured at FVTPL are included in the net gains or losses recognized in the consolidated statement of income.

(d) Financial instruments:

Effective January 1, 2018, the credit union accounts for financial instruments using the principles under IFRS 9 - *Financial Instruments* ("IFRS 9"). The prior period presented in these consolidated financial statements reflect the accounting for financial instruments using the principles under IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39").

WESTMINSTER SAVINGS CREDIT UNION
Notes to consolidated financial statements
(Expressed in thousands of dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

The accounting policies below apply to financial instruments commencing January 1, 2018.

<u>Recognition</u>

The credit union recognizes a financial instrument in its consolidated statement of financial position when it becomes a party to the contractual provisions of the financial instrument. For purchases and sales of investments, this is the settlement date of the transaction. All other financial instruments are recognized on the date they are originated.

<u>Initial measurement</u>

On initial recognition, a financial instrument, excluding leases receivable, is measured at its fair value plus or minus transaction costs that are directly attributable to its acquisition or issue. Transaction costs incurred on the origination of a financial instrument at FVTPL are expensed as incurred.

<u>Classification and subsequent measurement</u>

Subsequent measurement of financial instruments depends on the classification of the financial assets and financial liabilities.

(*i*) Financial assets:

The credit union's financial assets, excluding leases receivable, are comprised of cash and cash equivalents, investments in debt and equity instruments, loans and derivative financial assets.

On initial recognition, financial assets are classified as subsequently measured at amortized cost, FVOCI or FVTPL based on the credit union's business models for managing its financial assets and the contractual cash flow characteristics of the financial assets.

Amortized cost:

A financial asset is subsequently measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("the SPPI criteria"). Principal is defined as the fair value of the financial asset at initial recognition, and interest consists of consideration for the time value of money, for credit risk associated with the principal amount outstanding and for other basic lending risks and costs.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

Classification and subsequent measurement (continued)

(*i*) Financial assets (continued):

Financial assets that meet the above criteria are subsequently measured at amortized cost using the effective interest method. The effective interest method calculates the amortized cost of a financial asset and allocates the effective interest income over the term of the financial asset, respectively. The effective interest rate is the rate that exactly discounts estimated future cash receipts throughout the term of the financial asset to the gross carrying amount of a financial asset, being the amortized cost before adjusting for any loss allowance.

FVOCI:

A financial asset is classified as and subsequently measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the SPPI criteria.

Investments measured at FVOCI are measured at fair value with fair value gains or losses, net of impairment losses, recognized in other comprehensive income during the period they arise, until the financial asset is derecognized. Fair value gains and losses recognized in other comprehensive income include any related foreign exchange component.

On initial recognition of an equity instrument that is not held for trading, WSCU may irrevocably elect to classify the equity instrument as FVOCI. This election is made on an investment-by-investment basis. The credit union has not applied this election to date.

FVTPL:

Financial assets that are not measured at amortized cost or at FVOCI are subsequently measured at FVTPL.

On initial recognition, the credit union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The credit union has not designated any financial assets as FVTPL on this basis.

WESTMINSTER SAVINGS CREDIT UNION

Notes to consolidated financial statements
(Expressed in thousands of dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

Classification and subsequent measurement (continued)

(*i*) Financial assets (continued):

The credit union enters into interest rate swaps periodically to manage interest rate risk. Interest rate swaps are measured at FVTPL, included as an asset in investments when they have a positive fair value, and as a liability included in accounts payable and accrued liabilities in the consolidated statement of financial position, when they have a negative fair value.

Financial assets measured at FVTPL are measured at fair value with fair value gains or losses recognized in net income during the period they arise. Fair value gains and losses include any related foreign exchange component.

Financial assets are reclassified when, and only when, the credit union changes its business model for managing the financial assets. There were no changes to the credit union's business models during 2018.

(*ii*) Financial liabilities:

The credit union's financial liabilities are comprised of members' deposits, members' shares (included in members' deposits in the consolidated statement of financial position), accounts payable and accrued liabilities, securitization debt obligations and derivative financial liabilities.

Financial liabilities are subsequently measured at amortized cost except for derivative financial liabilities which are subsequently measured at FVTPL. Changes in the fair value of derivative financial liabilities are recognized in net income in the period they arise.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the credit union has transferred substantially all the risks and rewards of ownership of the financial asset.

Upon derecognition of a financial asset measured at amortized cost, realized gains or losses are recognized in net income. Upon derecognition of a financial asset debt instrument measured at FVOCI, the cumulative gains or losses previously recognized in other comprehensive income is reclassified from the fair value reserve component of equity to net income as a reclassification adjustment.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

Leases receivable

The credit union's vehicle and equipment leases are classified as finance leases as they transfer substantially all the risks and rewards incidental to ownership of the assets to the lessees. Vehicle and equipment leases receivable are recorded at the credit union's net investment in the leases, which is calculated as the present value of the future minimum lease payments, including the estimated residual value of the vehicles and equipment, net of an allowance for credit losses. Minimum lease payments received during the term of a lease are apportioned between interest income and a reduction of the outstanding lease receivable.

Estimated unguaranteed residual values on closed-end leases are reviewed at the end of each reporting period. If there has been a reduction in an estimated unguaranteed residual value, the credit union's net investment in the lease is recalculated and any difference between the amount recalculated and previous amount recorded is recognized in net income.

Prior to January 1, 2018

Prior to January 1, 2018, financial assets were classified on initial recognition as:

- financial assets at FVTPL;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Loans and receivables and held-to-maturity investments were measured at amortized cost using the effective interest method. Financial assets at FVTPL and available-for-sale ("AFS") financial assets were measured at fair value. Fair value gains or losses from financial assets measured at FVTPL were recognized in net income during the period they arose. Unrealized fair value gains and losses on AFS investments were recognized in other comprehensive income, while impairment losses were recognized in net income.

(e) Impairment of financial assets:

Effective January 1, 2018, the credit union recognizes a loss allowance for expected credit losses ("ECL") at each reporting date for all financial assets that are measured at amortized cost and at FVOCI (debt instruments) and leases receivable.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

Staging

At each reporting date, the credit union assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment of whether there has been a significant increase in credit risk since initial recognition ("SICR"), the credit union compares the risk of a default occurring over the expected remaining life of the financial asset as at the reporting date with the risk of a default occurring over the life of the financial asset as at the date of initial recognition. In addition, a SICR is considered to have occurred when contractual payments of a financial asset are more than 30 days past due.

When the credit risk of a financial asset has not increased significantly since initial recognition the financial asset is categorized as a Stage 1 financial asset. When the credit risk of a financial asset has increased significantly since initial recognition, the financial asset is categorized as a Stage 2 financial asset. When a financial asset is credit-impaired, it is categorized as a Stage 3 financial asset. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Financial assets that are classified as credit-impaired and as Stage 3 financial assets are consistent with those identified as being in default.

Definition of default

Default is defined and considered by the credit union to have occurred when either or both of the following have occurred:

- the credit union determines that the borrower is unwilling, unable or otherwise unlikely to fulfill its credit obligations in full, without recourse by the credit union to actions such as realizing security (if held).
- the borrower has been unable to remedy a material breach of its credit agreement for 90 days or more (which includes an outstanding credit obligation being past due 90 days or more).

Calculation of ECL

The loss allowance recognized for a Stage 1 financial asset is equal to the 12-month ECL. 12-month ECL are calculated as the present value of the lifetime cash shortfalls that will result if a default occurred within 12 months after the reporting date (or a shorter period if the expected remaining life of a financial asset is less than 12 months), weighted by the probability of that default occurring.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

The loss allowance recognized for a Stage 2 or Stage 3 financial asset is equal to lifetime ECL. Lifetime ECL for Stage 2 financial assets are calculated as the present value of the lifetime cash shortfalls that would result from all possible default events over the expected remaining life of a financial asset. The discount rate used in calculating the present value of lifetime cash shortfalls of a financial asset is the original effective interest rate.

The 12-month ECL and lifetime ECL for Stage 1 and Stage 2 financial assets, respectively, are calculated based on estimates of the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and the impacts of forward looking information and forecasts of macroeconomic conditions. The maximum period considered when determining the expected remaining life of a financial asset for calculating lifetime ECL for Stage 2 financial assets is the maximum contractual period (including extension options). For revolving credit facilities with no fixed terms (e.g. lines of credit), the expected remaining life represents the period that the credit union expects to be exposed to credit risk. The loss allowance for Stage 3 financial assets is calculated as the difference between the gross carrying amount and the present value of estimated future cash flows.

If the credit union had measured the loss allowance for a financial asset at an amount equal to the lifetime ECL in the previous reporting period, but determines at the current reporting date that there is no longer a SICR associated with the financial asset, the loss allowance recognized is re-measured to equal the 12-month ECL at the current reporting date. At each reporting date, in the consolidated statement of income, the credit union recognizes, as an impairment loss (gain) on financial assets, the amount of ECL (or reversal) that are required to adjust the loss allowance.

Write-offs and repossessed property

When a financial asset is credit-impaired and the credit union has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof, the carrying amount of the unrecoverable portion is written off, constituting a derecognition event. When a loan or lease receivable is in default and the underlying security is repossessed by the credit union, the loan or lease receivable is derecognized and the repossessed collateral is recognized in the consolidated statement of financial position and classified as held for sale and measured at the lower of its carrying amount and fair value less costs to sell.

Vehicles and equipment securing leases receivable that have been repossessed are included in other assets in the consolidated statement of financial position. Subsequent to initial recognition, a decrease in the fair value of repossessed collateral, less costs to sell, is recognized in net income, as an impairment loss on other assets. An impairment gain on other assets is recognized for any subsequent increases in fair value, less costs to sell, but not in excess of the cumulative impairment loss previously recognized on the asset held for sale.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

Prior to January 1, 2018

Prior to January 1, 2018, impairment losses were recognized based on an incurred loss model. The credit union assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset that had a negative impact on the reliably estimated future cash flows of the financial asset.

(*i*) Loans and receivables and held-to-maturity investments:

If there was objective evidence that a loan and receivable or held-to-maturity investment measured at amortized cost or a lease receivable was impaired and an impairment loss had been incurred, the amount of the impairment loss recognized was measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Estimates of future cash flows included amounts recoverable from repossessed or foreclosed property less costs of obtaining and selling the collateral, whether or not repossession or foreclosure was probable. The carrying amount of the financial asset was reduced either directly when an amount was considered uncollectible, or through the use of an allowance account, and the impairment loss was recognized in net income. For loans and receivables with variable interest rates, the discount rate used in measuring any impairment loss was the current effective interest rate determined under the contract.

The credit union first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and collectively for financial assets that were not. When the credit union had determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, the financial asset was included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Loans or leases receivable that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment. Criteria used to determine whether there was objective evidence that an impairment loss had been incurred included:

- notice or other indications of bankruptcy of the borrower;
- default, payment delinquency and other deterioration in the relationship with the borrower; and
- a decline in the fair market value of the security for a loan or receivable.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

Prior to January 1, 2018 (continued)

(*i*) Loans and receivables and held-to-maturity investments (continued):

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed either directly or by adjusting the allowance account.

(*ii*) AFS investments:

When a decline in the fair value of an AFS investment had been recognized in other comprehensive income and there was objective evidence that the asset was impaired, the cumulative loss that had been recognized was reclassified from the fair value reserve within equity to net income as a reclassification adjustment even though the financial asset had not been derecognized. The amount of cumulative loss reclassified from equity to net income was the difference between the cost and current fair value, less any impairment losses on that financial asset previously recognized in net income. If, in a subsequent period, the fair value of an AFS investment in debt instrument increased and the increase related to an event occurring after the impairment loss was recognized in net income, the impairment loss was reversed, with the amount of reversal recognized in net income. Impairment losses recognized in net income for AFS investments in equity instruments were not reversed.

AFS investments in equity instruments were considered impaired when the quoted market prices had declined by a specified percentage, or had declined for a period greater than 12 months, when compared to the acquisition cost, adjusted for any previous impairment losses. AFS investments in debt instruments were considered impaired based on factors including default and changes in credit ratings from reputable investment credit rating agencies.

(f) Income taxes:

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and the amounts attributed to the assets and liabilities for tax purposes. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

WESTMINSTER SAVINGS CREDIT UNION
Notes to consolidated financial statements
(Expressed in thousands of dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(f) Income taxes (continued):

Income tax expense (recovery) is comprised of current and deferred taxes. Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

(g) Non-financial assets:

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Land is not depreciated. Other premises and equipment are depreciated over their estimated useful lives using the following depreciation methods and periods:

Asset	Method	Period
Buildings	Double declining balance	60 years
Computer and ATM equipment	Straight-line	3, 5, or 10 years
Furniture and equipment	Straight-line	5 years
	Double declining balance	15 years
Leasehold improvements	Straight-line	Lesser of useful life and the lease term

The estimated useful lives and depreciation methods used are reviewed at the end of each reporting period, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives or depreciation methods resulting from such review are accounted for prospectively.

The credit union assesses at the end of each reporting period, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, whether there is any indication that a premise or equipment is impaired. Impairment is assessed on an individual asset basis when the fair value less costs of disposal or value in use of the asset can be determined reliably.

An asset is impaired when its carrying amount exceeds its recoverable amount. If there is indication that an asset or cash-generating unit is impaired, the credit union estimates the recoverable amount of the asset or cash-generating unit. The recoverable amount is the higher of its fair value less costs to sell and its value in use. The carrying amount is reduced to its recoverable amount and the amount of write down is recognized in net income as an impairment loss on non-financial assets. Upon recognition of an impairment loss, subsequent depreciation of the asset is based on the revised carrying amount and remaining useful life.

3. Significant accounting policies (continued):

(g) Non-financial assets (continued):

Intangible assets

Intangible assets include computer software licenses, goodwill and other intangible assets.

Intangible assets are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives of one to fourteen years. The amortization period and amortization method for an intangible asset with a finite useful life are reviewed at the end of each reporting period, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives or amortization methods resulting from such review are accounted for prospectively.

Intangible assets with finite lives are assessed for impairment annually and whenever there is an indication that an intangible asset may be impaired. When an intangible asset with a finite life is impaired, the excess of its carrying amount over the recoverable amount is recognized in net income as an impairment loss on non-financial assets.

(h) Provisions:

Provisions are liabilities that are uncertain in timing or amount. A provision is recognized if the credit union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the obligation can be estimated reliably. Provisions are measured as the present value of estimated future expenditures required to settle the present obligation at the date of the reporting period. The discount rate used in measuring the present value is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are reviewed at the date of each reporting period and adjusted or reversed to reflect management's current best estimate of the expenditures required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Contingent assets and contingent liabilities are possible assets and possible obligations, respectively, that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the credit union. Contingent assets and contingent liabilities are not recognized in the consolidated financial statements. A contingent asset is disclosed when an inflow of economic benefits is probable. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

3. Significant accounting policies (continued):

(i) Retirement benefit obligation:

The credit union provides retirement benefits to its employees through pension plans. The plans are funded through employer and employee contributions to trustee-administered funds.

The credit union has both defined benefit and defined contribution pension plans. A defined benefit pension plan defines the amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and compensation. Under a defined contribution pension plan, the credit union pays fixed contributions into a separate fund and has no legal or constructive obligations to pay further contributions.

Defined benefit plans

The net defined benefit liability (asset) recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the date of the consolidated statement of financial position, less the fair value of the defined benefit plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The credit union uses the projected unit credit method to determine the present value of its defined benefit obligation and the related current service cost and, where applicable, past service cost. The discount rate used in determining the present value of the defined benefit obligation is the interest rate on high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit pension liability.

Current service cost, including past service cost and any gain or loss on settlement, and net interest on the net defined benefit liability (asset) is recognized in net income, within salaries and employee benefits expense. Past service cost, representing the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment or curtailment, is recognized in net income at the earlier of when the amendment or curtailment occurs or when the credit union recognizes related restructuring or termination costs. A gain or loss on settlement, representing the difference between the present value of the defined benefit obligation being settled and the settlement price, is recognized in net income when the settlement occurs.

Remeasurements of the net defined benefit liability (asset), which comprises actuarial gains and losses, the return on defined benefit plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), are recognized in other comprehensive income and are not reclassified to net income in a subsequent period.

(Expressed in thousands of dollars, unless otherwise indicated)

3. Significant accounting policies (continued):

(i) Retirement benefit obligation (continued):

Defined contribution plans

Under the credit union's defined contribution pension plans, contributions are recognized as an employee benefit expense in net income when they are due. Prepaid contributions are recognized within other assets in the consolidated statement of financial position to the extent that the prepayment will result in a cash refund or a reduction in future payments.

(j) Interest income and interest expense:

Interest income and interest expense earned and incurred on interest-bearing financial assets and financial liabilities are recognized as interest income and interest expense, respectively, in the consolidated statement of income using the effective interest method. Under the effective interest method, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. When a financial asset or a group of financial assets is credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset.

When calculating the effective interest rate, the credit union estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

(k) Net fee and commission income:

Net fees and commissions are recognized in net income in the period the related performance obligations are satisfied, unless they are considered to be an integral part of the effective interest rate of a financial asset, in which case the net fee and commission is allocated to interest income using the effective interest method.

For performance obligations that are satisfied over time, including monthly members' services and financial planning and wealth management services, revenue is recognized over the period that the promised services are performed.

For performance obligations that are satisfied at a point in time, comprising transaction-based fees and commissions, such as appraisals, registration and other loan fees, ATM transaction fees, and insurance and visa commissions, revenue is recognized when the member obtains control of the promised good or service.

(l) Leases:

The credit union leases branch and administrative premises where substantially all the risks and rewards of ownership of the assets are retained by the lessor. Such leases are classified as operating leases. Lease payments are recognized in the consolidated statement of income as occupancy and equipment expenses on a straight-line basis over the period of the lease.

4. Change in accounting policy:

During the year, the credit union voluntarily changed its accounting policy with respect to the presentation of net actuarial gains/losses on defined benefit pension plans. The credit union previously recorded these amounts in other comprehensive income and then reclassified the amounts within equity to retained earnings. The credit union will now record these amounts in other comprehensive income and accumulated other comprehensive income. Both presentation options are permissible under IAS 19 *Employee Benefits*.

The revised presentation better aligns retained earnings with the definition of capital for regulatory purposes, and as such, the revised presentation results in reliable and more relevant information. The change has been applied retrospectively and prior period results have been restated, in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*. The impact of this voluntary change in accounting policy on the consolidated financial statements is shown in the table below:

	As previously reported		**Adjustments**		**Restated**	
	January 1, 2017	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017	December 31, 2017
Retained earnings	$ 177,318	$ 186,823	$ 8,378	$ 12,111	$ 185,696	$ 198,934
Accumulated other comprehensive income	3,541	8,200	(8,378)	(12,111)	(4,837)	(3,911)
	$ 180,859	$ 195,023	$ -	$ -	$ 180,859	$ 195,023

5. Changes in accounting standards:

(a) New accounting standards effective January 1, 2018:

IFRS 9 - Financial instruments

(*i*) Initial application:

On January 1, 2018, the credit union adopted IFRS 9 which replaced IAS 39. The application of IFRS 9 impacted the classification and measurement of the credit union's financial assets and the methods used by the credit union in assessing and calculating impairment losses on financial assets.

As permitted by IFRS 9, the credit union has applied IFRS 9 retrospectively effective January 1, 2018 without restating prior periods. The difference between the previous carrying amounts of the credit union's financial assets and financial liabilities at January 1, 2018 as determined under IAS 39 and the carrying amounts of the financial assets and financial liabilities as determined under IFRS 9 has been recognized as adjustments to opening retained earnings and the fair value reserve component of equity at January 1, 2018. IFRS 9 is not applied to financial assets or financial liabilities that have been derecognized as at January 1, 2018.

(Expressed in thousands of dollars, unless otherwise indicated)

5. Changes in accounting standards:

(a) New accounting standards effective January 1, 2018:

IFRS 9 - Financial instruments (continued)

(*i*) Initial application (continued):

The disclosures relating to financial instruments in these consolidated financial statements reflect the amended requirements under IFRS 7 - *Financial Instruments: Disclosures* effective for the credit union's annual periods beginning January 1, 2018, including additional disclosures relating to the initial application of IFRS 9. The amended disclosure requirements have not been applied to comparative information provided for the prior period presented in these consolidated financial statements .

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9:

	IAS 39 balance December 31, 2017	Adjustment for reclassification	Adjustment for remeasurement	Adjustment for impairment	Adjustment for tax	IFRS 9 balance January 1, 2018
Financial assets						
Cash and cash equivalents	$ 90,650	$ -	$ -	$ -	$ -	$ 90,650
Liquidity deposits original maturities > 90 days	222,555	-	(1,439)	-	-	221,116
Fixed income investments original maturities > 90 days	14,295	-	-	-	-	14,295
Other investments[1]	61,805	-	-	-	-	61,805
Principal and interest reinvestment accounts	39,876	-	-	-	-	39,876
Sub note - junior note	2,687	-	-	-	-	2,687
Loans	2,409,509	-	-	(257)	-	2,409,252
Leases receivable	299,956	-	-	158	-	300,114
Total financial assets	$ 3,141,333	$ -	$ (1,439)	$ (99)	$ -	$ 3,139,795
Financial liabilities						
Members' deposits	$ 2,668,641	$ -	$ -	$ -	$ -	$ 2,668,641
Accounts payable and accrued liabilities	17,879	-	-	-	-	17,879
Securitization debt obligations	265,193	-	-	-	-	265,193
Total financial liabilities	$ 2,951,713	$ -	$ -	$ -	$ -	$ 2,951,713
Retained earnings[1]	$ 198,934	$ 8,106	$ (1,439)	$ (99)	$ 244	$ 205,746
Accumulated other comprehensive income[1]	8,200	(8,106)	-	-	-	94

[1] Certain equity investments previously classified as AFS under IAS 39 have been reclassified to FVTPL under IFRS 9

(*ii*) Classification and measurement:

Under IFRS 9, the classification of financial assets are based on the credit union's business models for managing its financial assets and the contractual cash flow characteristics of the financial assets. The determination of the business model within which a financial asset is held was made on the basis of facts and circumstances that existed at the date of initial application.

5. Changes in accounting standards (continued):

(a) New accounting standards effective January 1, 2018 (continued):

IFRS 9 - Financial instruments (continued)

(*ii*) Classification and measurement (continued):

The following table sets out the impacts of applying IFRS 9 to the classification and measurement and carrying amounts of the credit union's financial assets and financial liabilities at January 1, 2018:

At January 1, 2018	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents				
Cash	Loans and receivables	Amortized cost	$ 73,091	$ 73,091
Liquidity deposits - original maturities < 91 days [a]	Loans and receivables	FVTPL	10,011	10,011
Fixed income investments - original maturities < 91 days	Loans and receivables	Amortized cost	7,548	7,548
Investments				
Liquidity deposits - original maturities > 90 days [a]	AFS	FVTPL	222,555	221,116
Fixed income investments - original maturities > 90 days [b]	AFS	FVTPL	9,432	9,432
Fixed income investments - original maturities > 90 days	AFS	FVOCI	4,863	4,863
Equity securities [c]	AFS	FVTPL	38,404	38,404
Equity-linked securities [c]	AFS	FVTPL	4,002	4,002
Preferred shares [c]	AFS	FVTPL	6,948	6,948
Central 1 shares [c]	AFS	FVTPL	12,222	12,222
Other investments in equity instruments [c]	AFS	FVTPL	229	229
Principal and interest reinvestment accounts	Held-to-maturity	Amortized cost	39,876	39,876
Sub note - junior note	Held-to-maturity	Amortized cost	2,687	2,687
Loans	Loans and receivables	Amortized cost	2,409,509	2,409,252
Leases receivable	-	-	299,956	300,114
			$ 3,141,333	$ 3,139,795
Financial liabilities				
Members' deposits	Amortized cost	Amortized cost	$ 2,668,641	$ 2,668,641
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	17,879	17,879
Securitization debt obligations	Amortized cost	Amortized cost	265,193	265,193
			$ 2,951,713	$ 2,951,713

5. Changes in accounting standards (continued):

(a) New accounting standards effective January 1, 2018 (continued):

IFRS 9 - Financial instruments (continued)

(*ii*) Classification and measurement (continued):

All of the financial assets classified as FVTPL in the table above are mandatorily FVTPL.

(A) Liquidity deposits held at Central 1 Credit Union ("Central 1") are redeemable at the option of the credit union at the current market value of the financial assets. Accordingly, the contractual cash flows of the liquidity deposits do not meet the SPPI criteria and these financial assets are required under IFRS 9 to be classified as subsequently measured at FVTPL.

(B) The terms of certain fixed income investments with original maturities of greater than 90 days include payments of variable interests or a variable index-linked return. Accordingly, the contractual cash flows of these financial assets do not meet the SPPI criteria and the financial assets are therefore required under IFRS 9 to be classified as subsequently measured at FVTPL.

(C) The credit union's investments in equity securities, equity-linked securities, preferred shares, Central 1 shares and related cooperative organizations are required under IFRS 9 to be classified as subsequently measured at FVTPL.

IFRS 15 - Revenue recognition

On January 1, 2018, the credit union adopted IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") which superseded IAS 18 - *Revenue* and related interpretations ("IAS 18"). As outlined below, IFRS 15 establishes a single five-step framework to apply to contracts with customers when determining how much and when revenue is recognized:

- identification of contract;
- identification of separate performance obligations;
- determination of transaction price;
- allocation of transaction price to the performance obligations; and
- recognizing revenue when or as the performance obligations are satisfied.

IFRS 15 applies to the credit union's contracts with customers, except for lease contracts and financial instruments which are within the scope of other IFRSs. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Accordingly, IFRS 15 applies to the credit union's accounting for fee and commission income, but does not apply to the accounting for interest income from leases receivable and other financial assets which are recognized using the effective interest method.

5. Changes in accounting standards (continued):

(a) New accounting standards effective January 1, 2018 (continued):

IFRS 15 - Revenue recognition (continued)

The core principle of IFRS 15 is that the credit union recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the credit union expects. Under IFRS 15, a promised good or service is transferred to a customer when (or as) the customer obtains control of the asset. IFRS 15 also contains specific guidance on the accounting for incremental costs of obtaining a contract with a customer and costs incurred to fulfill a contract.

Under IAS 18, revenue was recognized i) when the significant risks and rewards of ownership of goods and services were transferred to the customer, ii) the amount of revenue could be estimated reliably, iii) it was probable that the economic benefits associated with the transaction would flow to the credit union and iv) the costs incurred for the transaction and costs to complete the transaction could be measured reliably.

The application of IFRS 15, retrospectively, did not have any impact on the credit union's accounting for fee and commission income.

(b) New accounting standard not yet effective:

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - *Leases* ("IFRS 16") which replaces IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 introduces a single, on-balance sheet accounting model that is similar to the finance lease accounting under IAS 17, for all leases accounted for by lessees, except for short-term leases with lease terms of 12 months or less or leases for which the underlying asset is of low value. Lessor accounting remains unchanged under IFRS 16.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. The credit union will apply IFRS 16 beginning with its annual reporting period beginning on January 1, 2019 using a modified retrospective approach. Under the modified retrospective approach, comparative information for prior periods presented will not be restated. Instead, the cumulative effect of initially applying IFRS 16 will be recognized on January 1, 2019, at the date of initial application. A lease liability will be recognized as at January 1, 2019, measured as the present value of the remaining lease payments as of that date for all lease contracts, discounted using the credit union's incremental borrowing rate at January 1, 2019. As permitted by IFRS 16, the credit union has elected to measure the corresponding right-of-use asset for all leases, at January 1, 2019, at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments.

5. Changes in accounting standards (continued):

(b) New accounting standard not yet effective (continued):

IFRS 16 - Leases (continued)

The recognition of a lease liability and right-of-use asset will result in lease payments being recognized as interest expense (on accretion of the lease liability) and depreciation expense (on depreciation of the right-of-use asset), as compared to being recognized as an operating lease expense under IAS 17. Total interest expense over the term of the lease plus depreciation expense over the life of the underlying leased asset under IFRS 16 will equal the total lease payments that would have been recognized as operating lease expenses under IAS 17, with total interest and depreciation expense during the earlier periods of a lease term being higher than the later periods. In addition, operating cash outflows will be reduced by the principal portion of lease payments with a corresponding increase in financing cash outflows.

The application of IFRS 16 will result in an increase in the credit union's assets and liabilities in future periods of which the credit union is currently assessing the impact.

6. Judgements and estimates:

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the credit union's accounting policies and the reported amounts of assets, liabilities, income and expenses.

(a) Significant judgements:

The critical judgements that management has made in the process of applying the credit union's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Classification and measurement of financial assets

Determining the appropriate classification and measurement of the credit union's financial assets under IFRS 9 requires management to make judgements as to the objectives of the business models that the financial assets are held within and whether the contractual cash flows of the financial assets represent solely payments of principal and interest on the principal amount outstanding on initial recognition (note 3(d)). The assessment of business models on initial application of IFRS 9 at January 1, 2018 was based on facts and circumstances as of that date.

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6. Judgements and estimates (continued):

(a) Significant judgements (continued):

In assessing the credit union's business models, management considers all relevant evidence available at the date of assessment, including but not limited to:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and the financial assets held within it and the way in which those risks are managed;
- how managers of the business model are compensated; and
- the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

Securitization and derecognition of financial assets

In determining whether a transferred financial asset should be derecognized, management makes certain judgements to determine whether the credit union has transferred substantially all the risks and rewards of ownership of the financial asset. Management has determined that the credit union has retained substantially all the risks and rewards of ownership of the loans and leases receivable it has securitized and accordingly, the transferred assets continue to be recognized in these consolidated financial assets (notes 9(c) and 9(d)).

(b) Assumptions and estimates:

The preparation of these consolidated financial statements requires that management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the credit union's assets and liabilities at the end of the reporting period. Actual results may differ from these estimates as the estimation process is inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the credit union's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period are as follows:

Loss allowance for expected credit losses on financial assets

In determining the amount recognized as a loss allowance for ECL on financial assets measured at amortized cost and at FVOCI and leases receivable as required by IFRS 9, management first assessed whether there has been a SICR for its financial assets. The assessments of SICR reflect management's view of the risk of default occurring in a future period for the financial assets. Actual occurrence of default may differ from these estimates.

6. Judgements and estimates (continued):

(b) Assumptions and estimates (continued):

Loss allowance for expected credit losses on financial assets (continued)

The calculation of 12-month ECL for Stage 1 financial assets and lifetime ECL for Stage 2 financial assets and credit-impaired financial assets requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward looking information and forecasts of macroeconomic conditions to the credit union's ECL and expected remaining lives of the financial assets (note 13(a)). Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the credit union's consolidated financial statements.

Fair value measurement

Certain financial assets and non-financial assets are measured at or based on the fair value of the assets at the reporting date (notes 8 and 16). Fair value measurements are based on quoted market prices when available. When quoted market prices are not available, the credit union uses valuation techniques to estimate fair values. Valuation techniques may involve the use of observable or unobservable inputs. Changes in estimates of inputs used can result in a material adjustment to the carrying amount of the underlying asset.

Deferred income taxes

The credit union records tax liabilities (assets) based on the amount expected to be paid to (recovered from) taxation authorities. Final income taxes paid (recovered) based on amounts assessed by taxation authorities may differ, resulting in adjustments to income taxes in subsequent periods.

In determining the amount of deferred tax assets to recognize, management makes estimates of future taxable income and expected timing of reversals of existing temporary differences. Deferred tax assets are remeasured at the end of each reporting period which includes a reassessment of the probability of realizing unrecognized income tax assets.

Retirement benefit obligations

In determining the present value of the credit union's defined benefit obligation and resulting net defined benefit liability recognized in the statement of financial position, various assumptions about the future are made such as mortality rates, salary levels, inflation, discount rate and expected return on assets (note 17). Actual experience may differ from these assumptions resulting in actuarial gains or losses recognized in other comprehensive income of subsequent periods.

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6. Judgements and estimates (continued):

(b) Assumptions and estimates (continued):

Contingencies

Contingencies are possible assets or obligations arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. Such contingencies include, but are not limited to, claims, legal proceedings and tax matters. Management exercises significant judgement in assessing the existence and potential impact of contingencies.

7. Cash and cash equivalents:

	2018	2017
Measured at FVTPL		
Liquidity deposits - original maturities < 91 days	$ 83,517	$ -
Measured at amortized cost		
Cash	26,444	73,091
Fixed income investments - original maturities < 91 days	2,035	7,548
Liquidity deposits - original maturities < 91 days	-	10,011
	$ 111,996	$ 90,650

Cash includes balances in cash reserve accounts of $4,303 (2017 - $4,993) (notes 9(c) and 9(d)).

8. Investments:

	2018	2017
Measured at FVTPL		
Liquidity deposits - original maturities > 90 days	$ 230,292	$ -
Fixed income investments - original maturities > 90 days	13,862	-
Equity and equity-linked instruments	46,028	-
Preferred shares	7,851	-
Central 1 shares	13,537	-
Other investments in equity instruments	203	-
Measured at FVOCI		
Fixed income investments - original maturities > 90 days	4,767	-
Measured at amortized cost		
Principal and interest reinvestment accounts (note 9(c))	23,154	-
Sub note - junior note	2,664	-
AFS - measured at fair value		
Liquidity deposits - original maturities > 90 days	-	222,555
Fixed income investments - original maturities > 90 days	-	14,295
Equity and equity-linked instruments	-	42,406
Preferred shares	-	6,948
Central 1 Class E shares	-	1,931
AFS - measured at cost		
Central 1 Class A shares	-	10,290
Central 1 Class E shares	-	1
Other investments in equity instruments	-	229
Held-to-maturity - measured at amortized cost		
Principal and interest reinvestment accounts (note 9(c))	-	39,876
Sub note - junior note	-	2,687
	$ 342,358	$ 341,218

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9. Loans and leases receivable:

(a) Loans:

	2018	2017
Consumer mortgages	$ 1,675,973	$ 1,597,270
Consumer loans	249,421	237,606
Total consumer mortgages and loans	1,925,394	1,834,876
Commercial mortgages	323,351	308,573
Commercial loans	292,537	263,090
Total commercial mortgages and loans	615,888	571,663
Accrued interest receivable	3,237	2,749
Deferred fees	1,339	3,864
Allowance for impairment losses on loans	(4,731)	(3,643)
	$ 2,541,127	$ 2,409,509

Consumer mortgages include mortgages which have been securitized for inclusion in the National Housing Act ("NHA") Mortgage-Backed Securities program, Canada Mortgage Bond ("CMB") Program and under an Asset-Backed Commercial Paper Program, and remain recognized in the consolidated statement of financial position as the securitization transactions did not meet the criteria for derecognition of the financial assets (note 9(c)). At December 31, the carrying amounts of consumer mortgages, recognized in the consolidated statement of financial position, underlying the issued securities were as follows:

	2018	2017
Mortgage backed securities	$ 241,189	$ 129,707
Asset-backed commercial paper	31,214	41,237
Securitized consumer mortgages	$ 272,403	$ 170,944

9. Loans and leases receivable (continued):

(b) Leases receivable:

	2018	2017
Vehicle leases receivable	$ 186,714	$ 152,917
Equipment leases receivable	149,315	147,594
	336,029	300,511
Deferred fees	3,355	2,777
Allowance for impairment losses on leases receivable	(1,973)	(2,507)
Allowance for losses on unguaranteed lease residual value	(500)	(825)
	$ 336,911	$ 299,956

At December 31, 2018, vehicles and equipment collateral which have been repossessed by the credit union amounted to $1,823 (2017 - $3,259). These assets are measured at the lower of their carrying amounts and fair values less costs to sell, and are included in other assets (note 16) in the consolidated statement of financial position.

At December 31, 2018, equipment leases receivable included $58,897 (2017 - $60,156) of leases receivable which have been securitized and remain recognized in the consolidated statement of financial position as the securitization transactions did not meet the criteria for derecognition of the financial assets (note 9(d)).

The table below sets out the credit union's investment in leases and the present value of the minimum lease payments receivable at December 31, for each of the following periods, and a reconciliation between the two amounts at December 31:

	2018	2017
Gross investment in leases receivable		
Not later than 1 year	$ 114,711	$ 109,612
Later than 1 year and not later than 5 years	258,887	224,276
Later than 5 years	500	877
	374,098	334,765
Unearned finance income	(38,069)	(34,254)
	336,029	300,511
Present value of minimum lease payments receivable		
Not later than 1 year	104,991	99,551
Later than 1 year and not later than 5 years	230,546	200,104
Later than 5 years	492	856
	$ 336,029	$ 300,511

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9. Loans and leases receivable (continued):

(c) Loans securitized:

Periodically, the credit union securitizes consumer mortgages, primarily to obtain diverse, low cost funding and to manage interest rate risk. Securitization involves selling loans to special purpose vehicles or trusts (securitization vehicles), which buy the loans and in turn, issue interest bearing securities to investors at specified interest rates.

Securitization contracts are assessed to determine whether the transfers of financial assets would result in all or a portion of the transferred mortgage receivables being derecognized from the consolidated statement of financial position. The derecognition criteria is met when the credit union transfers its contractual rights to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership of the financial assets, including credit risk, prepayment risk and interest rate risk.

At December 31, 2018 and 2017, none of the credit union's mortgage receivables that have been securitized qualified for derecognition as the credit union retained substantially all the risks and rewards of ownership of the transferred financial assets.

At December 31, 2018 and 2017, the credit union had no right or obligation to repurchase any of the mortgage receivables that have been securitized and sold.

Contracts with the securitization vehicles provide for the payment to the credit union over time of the excess of the sum of interest and fees collected from the underlying borrowers, in connection with the mortgage receivables sold, over the yield paid to investors by the securitization vehicle.

Mortgage-Backed Securities ("MBS") and the CMB Programs

The credit union is an approved issuer of MBS. MBS are sold directly to third parties and amortize on the same basis as the underlying mortgages.

In addition, MBS can also be sold into the CMB program. Direct participation in the CMB Program involves selling MBS to the Canada Housing Trust, a special purpose vehicle, which in turn issues Canada Mortgage Bonds to third party investors. Canada Housing Trust uses the proceeds of CMB issuances to fund the purchase of MBS from the credit union and other approved issuers of MBS.

Transfers of financial assets by the credit union, either directly by selling MBS to third parties or by transferring MBS under the CMB program, do not qualify for derecognition principally due to the credit union retaining risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities resulting in the recognition of securitization liabilities, and are presented as securitization debt obligations in the consolidated statement of financial position. The proceeds received are subsequently measured at amortized cost.

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Programs (continued)

The securitization debt obligations are limited recourse liabilities. Securitization liabilities recognized upon sale of MBS directly to third parties amortize on the same basis as the underlying mortgages. Securitization liabilities recognized upon transfers of MBS under the CMB program are mostly non-amortizing and are repaid in full on the final maturity date of the Canada Mortgage Bonds. Interest payments on MBS sold directly to third parties are made monthly. Under the CMB program, interest payments to the bond holders are made semi-annually. Under the CMB program, collections of principal and interest on the underlying mortgages are retained in principal and interest reinvestment accounts. The balances in these accounts are reinvested to ensure there are sufficient funds available to service the interest coupon on the securitization liabilities and the eventual settlement of the liabilities on maturity of the Canada Mortgage Bonds, which is typically at the end of five years. At December 31, 2018, the total balance of the principal and interest reinvestment accounts related to the CMB program recognized in the consolidated statement of financial position was $23,154 (2017 - $39,876).

At December 31, 2018, the balance of mortgage receivables underlying the MBS that have been sold directly to third parties or transferred directly under the CMB Program was $241,189 (2017 - $129,707). At December 31, 2018, $8,694 (2017 - $23,108) of mortgage receivables had been utilized to create an MBS, but had not been sold to third parties or transferred under the CMB program.

The table below is a continuity schedule showing the change in the carrying amount of mortgage receivables, during the year ended December 31, that are underlying the issued MBS that have been sold to third parties and the CMB program.

	2018	2017
Balance at January 1	$ 129,707	$ 87,780
Securitizations - new	150,522	77,945
Amortization	(5,492)	(3,316)
Prepayments and liquidations	(32,233)	(23,617)
Maturities	(1,315)	(9,085)
Balance at December 31	$ 241,189	$ 129,707

At December 31, 2018, the balance of the securitization debt obligations related to these securitized mortgage receivables was $258,684 (2017 - $165,531).

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9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Programs (continued)

The table below is a continuity schedule showing the change during the year ended December 31 in the carrying amounts of the securitization debt obligations relating to MBS sold to third parties or transferred under the CMB programs.

	2018	2017
Balance at January 1	$ 165,531	$ 142,435
Net cash changes	93,163	23,085
Other	(10)	11
Balance at December 31	$ 258,684	$ 165,531

The table below summarizes the carrying amounts of the mortgage receivables securitized and sold and the reinvestment accounts along with the associated securitized debt obligations, for MBS sold directly to third parties or transferred under the CMB Program. None of these securitization transactions qualified for derecognition.

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligations	$ 241,189	$ 258,600	$ 129,707	$ 165,438
Principal and interest reinvestment accounts	23,154	-	39,876	-
Accrued interest	-	84	-	93
	$ 264,343	$ 258,684	$ 169,583	$ 165,531

Asset-Backed Commercial Paper ("ABCP") Program

The credit union participates in an ABCP program to securitize uninsured consumer mortgage receivables.

Under the program, uninsured consumer mortgage receivables are securitized with a trust vehicle which, in turn, funds the purchase of mortgage receivables from the credit union by issuing ABCP to investors. The ABCP is secured by cash flows received on the underlying consumer mortgage receivables. Central 1 plays a key role in this securitization program by providing a performance guarantee. The performance guarantor is responsible for ensuring the performance of the credit union by guaranteeing that all payments of interest and principal are made when due.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Asset-Backed Commercial Paper ("ABCP") Program (continued)

Transfers of financial assets under the ABCP program do not qualify for derecognition principally due to the credit union retaining significant exposure to risks associated with the transferred assets. As such, transactions under this program are accounted for as financing activities and result in the recognition of securitization debt obligations that are subsequently measured at amortized cost. Under the ABCP program, the credit union receives the mortgage interest on the transferred uninsured consumer mortgage receivables and pays the funding cost of the program.

A pool of uninsured consumer mortgage receivables was established in 2015. The program has a co-ownership structure, whereby a portion of the pool of uninsured consumer mortgage receivables were securitized with the trust and the credit union retained ownership of the remaining interest in the pool. The original balance securitized with the trust was $41,237. The credit union elected to apply all principal collected on the underlying consumer mortgage receivables against its interest in the co-ownership pool. During 2018, the credit union's interest in the pool decreased from 27.6% to a 0.0% interest at the end of the year. As a result, the trust now has 100% interest (2017 - 72.4%) in the co-ownership pool. Cash collected on the underlying mortgages is now applied against the trust's interest in the pool. At December 31, 2018, the trust's interest in the pool was $31,214 (2017 - $41,237). The credit union could elect to contribute additional uninsured consumer mortgage receivables into the co-ownership pool.

Original proceeds on the securitization transaction were $40,000, which reflects 3% over collateralization. At December 31, 2018, the balance of the securitization debt obligation related to the securitization transaction was $30,301 (2017 - $40,036) which includes accrued interest of $24 (2017 - $36). Interest is accrued at a floating rate.

Under the ABCP program, the credit union provides limited recourse in two ways. Firstly, a cash reserve account is maintained as a reserve against losses. Losses pertaining to the trust's interest in uninsured consumer mortgage receivables are applied against the cash reserve account. The balance of the cash reserve account is returned to the credit union as the trust's interest in the mortgage receivables amortizes. The balance of the cash reserve account is included in cash and cash equivalents in the consolidated statement of financial position. At December 31, 2018, the cash reserve account balance relating to the ABCP program was $454 (2017 - $600) (note 7). Secondly, the trust's interest in the mortgage receivables was over collateralized by 3%. The trust has no recourse to the credit union's interest in the co-ownership pool or to any other assets of the credit union.

The table below summarizes the carrying amounts of the mortgage receivables securitized and sold and the cash reserve account along with the associated securitized debt obligation for the securitization under the ABCP program.

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Asset-Backed Commercial Paper ("ABCP") Program (continued)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligation	$ 31,214	$ 30,277	$ 41,237	$ 40,000
Cash reserve account	454	-	600	-
Accrued interest	-	24	-	36
	$ 31,668	$ 30,301	$ 41,837	$ 40,036

(d) Leases receivable securitized:

The credit union securitizes leases receivable to manage funding and interest rate risk. Leases receivable are securitized through Mercado Financing Ltd., a special purpose vehicle wholly owned by Mercado Capital Corporation. Under this structure, the trust that acquires the leases receivable has no recourse to any other assets of the credit union. Similarly, Mercado Financing Ltd.'s assets are not available to satisfy any claims of creditors of the credit union.

Securitized leases receivable do not qualify for derecognition principally due to the credit union retaining significant exposure to credit and prepayment risks associated with the transferred leases receivable. As such, these transactions are accounted for as financing activities and result in the recognition of securitization debt obligations for the securitization proceeds received which are subsequently measured at amortized cost.

During 2018, the credit union securitized $20,805 (2017 - $56,970) of leases receivable. The balance of leases receivable recognized in the consolidated statement of financial position that have been securitized at December 31, 2018 was $58,897 (2017 - $60,156). At December 31, 2018, the securitization debt obligations relating to leases receivable securitized were $59,022 (2017 - $59,626).

The table below is a continuity schedule showing the change during the year ended December 31 in the carrying amounts of the securitization debt obligations relating to leases receivable securitized that did not qualify for derecognition.

	2018	2017
Balance at January 1	$ 59,626	$ 18,935
Net cash changes	(618)	40,624
Other	14	67
Balance at December 31	$ 59,022	$ 59,626

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9. Loans and leases receivable (continued):

(d) Leases receivable securitized (continued):

Securitization debt obligations associated with leases receivable securitized are limited recourse liabilities. The special purpose vehicles or trusts have recourse against the cash flows on the securitized leases receivable. In addition, the credit union funds a cash reserve account. Credit losses on leases receivable are applied against the cash reserve account. The balance of the cash reserve account is returned to the credit union as the securitized assets amortize. The balance of the cash reserve account is included in cash and cash equivalents in the consolidated statement of financial position. At December 31, 2018, the balance of the cash reserve account was $3,849 (2017 - $4,393) (note 7).

10. Members' deposits:

	2018	2017
Demand deposits	$ 942,262	$ 982,941
Term deposits	1,547,483	1,419,669
Registered savings plans	263,678	254,882
Member shares	285	288
Accrued interest payable	17,636	10,861
	$ 2,771,344	$ 2,668,641

The number of member shares issued at December 31, 2018 was 285,040 (2017 - 287,605). Member shares have a par value of $1 per share and entitle the holder to membership in the credit union, access to the products and services offered and to other member entitlements. Member shares do not earn interest or share in the earnings of the credit union, and are redeemed at par upon termination of membership.

11. Borrowings:

During the year ended December 31, 2018, the credit union drew a maximum of $145,000 (2017 - $101,000) on its credit facilities during the year. The amount outstanding under the credit facilities at December 31, 2018 was nil (2017 - nil). There were no other borrowings during the years ended December 31, 2018 and 2017 and no other outstanding amounts at December 31, 2018 and 2017.

At December 31, 2018, the credit union had three approved credit facilities totaling $248,000 (2017 - $248,000). The first, with Central 1, is secured by a general charge over the assets of the credit union. For credit facilities with other financial institutions, security in the amount of $134,121 (2017 - $152,803) has been provided by a first charge against specific insured consumer mortgages which are in priority position in relation to the general charge of Central 1. All borrowings are repayable within 12 months.

12. Financial instruments:

(a) Financial assets and financial liabilities by category:

The following tables summarize the credit union's financial assets and financial liabilities by category at December 31, excluding leases receivable which are measured at the credit union's net investment in leases. Comparative information presented for 2017 is based on categories of financial instruments under IAS 39.

2018	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
Cash and cash equivalents	$ 28,479	$ 83,517	$ -	$ 111,996
Investments	25,818	311,773	4,767	342,358
Loans	2,541,127	-	-	2,541,127
Members' deposits	(2,771,344)	-	-	(2,771,344)
Accounts payable and accrued liabilities	(13,259)	-	-	(13,259)
Securitization debt obligations	(348,007)	-	-	(348,007)
	$ (537,186)	$ 395,290	$ 4,767	$ (137,129)

2017	Loans and receivables - measured at amortized cost	AFS financial assets	Held-to-maturity investments	Financial liabilities - measured at amortized cost	Total
Cash and cash equivalents	$ 90,650	$ -	$ -	$ -	$ 90,650
Investments:					
Measured at fair value	-	288,135	-	-	288,135
Measured at cost	-	10,520	-	-	10,520
Measured at amortized cost	-	-	42,563	-	42,563
Loans	2,409,509	-	-	-	2,409,509
Members' deposits	-	-	-	(2,668,641)	(2,668,641)
Accounts payable and accrued liabilities	-	-	-	(17,879)	(17,879)
Securitization debt obligations	-	-	-	(265,193)	(265,193)
	$ 2,500,159	$ 298,655	$ 42,563	$ (2,951,713)	$ (110,336)

(b) Fair value information:

The fair value hierarchy established under IFRS categorizes inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

12. Financial instruments (continued):

(b) Fair value information (continued):

The following table sets out the fair values of the credit union's financial assets and financial liabilities recognized in the statement of financial position at December 31, and the levels of the fair value hierarchy within which the fair value measurements are categorized, as compared to the carrying amounts:

	Fair value				Carrying
2018	Level 1	Level 2	Level 3	Total	amount
Financial assets:					
Measured at fair value					
Cash equivalents	$ -	$ 83,517	$ -	$ 83,517	$ 83,517
Investments	50,775	247,326	18,439	316,540	316,540
Measured at amortized cost					
Cash and cash equivalents	28,479	-	-	28,479	28,479
Investments	-	26,003	-	26,003	25,818
Loans	-	2,524,465	-	2,524,465	2,541,127
Leases receivable	-	337,047	-	337,047	336,911
	$ 79,254	$ 3,218,358	$ 18,439	$ 3,316,051	$ 3,332,392
Financial liabilities:					
Measured at amortized cost					
Members' deposits	$ -	$ 2,723,327	$ -	$ 2,723,327	$ 2,771,344
Accounts payable and accrued liabilities	13,259	-	-	13,259	13,259
Securitization debt obligations	-	344,477	-	344,477	348,007
	$ 13,259	$ 3,067,804	$ -	$ 3,081,063	$ 3,132,610

	Fair value				Carrying
2017	Level 1	Level 2	Level 3	Total	amount
Financial assets:					
Measured at fair value					
AFS Investments	$ 45,353	$ 227,860	$ 14,922	$ 288,135	$ 288,135
Measured at amortized cost					
Cash and cash equivalents	73,091	17,559	-	90,650	90,650
Held-to-maturity Investments	-	42,816	-	42,816	42,563
Loans	-	2,401,213	-	2,401,213	2,409,509
Measured at cost					
AFS Investments	-	10,520	-	10,520	10,520
Leases receivable	-	300,777	-	300,777	299,956
	$ 118,444	$ 3,000,745	$ 14,922	$ 3,134,111	$ 3,141,333
Financial liabilities:					
Measured at amortized cost					
Members' deposits	$ -	$ 2,636,733	$ -	$ 2,636,733	$ 2,668,641
Accounts payable and accrued liabilities	17,879	-	-	17,879	17,879
Securitization debt obligations	-	261,776	-	261,776	265,193
	$ 17,879	$ 2,898,509	$ -	$ 2,916,388	$ 2,951,713

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12. Financial instruments (continued):

(b) Fair value information (continued):

During the years ended December 31, 2018 and 2017, there were no transfers between the levels of fair value hierarchy.

Valuation methodologies

Fair values for financial assets are determined based on quoted market prices (Level 1) when available. When a financial asset is not quoted in an active market, fair value is determined using quoted prices for similar instruments, other third party evidence or valuation techniques, including discounted future cash flows, that estimate the price at which an orderly transaction to sell the financial asset would take place between market participants at the measurement date under current market conditions. When using valuation techniques, the credit union maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The carrying amounts of cash and cash equivalents, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of the financial assets.

The fair values of loans, leases receivable and members' deposits with fixed rates and fixed maturity dates are measured as the present value of future cash flows. Other inputs to the valuation model for measuring fair values of fixed rate loans and leases receivable include scheduled loan amortization rates and estimated prepayment rates.

The fair values of securitization debt obligations are estimated based on the present value of the future cash flows, discounted using the credit union's current rate of borrowing (Level 2).

The fair values of investments are based on quoted market prices (Level 1) except for the following:

- the fair values of investments in liquidity deposits, principal and interest reinvestment accounts and sub note - junior notes are estimated based on the present value of future cash flows, discounted using current market interest rates for investments with similar risks and maturity dates (Level 2).
- the fair value of investments in Central 1 Class A and Class F shares is based on the redemption amount (Level 2), which equals cost.

12. Financial instruments (continued):

(b) Fair value information (continued):

Valuation methodologies (continued)

- the fair value of investments in Central 1 Class E shares is estimated based on their cost, unless redemption is likely, in which case the fair value equals the redemption amount (Level 2). As permitted by IFRS 9, the cost of Central 1 Class E shares is considered an appropriate estimate of the fair value when there is insufficient more recent information available to measure fair value. At December 31, 2017, 24.95% of Central 1 Class E shares held by the credit union were measured at fair value, being the redemption amount of $100 per share, resulting in an unrealized gain of $1,931 being recorded in other comprehensive income. The remaining Central 1 Class E shares held were measured at cost at December 31, 2017 as there are no quoted market prices, and the likelihood and timing of any future redemption of the shares could not be determined. Upon the transition to IFRS 9, the portion of Class E shares being redeemed continued to be carried at the fair value of $100 per share. The shares were redeemed on March 29, 2018 for $100 per share.
- as permitted by IFRS 9 in limited circumstances, the costs of investments in equity securities of other financial service providers are considered appropriate estimates of the fair values (Level 2) due to insufficient more recent information available to measure fair value.
- the fair values of investments in fixed income investments with original maturities of greater than 90 days and equity-indexed units are estimated by a third party financial institution using proprietary software, indices and methodologies. Unobservable inputs include the reference index level, spread over the risk-free interest rate and volatility (Level 3).

The following table reconciles the credit union's Level 3 fair value measurements from opening balance to closing balance at December 31:

	2018	2017
Balance at January 1	$ 14,922	$ 21,663
New investments	4,911	-
Sold investments	-	(6,060)
Return of capital	(324)	(321)
Unrealized change in fair value - recognized in consolidated statement of income	(1,057)	-
Unrealized change in fair value - recognized in other comprehensive income	(13)	(360)
Balance at December 31	$ 18,439	$ 14,922

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12. Financial instruments (continued):

(b) Fair value information (continued):

Valuation methodologies (continued)

Since the fixed income investments are principal protected, the risk of a decrease in principal only exists if these investments are not held to maturity.

The sensitivity of fair value to changes in Level 3 inputs is shown in the following table:

	2018		2017	
Input	10% increase	10% decrease	10% increase	10% decrease
Reference Index Level	$ 607	$ (538)	$ 896	$ (612)
Risk-free rate	(81)	96	(50)	51
Spread over risk-free rate	(55)	55	(33)	33
Volatility	41	(37)	31	(29)

13. Financial risks and risk management:

The nature of Westminster Saving's business activities results in a consolidated statement of financial position that consists primarily of financial instruments. The types of risks arising from these financial instruments to which the credit union is exposed and the credit union's objectives, policies and processes for managing the risks and the methods used to measure the risks are described below.

(a) Credit risk:

Credit risk is the risk of financial loss for the credit union resulting from a borrower's or lessee's inability to repay or from the inability of a counterparty to a financial instrument to complete or fulfill financial obligations to the credit union. Credit risk arises principally from loans, leases receivable and investments. There is also credit risk in cash and cash equivalents, unfunded loan and lease receivable commitments, interest rate swaps, and letters of credit.

Credit risk management

Management of credit risk is an integral part of the credit union's activities and is managed in accordance with lending and investment policies approved by the Board of Directors. These policies identify authorized loans, leases receivable and investment types, limit asset concentrations, stipulate credit evaluation standards and delegate approval authorities. Management policies have also been implemented including evaluating a members' ability to repay a loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over-limit amounts.

13. Financial risks and risk management (continued):

(a) Credit risk (continued)

Credit risk management (continued)

Management carefully monitors and manages the credit union's exposure to credit risk by a combination of methods. The overall management of credit risk is centralized in the Investment and Loan Committee which reports to the Board of Directors. The Investment and Loan 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 through setting limits on credit exposures to individual members and across sectors.

The credit union employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced. The credit union maintains investment and lending policies which impose guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral types for loans and leases receivable are:

- mortgages over residential and commercial properties;
- charges over vehicles, other property, or over business assets such as equipment, inventory, accounts receivable and other assets; and
- charges over financial instruments such as deposits or other securities.

Credit risk arises from investments held by the credit union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by Treasury which reports to the Asset-Liability Committee, which in turn reports to the Investment and Loan Committee. These investments are limited to approved, reputable counterparties that are monitored on an ongoing basis to ensure that an appropriate risk-return profile is maintained in keeping with the credit union's policies. There are also limits on concentrations of individual asset types to ensure that the portfolio is well diversified.

Inputs and assumptions for measuring expected credit losses

(*i*) Significant increase in credit risk:

A SICR is considered to have occurred when the remaining lifetime probability of default of a financial asset has increased significantly since initial recognition.

For consumer loans and consumer leases receivable, SICR is assessed based on the movements in credit scores since initial recognition. For commercial loans, SICR is assessed based on movements in internal risk ratings assigned to each financial asset since initial recognition. The credit union applies a 5-point risk rating scale. For

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued)

(*i*) Significant increase in credit risk (continued):

commercial leases receivable, SICR is assessed based on whether there have been one or more missed payments since initial recognition.

For all loans and leases receivable, a SICR is considered to have occurred when the financial assets are more than 30 days past maturity and outstanding. The credit union also employs qualitative measures to identify loans and leases that have significantly deteriorated in credit quality.

For cash and cash equivalents and investments measured at amortized cost and investments in debt instruments measured at FVOCI, SICR is assessed based on deterioration in the external credit ratings of the financial instruments' counterparties from investment grade to non-investment grade.

(*ii*) Calculating expected credit losses:

As permitted by IFRS 9, the loss allowance for Stage 1 and Stage 2 loans and leases receivable is assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, the credit union has grouped its financial assets into segments on the basis of shared credit risk characteristics.

Where modeling is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- line of business (consumer banking, commercial banking, consumer leasing, and commercial leasing);
- credit risk ratings, which are based on ranges of similar Beacon scores (consumer loans and leases receivable), internal risk ratings (commercial loans), or payment history (commercial leases receivable);
- collateral type;
- insured status; and
- similar expected prepayment rates or draw down rates.

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued)

(*ii*) Calculating expected credit losses (continued):

Probability of default:

The 12-month ECL for Stage 1 assets and lifetime ECL for Stage 2 assets are calculated using the 12-month PD and lifetime PD, respectively and are determined as follows:

- consumer banking and consumer leasing assets - based on Beacon scores, and the credit union's average historical annual default rate for the relevant PD segment.
- commercial banking assets - based on the current internal risk ratings assigned to the assets and the historical bond default rates provided by Moody's Investors Service, Inc., mapped to the relevant PD segment.
- commercial leasing assets - based on the number of missed payments for the assets and the credit union's average historical annual default rate for the relevant PD segment.

The lifetime PD for all loans and leases receivable are calculated based on the 12-month PD for the assets and the expected remaining life of the assets, assuming a constant default rate during the lifetime of the assets.

Loss given default:

The LGD reflects the credit union's estimate of cash shortfalls in the event of default. LGD is primarily estimated based on the current collateral values of the financial assets discounted for the time to obtain and collect on the collateral upon default, the estimated costs to obtain and collect on the collateral, and the current book value of the financial asset. Current collateral values are primarily based on external market evidence at the reporting date (e.g. property valuations from Landcor Data Corporation and vehicle valuations from Canadian Black Book). When external market evidence is not available, the current collateral value is based on the appraised value of the collateral at origination or estimated based on the initial capital costs.

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13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued)

(*ii*) Calculating expected credit losses (continued)

Forward looking information and macroeconomic factors:

The FLF component represents management's estimate of the impacts on the ECL of forward looking information and forecasts of macroeconomic conditions to the credit union's ECL. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECL. Multiple scenarios are forecasted to ensure that estimates of ECL are unbiased.

The forward looking and macroeconomic factors considered in determining the FLF inputs to the ECL calculation on initial application of IFRS 9 at January 1, 2018 and December 31, 2018 were GDP, interest rates, housing starts, vacancy data, house pricing index and unemployment rate.

Exposure at default:

The EAD is an estimate of a loan or lease receivable exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan or lease receivable. Expected prepayments (partial or full) prior to maturity is estimated on a portfolio basis.

For lines of credit and multi-advance commercial loans that allow borrowers to draw down on the loans over time to coincide with construction progress, the EAD is determined based on the credit union's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

Time value of money:

The 12-month and lifetime ECL at the reporting date represent the present value of the expected cash shortfalls resulting from the probability of defaults occurring over the relevant period after the reporting date. The cash shortfalls have been discounted to the reporting date using the effective interest rate of the underlying loans and leases receivable.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued)

(*ii*) Calculating expected credit losses (continued)

Credit-impaired financial assets:

When identifying loans and leases receivable that are credit-impaired for which the loss allowance for ECL is calculated individually, the credit union determines whether indicators of a borrower's unlikeliness to pay exist. Evidence that a financial asset of the credit union is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event;
- the credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The credit union applies the following quantitative thresholds for identifying loans and leases receivable that are credit-impaired:
- commercial loans or leases receivable risk rated poor;
- loans or leases receivable that are 90 or more days past due or classified as non-performing loans or recovery loans (lines of credit); and
- loans or leases receivable that are 90 or more days past maturity and outstanding.

Cash and cash equivalents and investments

The credit union is required to recognize a loss allowance on cash and cash equivalents and investments measured at amortized cost, and investments measured at FVOCI, at each reporting date. The 12-month ECL for Stage 1 financial assets and lifetime ECL for Stage 2 financial assets are based on external credit ratings of the financial instruments' counterparties and historical PD data provided by Moody's. As of December 31, 2018 there is no loss allowance recognized for these assets.

Allowance for credit losses

The following tables show reconciliations from the opening balance to the closing balance of the credit union's ECL allowance on loans and leases receivable, by class of financial asset and loss allowance category. Comparative amounts for 2017 represent the allowance for credit losses measured under IAS 39:

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses (continued)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total[1]
Consumer loans					
Balance at January 1	$ -	$ -	$ -	$ 589	$ 800
Adjustment on initial application of IFRS 9	-	-	-	(132)	-
Balance at January 1 (adjusted)	$ 118	$ 298	$ 41	457	800
Change in provision	(11)	(33)	14	(30)	(211)
Balance at December 31	$ 107	$ 265	$ 55	$ 427	$ 589
Commercial loans					
Balance at January 1	-	-	-	$ 3,054	$ 3,368
Adjustment on initial application of IFRS 9	-	-	-	389	-
Balance at January 1 (adjusted)	$ 1,810	$ 1,633	$ -	3,443	3,368
Change in provision	(293)	410	263	380	(314)
Balance at December 31	$ 1,517	$ 2,043	$ 263	$ 3,823	$ 3,054
Consumer leases					
Balance at January 1	$ -	$ -	$ -	$ 879	$ 609
Adjustment on initial application of IFRS 9	-	-	-	(622)	-
Balance at January 1 (adjusted)	$ 118	$ 107	$ 32	257	609
Change in provision	(20)	52	(11)	21	270
Balance at December 31	$ 98	$ 159	$ 21	$ 278	$ 879
Commercial leases					
Balance at January 1	$ -	$ -	$ -	$ 1,628	$ 1,065
Adjustment on initial application of IFRS 9	-	-	-	464	-
Balance at January 1 (adjusted)	$ 703	$ 1,287	$ 102	2,092	1,065
Change in provision	44	(380)	(62)	(398)	563
Balance at December 31	$ 747	$ 907	$ 40	$ 1,694	$ 1,628
Total balance at January 1 (unadjusted)	$ -	$ -	$ -	$ 6,150	$ 5,842
Adjustment on initial application of IFRS 9	-	-	-	99	-
Total balance at January 1 (adjusted)	$ 2,749	$ 3,325	$ 175	6,249	5,842
Total change in provision	(280)	50	203	(27)	308
Total balance at December 31	$ 2,469	$ 3,375	$ 378	$ 6,222	$ 6,150

[1] The allowance for losses on loans and leases receivable at December 31, 2017 reflects the credit union's collective provision for losses. There was no specific provision for losses on loans and leases receivable at December 31, 2017.

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses (continued)

The amounts recognized in the consolidated statement of income for impairment losses on financial assets during the years ended December 31 were as follows:

	2018	2017
Increase (decrease) in allowance for credit losses - loans	$ 350	$ (525)
Increase (decrease) in allowance for credit losses - leases receivable	(377)	833
Decrease in loss allowance for unguaranteed lease residual values	(325)	(175)
Direct write-offs - loans	227	234
Direct write-offs - leases receivable	945	1,411
Impairment losses on AFS investments	-	431
	$ 820	$ 2,209

There were no significant changes to our ECL due to changes in gross carrying amounts during the year.

Credit quality and credit risk exposures - Loans and leases receivable

The following tables set out information about the credit quality of the credit union's loans measured at amortized cost, leases receivable, letters of credit and other credit risk exposures, by category of loss allowance at December 31, 2018. The amounts in the table represent the gross values of the credit union's committed and undrawn exposures to credit risk.

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13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Credit quality and credit risk exposures - Loans and leases receivable (continued)

At December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Excellent	$ 1,305,237	$ 117,472	$ -	$ 1,422,709
Good	485,634	197,049	-	682,683
Fair	45,728	70,741	-	116,469
Poor	8,115	34,500	1,293	43,908
	$ 1,844,714	$ 419,762	$ 1,293	$ 2,265,769
Commercial loans:				
Excellent	$ 31,274	$ -	$ -	$ 31,274
Satisfactory	532,047	31,237	-	563,284
Satisfactory on the watch list	-	24,613	-	24,613
Less than satisfactory	13	23,570	5	23,588
Credit-impaired	-	-	2,411	2,411
	$ 563,334	$ 79,420	$ 2,416	$ 645,170
Consumer leases:				
Excellent	$ 51,136	$ 1,075	$ 50	$ 52,261
Good	29,404	9,721	59	39,184
Fair	5,042	5,415	-	10,457
Poor	841	3,644	-	4,485
	$ 86,423	$ 19,855	$ 109	$ 106,387
Commercial leases:				
Excellent	$ 212,801	$ 3,031	$ 83	$ 215,915
Good	-	5,244	28	5,272
Fair	-	2,169	-	2,169
Poor	-	6,285	-	6,285
	$ 212,801	$ 16,729	$ 111	$ 229,641
Total	$ 2,707,272	$ 535,766	$ 3,929	$ 3,246,967

Cash equivalents and investments in debt and equity instruments - measured at FVTPL

At December 31, 2018 the carrying amount of cash equivalents and investments measured at FVTPL of $311,773 represents the credit union's maximum exposure to credit risk on these assets.

Comparative information for 2017 under IAS 39

The following table sets out the credit union's credit risk exposures as at December 31, 2017, comprised of the carrying amounts of all on-balance sheet exposures, undrawn commitments and off-balance sheet exposures.

13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Comparative information for 2017 under IAS 39 (continued)

At December 31, 2017	On-balance sheet	Undrawn commitments	Off-balance sheet	Total exposure
Cash and cash equivalents	$ 90,650	$ -	$ -	$ 90,650
AFS investments	298,655	-	-	298,655
Held-to-maturity investments	42,563	-	-	42,563
Consumer loans	1,834,876	404,302	-	2,239,178
Commercial loans	571,663	149,408	-	721,071
Accrued interest on loans	2,749	-	-	2,749
Deferred fees on loans	3,864	-	-	3,864
Allowance for losses on loans	(3,643)	-	-	(3,643)
Leases receivable	300,511	-	-	300,511
Deferred fees on leases receivable	2,777	-	-	2,777
Allowance for losses on leases	(3,332)	-	-	(3,332)
Obligation under letters of credit	-	-	10,175	10,175
Total exposure	$ 3,141,333	$ 553,710	$ 10,175	$ 3,705,218

The following table provides comparative information on loans and leases receivable at December 31, 2017:

	Current	Past due		
	0-30 days	30-90 days	90+ days	Total
Consumer mortgages	$ 1,589,321	$ 6,568	$ 1,381	$ 1,597,270
Consumer loans	234,446	3,148	12	237,606
Commercial loans	571,660	3	-	571,663
Leases receivable	295,187	5,324	-	300,511
	$ 2,690,614	$ 15,043	$ 1,393	$ 2,707,050

None of the above financial assets were impaired at December 31, 2017.

Collateral held and other credit enhancements

As part of its lending activities, the credit union takes security as collateral for loans and leases receivable. The credit union maintains guidelines on the acceptability of specific types of collateral. Management monitors the amount of exposure to limit any concentrations of risk and to ensure that the overall loans and leases receivable portfolios are diversified in keeping with the credit union's policies.

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13. Financial risks and risk management (continued):

(a) Credit risk (continued):

Collateral held and other credit enhancements (continued)

For undrawn commitments, the commitment to advance funds is contingent on the pledging of acceptable collateral, in keeping with the credit union's policies.

Where significant impairment indicators are identified, the credit union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The following tables set out information on the collateral held by the credit union as security for its loans and leases receivable at December 31:

2018	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 465,069	$ 1,191,648	$ 18,940	$ -	$ -	$ 316	$ 1,675,973
Consumer loans	-	154,241	66,321	1,698	5,009	22,152	249,421
Commercial mortgages	-	322,571	780	-	-	-	323,351
Commercial loans	-	281,074	1	58	9,948	1,456	292,537
Vehicle leases receivable	-	-	-	186,714	-	-	186,714
Equipment leases receivable	-	-	-	-	149,315	-	149,315
	$ 465,069	$ 1,949,534	$ 86,042	$ 188,470	$ 164,272	$ 23,924	$ 2,877,311

2017	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 457,887	$ 1,118,923	$ 20,136	$ -	$ -	$ 324	$ 1,597,270
Consumer loans	-	135,341	71,666	2,330	4,754	23,515	237,606
Commercial mortgages	-	308,573	-	-	-	-	308,573
Commercial loans	-	251,145	49	64	10,613	1,219	263,090
Vehicle leases receivable	-	-	-	152,917	-	-	152,917
Equipment leases receivable	-	-	-	-	147,594	-	147,594
	$ 457,887	$ 1,813,982	$ 91,851	$ 155,311	$ 162,961	$ 25,058	$ 2,707,050

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13. Financial risks and risk management (continued):

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the impact that changes in interest rates may have on income and economic values due to the mismatch between positions that are subject to interest rate adjustments in a specified period. Interest rate risk results primarily from differences in the maturity dates or repricing dates of interest-bearing assets and liabilities. The credit union monitors interest rate risk inherent in the portfolio. It employs techniques, including maturity and repricing schedules and portfolio modeling to measure 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. Other types of interest rate risk may involve basis risk, which is the risk of loss, arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example, the difference between prime lending rates and savings deposit rates).

Net interest income may increase or decrease in response to changes in market interest rates. Accordingly, the credit union sets limits on the level of interest rate risk exposure. Interest rate risk is managed by Treasury and monitored by the Asset-Liability Committee.

Income simulation is used to assess the credit union's interest rate exposure. Interest rate shock analysis involves measuring the impact of a change of 100 basis points or greater in interest rates. Income simulation and interest rate shock analysis are calculated monthly and reported to the Asset-Liability Committee quarterly. At December 31, 2018, the credit union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $65 (2017 - increase net income by $2,275) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $153 (2017 - $2,644) over the next 12 months.

Interest rate swaps

Interest rate exchange agreements (swaps) are transactions in which two parties exchange fixed-rate interest payments for floating-rate interest payments for a predetermined period, calculated using agreed fixed and floating rates applied to an agreed notional amount. Notional amounts are not exchanged, and do not represent credit or market risk exposure.

Interest rate swaps are used to modify and reduce the credit union's interest rate risk exposure.

Interest rate swaps are measured at fair value determined using present value and other valuation techniques. At December 31, 2018, the balance of interest rate swaps was nil (2017 - nil).

13. Financial risks and risk management (continued):

(b) Interest rate risk (continued):

Interest rate risk measurement

The following tables summarize the carrying amounts of the credit union's financial assets and financial liabilities and resulting interest rate sensitivity based on the earlier of the contractual repricing or maturity dates (adjusted for prepayment assumptions):

2018	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	1.75%	$ 111,975	$ -	$ -	$ -	$ 21	$ 111,996
Investments	1.79%	63,015	41,075	127,157	51,999	59,112	342,358
Loans	3.80%	1,074,245	293,168	620,059	553,810	(155)	2,541,127
Leases receivable	6.10%	34,519	92,555	159,771	49,184	882	336,911
	3.76%	$ 1,283,754	$ 426,798	$ 906,987	$ 654,993	$ 59,860	$ 3,332,392
Liabilities							
Members' deposits	1.67%	$ 1,570,900	$ 1,008,414	$ 158,563	$ 15,546	$ 17,921	$ 2,771,344
Securitization debt obligations	2.31%	42,965	51,763	113,671	139,397	211	348,007
Accounts payable and accrued liabilities	-	-	-	-	-	13,259	13,259
	1.74%	$ 1,613,865	$ 1,060,177	$ 272,234	$ 154,943	$ 31,391	$ 3,132,610
Interest rate sensitivity gap	2.02%	$ (330,111)	$ (633,379)	$ 634,753	$ 500,050	$ 28,469	$ 199,782

2017	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	0.98%	$ 90,639	$ -	$ -	$ -	$ 11	$ 90,650
Investments	1.38%	43,387	99,356	99,545	46,396	52,534	341,218
Loans	3.43%	1,072,295	299,386	523,016	511,841	2,971	2,409,509
Leases receivable	6.34%	32,619	87,838	141,424	38,629	(554)	299,956
	3.42%	$ 1,238,940	$ 486,580	$ 763,985	$ 596,866	$ 54,962	$ 3,141,333
Liabilities							
Members' deposits	1.22%	$ 1,372,675	$ 988,794	$ 277,423	$ 18,599	$ 11,150	$ 2,668,641
Securitization debt obligations	2.01%	31,233	92,460	68,805	72,477	218	265,193
Accounts payable and accrued liabilities	-	-	-	-	-	17,879	17,879
	1.29%	$ 1,403,908	$ 1,081,254	$ 346,228	$ 91,076	$ 29,247	$ 2,951,713
Interest rate sensitivity gap	2.13%	$ (164,968)	$ (594,674)	$ 417,757	$ 505,790	$ 25,715	$ 189,620

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result in the credit union being unable to meet financial obligations in a timely manner and at reasonable prices.

13. Financial risks and risk management (continued):

(c) Liquidity risk (continued):

To mitigate this risk, the credit union is required by regulation to maintain sufficient levels of liquid assets. Required liquidity levels are expressed as a percentage of members' deposits, borrowings and the portion of securitization debt obligation relating to consumer mortgages. The minimum liquidity levels required by regulation are 8% in 2018 (2017 - 8%). At December 31, 2018 and 2017, the credit union's liquidity exceeded the required level.

Liquidity is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain prudent levels of liquidity in relation to its members' deposits and other debt obligations, in order to retain customer confidence in the credit union and to enable the credit union to meet all financial obligations. This is achieved through management of loan portfolio growth in relation to deposit growth, asset securitizations, and asset-liability maturity management techniques. The credit union also maintains committed borrowing facilities that it can access to meet liquidity needs (note 11).

Management reviews forecasts of the credit union's liquidity requirements on a monthly basis as part of its liquidity management program and ensures funding is available to meet cash requirements.

Liquidity risk measurement

The table below sets out the contractual maturities of the credit union's financial liabilities which shows the undiscounted future cash flows contractually payable by the credit union:

2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Members' deposits	$ 1,191,618	$ 391,649	$ 1,034,618	$ 165,229	$ 29,358	$ 2,812,472
Securitization debt obligations	7,105	13,792	57,371	148,580	143,870	370,718
Accounts payable and accrued liabilities	13,259	-	-	-	-	13,259
Total financial liabilities	$ 1,211,982	$ 405,441	$ 1,091,989	$ 313,809	$ 173,228	$ 3,196,449

2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Members' deposits	$ 1,093,417	$ 245,997	$ 1,034,455	$ 286,791	$ 33,080	$ 2,693,740
Securitization debt obligations	2,345	4,651	64,187	103,649	105,986	280,818
Accounts payable and accrued liabilities	17,879	-	-	-	-	17,879
Total financial liabilities	$ 1,113,641	$ 250,648	$ 1,098,642	$ 390,440	$ 139,066	$ 2,992,437

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13. Financial risks and risk management (continued):

(d) Equity price risk:

The credit union's investment portfolio includes equity investments. Fluctuations in the value of equity and equity-indexed securities impact the recognition of both realized and unrealized gains and losses on equity investments. The credit union has policies in place to limit and monitor its exposure to individual issuers and classes of securities.

A 10% change in equity prices would have a $4,603 impact on net income for the year ended December 31, 2018 (2017 - $4,241). This analysis is based on the assumption that all equity and equity-indexed investments increase/decrease in price while all other variables are held constant.

(e) Foreign exchange risk:

The credit union is subject to currency risk which arises on financial instruments that are denominated in a foreign currency. Foreign exchange risk is managed in accordance with a policy approved by the Board of Directors. The credit union's policy is to manage currency risk to preclude any material impact on net income. The potential impact of changes to foreign exchange rates on net income is not expected to be significant.

During the year ended December 31, 2018, the credit union recognized foreign exchange income of $1,017 (2017 - $781), included in net gains (losses) on financial instruments at FVTPL and other income in the consolidated statement of income.

(f) Capital management:

The *Financial Institutions Act* regulations prescribe the minimum required capital that must be held by the credit union. The level of capital required is based on the risk-weighted value of the assets held by the credit union. The prescribed minimum ratio of capital to risk-weighted assets is 8%, along with a requirement that at least 35% of its capital base consist of retained earnings. Capital is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain a prudent relationship between the capital base and the underlying risks of the business, in order to support business growth and expansion of services to members. Credit union policy requires that a capital ratio of 10.5% be maintained.

Management regards a strong capital base as an integral part of the credit union's business strategy. The credit union's objectives for capital management include maintaining substantially all credit union capital in the form of retained earnings. The credit union maintains a capital plan to ensure that long-term capital requirements are met. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

At December 31, 2018 and 2017, the credit union's capital ratios were in compliance with the regulatory requirements and with the credit union's internal policy requirements.

14. Premises and equipment:

2018	Land and buildings	Computer and ATM equipment	Furniture and equipment	Leasehold improvements	Total
Balance at January 1	$ 1,484	$ 1,167	$ 4,856	$ 3,163	$ 10,670
Additions	-	464	284	248	996
Disposals	(1,481)	-	-	-	(1,481)
Depreciation	(3)	(367)	(1,108)	(484)	(1,962)
Balance at December 31	$ -	$ 1,264	$ 4,032	$ 2,927	$ 8,223
At December 31					
Cost	$ -	$ 4,708	$ 13,411	$ 13,071	$ 31,190
Accumulated depreciation	-	(3,444)	(9,379)	(10,144)	(22,967)
Carrying amount	$ -	$ 1,264	$ 4,032	$ 2,927	$ 8,223

2017	Land and buildings	Computer and ATM equipment	Furniture and equipment	Leasehold improvements	Total
Balance at January 1	$ 1,524	$ 955	$ 4,717	$ 1,913	$ 9,109
Additions	-	529	1,259	1,648	3,436
Disposals	-	-	-	-	-
Depreciation	(40)	(317)	(1,120)	(398)	(1,875)
Balance at December 31	$ 1,484	$ 1,167	$ 4,856	$ 3,163	$ 10,670
At December 31					
Cost	$ 2,998	$ 4,344	$ 13,605	$ 13,747	$ 34,694
Accumulated depreciation	(1,514)	(3,177)	(8,749)	(10,584)	(24,024)
Carrying amount	$ 1,484	$ 1,167	$ 4,856	$ 3,163	$ 10,670

During 2018 the credit union disposed of a property for net proceeds after selling costs of $2,452 The gain of $971 on disposal was recorded in other income in the consolidated statement of income (note 21). During 2017 the credit union did not dispose of any property. Depreciation of premises and equipment is recognized in the consolidated statement of income within general and administrative expenses.

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15. Intangible assets:

2018	Computer software licences	Other intangible assets	Total intangible
Balance at January 1	$ 1,295	$ 535	$ 1,830
Additions	387	-	387
Amortization	(381)	(157)	(538)
Balance at December 31	$ 1,301	$ 378	$ 1,679
At December 31			
Cost	$ 4,930	$ 2,192	$ 7,122
Accumulated amortization and impairment	(3,629)	(1,814)	(5,443)
Carrying amount	$ 1,301	$ 378	$ 1,679

2017	Computer software licences	Other intangible assets	Total intangible
Balance at January 1	$ 1,310	$ 691	$ 2,001
Additions	429	-	429
Amortization	(444)	(156)	(600)
Balance at December 31	$ 1,295	$ 535	$ 1,830
At December 31			
Cost	$ 4,543	$ 2,192	$ 6,735
Accumulated amortization and impairment	(3,248)	(1,657)	(4,905)
Carrying amount	$ 1,295	$ 535	$ 1,830

Amortization of intangible assets is recognized in the consolidated statement of income within general and administrative expenses.

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16. Other assets:

		2018		2017
Repossessed property (note 9(b))	$	1,823	$	3,259
Accounts receivable		1,390		2,064
Prepaid expenses		1,452		1,573
	$	4,665	$	6,896

During the year ended December 31, 2018, the credit union recognized impairment losses of $2,286 (2017 - $2,640) on repossessed property, included in impairment losses on other assets in the consolidated statement of income. During the year ended December 31, 2018, the credit union recognized recoveries from repossessed property of $1,087 (2017 - $756), included in fee and commission income in the consolidated statement of income (note 19).

17. Retirement benefit obligations:

Retirement benefits are provided to the credit union's employees through various pension plans, which are funded through employer contributions.

The Westminster Savings Employee Pension Plan (the "WSEPP") provides pension benefits to the employees of Westminster Savings through a defined benefit and a defined contribution plan. Effective June 30, 2018, the defined benefit plan was closed to new employees. New employees after that date participate in a defined contribution benefit plan. Existing participants in the defined benefit plan continue to accrue benefits under the plan.

The credit union has two defined benefit Supplemental Employee Retirement Plans (SERP 1 and SERP 2). SERP 1 serves a small number of retired participants and is closed to new participants. SERP 2 is effective January 1, 2018 and serves a small number of participants. SERP 2 is open to new participants.

Prior to July 1, 2018 the credit union had a money purchase plan group RSP for employees of Mercado Capital Corporation. These employees were transferred to the new defined contribution benefit plan of the WSEPP at July 1, 2018 when the group RSP program ceased.

The credit union also participates in a multi-employer defined contribution pension plan that serves a small number of active and retired employees and is closed to new entrants.

For the defined benefit portion of the WSEPP and SERP plans, the pension expense and plan contributions are determined in consultation with independent actuaries. The plans are required to have an actuarial valuation performed once every three years. The latest actuarial valuation was performed as at December 31, 2017 and the benefit obligation and plan assets as at December 31, 2018 have been estimated by the actuary by extrapolating the results from the actuarial valuation of December 31, 2017 using the assumptions noted. The next valuation will be completed in 2021, with an effective date of December 31, 2020.

17. Retirement benefit obligations (continued):

(a) Funded status of defined benefit pension plans:

The credit union's net defined benefit liability, presented as retirement benefit obligations in the consolidated statement of financial position, reflects the funded status of the defined benefit portion of the WSEPP and SERP. The funded status of these plans are calculated as the difference between the fair value of the plan assets and the present value of the pension benefit obligations as follows:

		2018		2017
Fair value of plan assets				
Fair value of plan assets, beginning of year	$	61,788	$	58,635
Interest income on plan assets		2,168		2,270
Return on plan assets (less) greater than discount rate		(3,490)		1,762
Employer contributions		4,580		2,722
Benefit payments		(3,768)		(3,601)
		61,278		61,788
Present value of defined benefit obligations				
Benefit obligation, beginning of year		70,571		62,621
Current service cost		4,288		3,706
Interest cost		2,404		2,372
Benefit payments		(3,768)		(3,601)
Actuarial (gain) loss		(2,168)		5,473
		71,327		70,571
Deficiency of plan assets over obligations	$	(10,049)	$	(8,783)

(b) Defined benefit pension expense:

The amounts recognized in the consolidated statement of income for the WSEPP and SERP defined benefit pension expense, included in salary and employee benefits expense, were as follows:

		2018		2017
Current service cost	$	4,288	$	3,706
Net interest on net defined benefit liability		236		102
Defined benefit pension expense	$	4,524	$	3,808

17. Retirement benefit obligations (continued):

(c) Investment returns:

The expected return on the WSEPP and SERP defined benefit pension plan assets is determined by considering the discount rate that is used to measure the defined benefit obligation. Expected yields on fixed interest investments are based on gross redemption yields at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

(d) Investment composition and diversification:

The actual return on plan assets for the year ended December 31, 2018, including interest income, was a loss of $1,322 (2017 - gain of $4,032).

Pension fund assets for the WSEPP and SERP defined benefit pension plans are held in a diversified and balanced fund in which the target asset allocation is mandated by the Pension Plan Investment Policy. The objective of this investment policy is to seek acceptable returns with low risk over the expected investment time horizon.

The allocation of the fair value of plan assets, by asset class, at December 31 was as follows:

	2018	2017
Equity securities	55.9%	48.5%
Debt securities	40.4%	48.5%
Other	3.7%	3.0%
	100.0%	100.0%

(e) Actuarial assumptions:

Assumptions regarding future mortality experience are determined based on actuarial advice in accordance with published statistics and experience in Canada. Mortality assumptions are based on the Canadian Pension Mortality (CPM) Private Sector Mortality tables. These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

The significant assumptions used in the measurement of the present value of the WSEPP and SERP defined benefit pension obligations were as follows:

	2018	2017
Discount rate	4.0%	3.5%
Salary scale	3.0%	3.0%
Inflation	2.0%	2.0%

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17. Retirement benefit obligations (continued):

(e) Actuarial assumptions (continued):

At December 31, 2018, the weighted average duration of the defined benefit obligations was 19.3 years (2017 - 21.1 years).

(f) Five-year summary:

	2018	2017	2016	2015	2014
Present value of defined benefit obligations	$ 71,327	$ 70,571	$ 62,621	$ 57,327	$ 51,994
Fair value of plan assets	61,278	61,788	58,635	55,767	51,136
Deficit in the plan	10,049	8,783	3,986	1,560	858
Experience losses (gains) on plan liabilities	4,968	87	29	3,469	(74)
(Gain)/loss on plan assets	3,490	(1,762)	(686)	(1,797)	(2,794)

(g) Sensitivity to changes in discount rates

The sensitivity of the credit union's defined benefit obligations to changes in the discount rate assumption is shown below:

	2018	2017
Discount rate:		
Impact of a 1% increase	$ (11,689)	$ (12,658)
Impact of a 1% decrease	15,348	16,438

The results shown in the sensitivity table were determined by recalculating the defined benefit obligations, changing only the assumption for which the sensitivity is required, and calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the prior period to the methods or assumptions used in preparing the sensitivity analysis.

(h) Defined benefit pension contributions:

During the year ended December 31, 2018, the credit union made contributions of $4,580 (2017 - $2,722) to the WSEPP and SERP defined benefit pension plans. Expected contributions to the plans for the year ending December 31, 2019 are $4,249.

(i) Defined contribution pension expense:

During the year ended December 31, 2018, the credit union recognized pension expense of $38 (2017 - nil) in the consolidated statement of income, included in salary and employee benefits expense, representing the contributions to its defined contribution pension benefit of the WSEPP.

18. Net interest income:

		2018		2017
Interest income:				
Interest from cash and cash equivalents:				
At amortized cost	$	309	$	543
At FVTPL		166		-
Interest and dividends from investments:				
At FVTPL		5,283		-
At FVOCI		164		-
At amortized cost		815		681
Available-for-sale		-		4,126
Interest from loans		92,732		77,285
Interest from leases receivable		19,529		18,858
		118,998		101,493
Interest expense:				
Interest expense on borrowings		807		592
Interest expense on members' deposits		38,705		26,977
Interest expense on securitization debt obligations		7,198		4,860
		46,710		32,429
	$	72,288	$	69,064

19. Net fee and commission income:

		2018		2017
Fee and commission income:				
Wealth management fees	$	6,001	$	5,032
Member service fees and commissions		3,458		3,216
Insurance, mortgage and visa commissions		1,780		1,238
Loan and leases receivable fees		811		969
ATM Network fees		376		391
Fee and commission income from contracts with customers		12,426		10,846
Bad debt recoveries		1,188		856
Total fee and commission income		13,614		11,702
Fee and commission expense:				
Member service expenses		1,620		1,272
Loan and leases receivable expenses		732		749
Loans and leases receivable securitization fees		253		216
Other fees		882		805
Total fee and commission expense		3,487		3,042
Net fee and commission income	$	10,127	$	8,660

WESTMINSTER SAVINGS CREDIT UNION
Notes to consolidated financial statements
(Expressed in thousands of dollars, unless otherwise indicated)

Year ended December 31, 2018

20. Net unrealized losses on financial instruments at FVTPL:

		2018		2017
Unrealized losses	$	(6,231)	$	-
Foreign exchange gains		1,611		-
	$	(4,620)	$	-

Prior to 2018, unrealized gains or losses for the credit union's investments in equity securities, equity-linked securities and preferred shares were accounted for in accumulated other comprehensive income. With the application of IFRS 9, the credit union records the unrealized gains or losses on these investments as FVTPL in the income statement (notes 5(a) and 5(c)). As a transition entry on January 1, 2018, the credit union transferred $8,106 from accumulated other comprehensive income to opening retained earnings, representing the accumulation of unrealized gains on these investments. During 2018 the credit union incurred unrealized losses of $6,231 as a result of market price declines in these investments.

21. Other income:

		2018		2017
Gain on disposition of assets	$	971	$	389
Foreign exchange (losses) gains		(595)		781
Balance at December 31	$	376	$	1,170

During 2018 the credit union disposed of a property with a gain of $971 (2017 - nil) (note 14). During 2017, 3,864 Central 1 Class E shares with a par value of $0.01 per share, equal to their cost, were redeemed at $100 per share resulting in a realized gain of $386 recognized in net income in the consolidated statement of income.

22. Salary and employee benefits:

		2018		2017
Salaries and commissions expense	$	31,434	$	30,089
Employee benefits expense (notes 17(b) and 17(i))		7,268		7,199
Other		979		1,198
	$	39,681	$	38,486

(Expressed in thousands of dollars, unless otherwise indicated)

23. General and administrative expenses:

		2018		2017
Data processing and electronic banking	$	4,321	$	3,790
Insurance, audit and dues		4,161		3,592
Stationary, supplies and other		2,150		2,390
Depreciation of premises and equipment		1,962		1,875
Consulting and legal		1,826		937
Marketing and sales expenses		1,687		2,184
Amortization of intangible assets		538		600
	$	16,645	$	15,368

24. Income taxes:

		2018		2017
Current taxes:				
Corporate tax on income for the year	$	1,076	$	381
Adjustments in respect of prior years		85		314
Other		(341)		750
		820		1,445
Deferred taxes:				
Origination and reversal of temporary difference		(36)		1,282
Change in estimated tax rate applied		(67)		(3,007)
		(103)		(1,725)
Income tax expense (recovery)	$	717	$	(280)

The combined federal and provincial corporate income tax rate for 2018 is 27.0% (2017 - 26.0%). The credit union's income tax expense (recovery) differs from the amount that would arise using the combined corporation income tax rate as a result of the following items:

	2018			2017		
		Amount	% of pre-tax income		Amount	% of pre-tax income
Income taxes based on combined statutory income tax rates	$	2,007	27.0%	$	3,369	26.0%
Credit union rate reduction		(547)	(7.4)%		(1,072)	(8.3)%
Non-deductible or taxable items		(194)	(2.6)%		(229)	(1.8)%
Effect of change in estimated tax rate on deferred tax provision		(97)	(1.3)%		(3,007)	(23.2)%
Other		(452)	(6.0)%		659	5.1%
Actual income tax expense (recovery)	$	717	9.7%	$	(280)	(2.2)%

24. Income taxes (continued):

The effective tax rate for 2018, based on income before tax, was 9.7% (2017 - recovery of 2.2%). Effective 2017, the credit union applied the provincial credit union deduction that had been previously announced to be phased out over five years but was re-instated by the British Columbia government during 2017.

Deferred taxes are calculated on temporary differences under the liability method using tax rates expected to apply when the liability is settled or the asset is realized. Deferred tax assets and liabilities recognized in the statement of financial position at December 31 are attributable to the following items:

		2018		2017
Deferred tax assets:				
Pension	$	2,709	$	2,502
Allowance for losses on loans and leases receivable		1,267		1,448
Deferred revenues and intangible assets		1,613		1,383
Investments		-		16
Loss carryforward		3,063		2,781
Premises and equipment		58		-
	$	8,710	$	8,130
Deferred tax liabilities:				
Pension	$	615	$	580
Leasing		11,876		11,495
Deferred expenses		2,203		1,921
Investments		-		331
Premises and equipment		-		97
	$	14,694	$	14,424

(Expressed in thousands of dollars, unless otherwise indicated)

25. Commitments:

The credit union is committed to payments for premises and for information systems under operating leases extending to 2031. The lease arrangements may include escalation clauses to reflect current market rates. At December 31, 2018, the credit union's future minimum lease payments under the leases are as follows:

	Premises	Information systems	Total
No later than 1 year	$ 4,688	$ 3,655	$ 8,343
Later than 1 year and not later than 5 years	23,962	7,706	31,668
Later than 5 years	24,305	89	24,394
	$ 52,955	$ 11,450	$ 64,405

Premises lease expense recognized during the year ended December 31, 2018 in the consolidated statement of income, included in occupancy and equipment expenses, was $7,304 (2017 - $6,986).

26. Contingencies:

The credit union is involved in various claims arising in the normal course of business, in which the likelihood of a loss and amount of loss, if any, is not readily determinable. The outcome of such matters, individually or in aggregate, may be material to the consolidated financial position or results of operations of the credit union.

27. Related party transactions:

Related parties of the credit union include wholly owned subsidiaries, the WSEPP and SERP pension plans (note 17), and Westminster Savings Foundation, as well as directors and key management personnel and their close family members.

All subsidiaries are wholly owned, and include Westminster Savings Financial Planning Ltd., WS Leasing Ltd., Mercado Capital Corporation and its subsidiary Mercado Financing Ltd.

As a sponsor of the WSEPP and SERP pension plans, the credit union provides administrative services to the plans. These services are not charged to the plans. For the SERP and the defined benefit component of the WSEPP, actuarial and other administrative expenses of these plans are paid directly by the plans.

Deposits maintained on behalf of Westminster Savings Foundation by the credit union at December 31, 2018 amounted to $824 (2017 - $590). The credit union paid interest of $8 during the year ended December 31, 2018 (2017- $57) on these deposits. The credit union donated $500 (2017 - $250) to Westminster Savings Foundation during the year ended December 31, 2018.

27. Related party transactions (continued):

(a) Directors and key management personnel:

Directors and key management personnel include all members of the Westminster Savings Board of Directors, and key management who have authority for planning, directing or controlling the activities of the organization, and their close family members. A number of banking transactions are entered into with directors and key management personnel in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of such transactions, outstanding balances at December 31, and related expense and income for the years ended December 31 were as follows:

	Loans		Deposits	
	2018	2017	2018	2017
Balance at January 1	$ 1,517	$ 1,700	$ 2,946	$ 2,193
Net transactions during the year	163	(183)	(172)	753
Balance at December 31	$ 1,680	$ 1,517	$ 2,774	$ 2,946
Interest income earned on loans/ paid on deposits during the year	$ 67	$ 57	$ 30	$ 43

There was no allowance for credit losses recognized in respect of loans receivable from related parties at December 31, 2018 (2017 - nil) and no impairment losses recognized during the year ended December 31, 2018 (2017 - nil). The loans receivable from directors and key management personnel (and close family members) at December 31, 2018 and 2017 are repayable monthly over a range of 1 to 5 years and have interest rates ranging from 1.75% to 4.95%. The loans advanced to the directors during the year are secured by real estate or chattels.

The deposits from directors and key management personnel (and close family members) outstanding at December 31, 2018 and 2017 are unsecured, carry variable interest rates and are repayable on demand.

(b) Key management compensation:

Post-employment and termination benefits, representing retirement pension obligation and termination benefit amounts paid or payable to members of key management who left the organization during the years ended December 31, recognized in the consolidated statement of income in salary and employee benefits expense, were as follows:

	2018	2017
Salaries and other short-term employee benefits	$ 5,268	$ 4,633
Post-employment and termination benefits	902	919
Total	$ 6,170	$ 5,552

28. Subsequent events:

On February 28, 2019 the Board of Directors of Westminster Savings has submitted an application to the Financial Institutions Commission to request consent with respect to a proposed amalgamation of Prospera Credit Union and Westminster Savings to form a new credit union. This Application is being submitted pursuant to Section 20 of the Credit Union Incorporation Act (British Columbia) and in accordance with guidelines provided for in FICOM Bulletin No. CU-18-001.