Consolidated Financial Statements
(Expressed in thousands of dollars)

WESTMINSTER SAVINGS CREDIT UNION

And Independent Auditors' Report thereon

Year ended December 31, 2019

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 of British Columbia* 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 Finance 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 Finance Committee of the board.

Gavin Toy, President and Chief Executive Officer

Mary Falconer, Chief Financial Officer and Corporate Secretary

March 13, 2020

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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 Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- 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 Credit Union as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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 Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 13, 2020

WESTMINSTER SAVINGS CREDIT UNION

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

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Cash and cash equivalents	6	$ 88,938	$ 111,996
Investments	7	535,061	342,358
Loans	8(a)	2,568,669	2,541,127
Leases receivable	8(b)	348,377	336,911
Current taxes receivable	26	-	934
Premises and equipment	13	8,781	8,223
Right-of-use assets	14	25,647	-
Intangible assets	15	1,278	1,679
Deferred tax assets	26	10,051	8,710
Other assets	16	7,097	4,665
		$ 3,593,899	$ 3,356,603
Liabilities and Members' Equity			
Members' deposits	9	$ 2,929,753	$ 2,771,344
Accounts payable and accrued liabilities		14,429	13,259
Securitization debt obligations	8(c), 8(d)	383,299	348,007
Current taxes payable	26	1,437	-
Lease liabilities	17	26,974	-
Deferred tax liabilities	26	14,581	14,694
Retirement benefit obligations	18	22,011	10,049
		3,392,484	3,157,353
Members' equity			
Retained earnings		223,703	212,460
Accumulated other comprehensive loss		(22,288)	(13,210)
		201,415	199,250
		$ 3,593,899	$ 3,356,603

Borrowings	10
Commitments	27
Contingencies	28
Subsequent events	30

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

Approved on behalf of the board:

A. C. Van Pelt ______ Director — Art Van Pelt, Chair

______ Director — Rita Virk

WESTMINSTER SAVINGS CREDIT UNION

Consolidated statement of income
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Interest income	19	$ 131,819	$ 118,998
Interest expense	19	(62,438)	(46,710)
Net interest income		69,381	72,288
Fee and commission income	20	12,863	13,614
Fee and commission expense	20	(2,880)	(3,487)
Net fee and commission income		9,983	10,127
Realized gains on financial instruments measured at fair value through profit or loss	7	6,032	73
Unrealized losses on financial instruments measured at fair value through profit or loss	21	(299)	(4,620)
Impairment losses on financial assets	12(a)	(1,808)	(820)
Impairment losses on other assets	16	(1,585)	(2,286)
Other income	22	2,288	376
Net interest and other income		83,992	75,138
Operating expenses:			
Salary and employee benefits	23	(40,687)	(39,681)
General and administrative	24	(18,061)	(16,645)
Occupancy and equipment	25	(11,246)	(10,524)
		(69,994)	(66,850)
Income before the undernoted		13,998	8,288
Community investment		(384)	(357)
Contribution to Westminster Savings Foundation	29	-	(500)
Income before income taxes		13,614	7,431
Recovery of (provision for) income taxes:			
Current	26	(1,817)	(820)
Deferred	26	(554)	103
		(2,371)	(717)
Net income		$ 11,243	$ 6,714

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, 2019, with comparative information for 2018

		2019		2018
Net income	$	11,243	$	6,714
Other comprehensive income (loss), net of tax:				
Items that will be reclassified to net income:				
Gains (losses) on debt instruments measured at fair value through other comprehensive income		103		(94)
Reclassification of realized gains on financial instruments measured at fair value through OCI to net income		(122)		-
Deferred tax recovery (expense) in OCI		3		16
Items that will never be reclassified to net income:				
Net actuarial losses on defined benefit pension plans		(11,069)		(1,322)
Deferred tax recovery (expense) in OCI		2,007		207
		(9,078)		(1,193)
Total comprehensive income	$	2,165	$	5,521

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, 2019, with comparative information for 2018

2019	AOCI Fair value reserve	AOCI Defined benefit plans	Retained earnings	Total equity
Members' equity - at January 1	$ 16	$ (13,226)	$ 212,460	$ 199,250
Net income	-	-	11,243	11,243
Other comprehensive income (loss), net of tax	(16)	(9,062)	-	(9,078)
Total comprehensive income (loss)	(16)	(9,062)	11,243	2,165
Members' equity - at December 31	$ -	$ (22,288)	$ 223,703	$ 201,415

2018	AOCI Fair value reserve	AOCI Defined benefit plans	Retained earnings	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

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, 2019, with comparative information for 2018

	Notes	2019	2018
Cash flows from operating activities:			
Net income		$ 11,243	$ 6,714
Items not affecting cash:			
Depreciation of premises and equipment	13	2,276	1,962
Depreciation of right-of-use asset	14	4,761	-
Amortization of intangible assets	15	554	538
Impairment losses on financial assets	12(a)	1,808	820
Impairment losses on other assets	16	1,585	2,286
Net interest income	19	(69,381)	(72,288)
Realized gains on financial instruments measured at fair value through profit or loss	7	(6,032)	(73)
Realized gains on financial instruments measured at fair value through other comprehensive income	22	(122)	-
Unrealized losses on financial instruments measured at fair value through profit or loss	21	299	4,620
Gain on disposal of premises and equipment	13	-	(971)
Provision for income taxes - current	26	1,817	820
Provision for income taxes - deferred	26	554	(103)
Defined benefit pension expense	18(b)	4,660	4,524
		(45,978)	(51,151)
Changes in non-cash operating working accounts:			
Loans		(27,553)	(131,965)
Leases receivable		(12,990)	(37,040)
Other assets		(4,146)	(55)
Members' deposits		151,476	95,930
Accounts payable and accrued liabilities		1,717	(4,621)
Interest paid		(54,681)	(39,943)
Interest received		132,349	117,740
Income tax paid		(1,000)	(2,313)
Income tax refund		1,554	1,903
Defined benefit pension plan contributions	18(a)	(3,766)	(4,580)
Net cash flows provided by (used in) operating activities		136,982	(56,095)
Cash flows from financing activities:			
Securitization debt increases		141,282	173,669
Securitization debt retirement		(105,932)	(90,847)
Premises lease payments		(4,732)	-
Net cash flows provided by financing activities		30,618	82,822
Cash flows from investing activities:			
Sale of assets	13	-	2,452
Net purchase of liquidity deposits		(254,837)	(7,601)
Net sale of investments		67,166	1,151
Net investment in premises and equipment	13	(2,834)	(996)
Net investment in intangible assets	15	(153)	(387)
Net cash flows used in investing activities		(190,658)	(5,381)
Increase (decrease) in cash and cash equivalents		(23,058)	21,346
Cash and cash equivalents, beginning of year		111,996	90,650
Cash and cash equivalents, end of year		$ 88,938	$ 111,996

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 wholly owned 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 13 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 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, 2019 were approved by the Board of Directors on March 13, 2020.

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.

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:

The accounting policies below have been applied to financial instruments in these consolidated financial statements.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

Recognition

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.

Initial measurement

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.

Classification and subsequent measurement

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. 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, the credit union 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.

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 2019.

(*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, lease liabilities (note 3(l)) 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.

(e) Impairment of financial assets:

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.

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.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

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.

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.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

Calculation of ECL (continued)

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.

(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.

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.

3. Significant accounting policies (continued):

(g) Non-financial assets:

Premises and equipment

Premises and equipment assets are recorded at cost less accumulated depreciation and any accumulated impairment losses. These assets are depreciated over their estimated useful lives using the following depreciation methods and periods:

Asset	Method	Period
Computer and Automated Teller Machine (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 asset 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.

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:

Effective January 1, 2019, the credit union accounts for leases using the principles under IFRS 16 – *Leases* ("IFRS 16"). The prior period presented in these consolidated financial statements reflect the accounting for leases under IAS 17 – *Leases* ("IAS 17") and IFRIC 4 – *Determining whether an arrangement contains a lease* ("IFRIC 4").

3. Significant accounting policies (continued):

(l) Leases (continued):

The accounting policy below applies to leases from January 1, 2019

At inception of a contract, the credit union assesses whether a contract is, or contains, a lease as defined in IFRS 16. A contract is or contains a lease if the contract allows the right to control the use of an identified asset in exchange for consideration.

The credit union recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which is comprised of:

- the initial amount of the lease liability;
- plus any lease payments made at or before the commencement date and any initial direct costs incurred;
- plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located;
- less any lease incentives received.

The ROU asset is subsequently depreciated from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. Depreciation is recorded on a straight-line basis as this most closely reflects the expected pattern of consumption of the future economic benefit. The ROU asset is reduced by accumulated depreciation and impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the credit union's incremental borrowing rate. Generally, the credit union uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in the assessment of whether the credit union will exercise an extension or a termination option in the lease. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in the consolidated statement of income if the carrying amount of the ROU asset has been reduced to zero.

Prior to January 1, 2019

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

(Expressed in thousands of dollars, unless otherwise indicated)

4. Changes in accounting standards:

(a) New accounting standards effective January 1, 2019:

IFRS 16 - Leases

On January 1, 2019, the credit union adopted IFRS 16, which replaced IAS 17 and related interpretations. As permitted by IFRS 16, the credit union has elected to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognized in retained earnings on January 1, 2019, the date of initial application. Accordingly, the credit union has not restated comparative information.

(*i*) As a lessee:

The credit union previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the credit union. Under IFRS 16, the credit union recognizes ROU assets and liabilities for these leases, recognizing them on the statement of financial position.

Previously, the credit union classified premises leases as operating leases under IAS 17. On transition, lease liabilities were measured at the present value of the remaining lease payments as of that date for each lease contract, discounted using the credit union's incremental borrowing rate at January 1, 2019.

The credit union has elected to measure the ROU asset for all leases to be an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application. Accordingly, on initial application of IFRS 16 at January 1, 2019, there is no impact to opening retained earnings.

(*ii*) As a lessor:

The credit union was not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

On transition, the credit union recognized ROU assets and lease liabilities. The impact is summarized below:

	January 1, 2019
Right-of-use assets	$ 25,940
Lease liabilities	26,412
Other assets	(75)
Accounts payable and accrued liabilities	(547)

(Expressed in thousands of dollars, unless otherwise indicated)

4. Changes in accounting standards:

(a) New accounting standards effective January 1, 2019 (continued):

IFRS 16 – Leases (continued)

When measuring lease liabilities for leases that were classified as operating leases, the credit union discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 3.1%. Recognition exemptions were not applied for low value assets or leases with less than 12 months of lease term remaining at transition.

		January 1, 2019
Operating lease commitments at December 31, 2018, as disclosed under IAS 17 in the consolidated financial statements	$	64,405
Less: IT service contracts that do not meet the definition of a lease under IFRS 16		11,450
Premises lease commitments at December 31, 2018		52,955
Extension options not reasonably certain to be executed		(20,966)
Premises lease commitments under IFRS 16	$	31,989
Discounted lease liabilities recognized at January 1, 2019	$	26,412

IFRIC 23 – Uncertainty over Income Tax Treatments

Effective January 1, 2019, the credit union adopted International Financial Reporting Interpretations Committee (IFRIC) 23, Uncertainty over Income Tax Treatments. The interpretation clarifies application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. The adoption of this interpretation did not have a material impact on the consolidated financial statements.

(b) New accounting standards not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2020 and earlier application is permitted. The credit union has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the credit union's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (amendments to IFRS 3)
- Definition of Material (amendments to IAS 1 and IAS 8)

5. 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)). Annually, the assessment of business models is reviewed to determine if any facts or circumstances have changed that would result in a change of business model.

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 8(c) and 8(d)).

5. Judgements and estimates (continued):

(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.

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 12(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 6, 7 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.

Valuation of lease liability

In determining the present value of the lease liability, management must estimate the incremental borrowing rate of the credit union for a similar asset and term at the inception of the lease. The discount rate used could have a material impact on the measurement of the lease liability and corresponding ROU asset.

5. Judgements and estimates (continued):

(b) Assumptions and estimates (continued):

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 18). Actual experience may differ from these assumptions resulting in actuarial gains or losses recognized in other comprehensive income of subsequent periods.

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.

(Expressed in thousands of dollars, unless otherwise indicated)

6. Cash and cash equivalents:

	2019	2018
Measured at FVTPL		
Liquidity deposits - original maturities < 91 days	$ 70,567	$ 83,517
Measured at amortized cost		
Cash	18,371	26,444
Fixed income investments - original maturities < 91 days	-	2,035
	$ 88,938	$ 111,996

Cash includes balances in cash reserve accounts of $3,899 (2018 - $4,303) (notes 8(c) and 8(d)).

7. Investments:

	2019	2018
Measured at FVTPL		
Liquidity deposits - original maturities > 90 days	$ 484,382	$ 230,292
Central 1 shares	13,861	13,537
Preferred shares	1,141	7,851
Other investments in equity instruments	203	203
Equity and equity-linked instruments	-	46,028
Fixed income investments - original maturities > 90 days	-	13,862
Measured at FVOCI		
Fixed income investments - original maturities > 90 days	-	4,767
Measured at amortized cost		
Principal and interest reinvestment accounts (note 8(c))	32,893	23,154
Sub note - junior note	2,581	2,664
	$ 535,061	$ 342,358

During 2019, the credit union disposed of its equity and fixed investment portfolio and the majority of its preferred share investments which resulted in a realized gain of $6.2 million recognized in realized gains on financial instruments measured at fair value through profit and loss and other income (note 22).

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans and leases receivable:

(a) Loans:

	2019	2018
Consumer mortgages	$ 1,676,616	$ 1,675,973
Consumer loans	236,502	249,421
Total consumer mortgages and loans	1,913,118	1,925,394
Commercial mortgages	373,294	323,351
Commercial loans	282,468	292,537
Total commercial mortgages and loans	655,762	615,888
Accrued interest receivable	3,510	3,237
Deferred fees	556	1,339
Allowance for impairment losses on loans	(4,277)	(4,731)
	$ 2,568,669	$ 2,541,127

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 8(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:

	2019	2018
Mortgage-backed securities	$ 298,948	$ 241,189
Asset-backed commercial paper	-	31,214
Securitized consumer mortgages	$ 298,948	$ 272,403

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans and leases receivable (continued):

(b) Leases receivable:

		2019		2018
Vehicle leases receivable	$	226,812	$	186,714
Equipment leases receivable		120,857		149,315
		347,669		336,029
Deferred fees		2,921		3,355
Allowance for impairment losses on leases receivable		(2,213)		(1,973)
Allowance for losses on unguaranteed lease residual value		-		(500)
	$	348,377	$	336,911

At December 31, 2019, vehicles and equipment collateral which have been repossessed by the credit union amounted to $4,101 (2018 - $1,823). 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, 2019, equipment leases receivable included $56,582 (2018 - $58,897) 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 8(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:

		2019		2018
Gross investment in leases receivable				
Not later than 1 year	$	112,061	$	114,711
Later than 1 year and not later than 5 years		272,686		258,887
Later than 5 years		450		500
		385,197		374,098
Unearned finance income		(37,528)		(38,069)
		347,669		336,029
Present value of minimum lease payments receivable				
Not later than 1 year		104,136		104,991
Later than 1 year and not later than 5 years		243,095		230,546
Later than 5 years		438		492
	$	347,669	$	336,029

8. 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, 2019 and 2018, 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, 2019 and 2018, 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 Program

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.

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Program (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, 2019, the total balance of the principal and interest reinvestment accounts related to the CMB program recognized in the consolidated statement of financial position was $32,893 (2018 - $23,154) (note 7).

At December 31, 2019, the balance of mortgage receivables underlying the MBS that have been sold directly to third parties or transferred directly under the CMB Program was $298,948 (2018 - $241,189) (note 8(a)). At December 31, 2019, nil (2018 - $8,694) 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.

	2019	2018
Balance at January 1	$ 241,189	$ 129,707
Securitizations - new	119,318	150,522
Amortization	(9,436)	(5,492)
Prepayments and liquidations	(50,379)	(32,233)
Maturities	(1,744)	(1,315)
Balance at December 31	$ 298,948	$ 241,189

At December 31, 2019, the balance of the securitization debt obligations related to these securitized mortgage receivables was $326,072 (2018 - $258,684).

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Program (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 program.

	2019	2018
Balance at January 1	$ 258,684	$ 165,531
Net cash changes	67,388	93,163
Other	-	(10)
Balance at December 31	$ 326,072	$ 258,684

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.

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligations	$ 298,948	$ 325,989	$ 241,189	$ 258,600
Principal and interest reinvestment accounts	32,893	-	23,154	-
Accrued interest	-	83	-	84
	$ 331,841	$ 326,072	$ 264,343	$ 258,684

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)

8. 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 credit union elected to apply all principal collected on the underlying consumer mortgage receivables against its interest in the co-ownership pool.

In March 2019, the credit union bought back the total outstanding securitized pool in the amount of $26,591. As a result of the buyback, there were no amounts outstanding under this program at December 31, 2019. In 2018, the trust's interest in the pool balance, the balance of securitization debt obligation and accrued interest were $31,214, $30,277 and $24, respectively.

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. Secondly, the trust's interest in the mortgage receivables was over collateralized by 3%. As a result of the buyback of the pool, the cash reserve account balance relating to the ABCP program is nil (2018 - $454) (note 6).

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.

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligation	$ -	$ -	$ 31,214	$ 30,277
Cash reserve account	-	-	454	-
Accrued interest	-	-	-	24
	$ -	$ -	$ 31,668	$ 30,301

(Expressed in thousands of dollars, unless otherwise indicated)

8. Loans and leases receivable (continued):

(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 2019, the credit union securitized $22,096 (2018 - $20,805) of leases receivable. The balance of leases receivable recognized in the consolidated statement of financial position that have been securitized at December 31, 2019 was $56,582 (2018 - $58,897). At December 31, 2019, the securitization debt obligations relating to leases receivable securitized were $57,227 (2018 - $59,022).

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.

	2019	2018
Balance at January 1	$ 59,022	$ 59,626
Net cash changes	(1,762)	(618)
Other	(33)	14
Balance at December 31	$ 57,227	$ 59,022

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, 2019, the balance of the cash reserve account was $3,899 (2018 - $3,849) (note 6).

(Expressed in thousands of dollars, unless otherwise indicated)

9. Members' deposits:

	2019	2018
Demand deposits	$ 932,041	$ 942,262
Term deposits	1,708,051	1,547,483
Registered savings plans	264,810	263,678
Member shares	281	285
Accrued interest payable	24,570	17,636
	$ 2,929,753	$ 2,771,344

The number of member shares issued at December 31, 2019 was 280,785 (2018 - 285,040). 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.

10. Borrowings:

At December 31, 2019, the credit union had three approved credit facilities totaling $248,000 (2018 - $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 $116,511 (2018 - $134,121) 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.

During the year ended December 31, 2019, the credit union did not draw on its credit facilities (2018 – maximum draw of $145,000). The amount outstanding under the credit facilities at December 31, 2019 was nil (2018 - nil).

(Expressed in thousands of dollars, unless otherwise indicated)

11. 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.

2019	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
Cash and cash equivalents	$ 18,371	$ 70,567	$ -	$ 88,938
Investments	35,474	499,587	-	535,061
Loans	2,568,669	-	-	2,568,669
Members' deposits	(2,929,753)	-	-	(2,929,753)
Accounts payable and accrued liabilities	(14,429)	-	-	(14,429)
Securitization debt obligations	(383,299)	-	-	(383,299)
Lease liabilities	(26,974)	-	-	(26,974)
	$ (731,941)	$ 570,154	$ -	$ (161,787)

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)

(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.

(Expressed in thousands of dollars, unless otherwise indicated)

11. 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:

2019	Fair value Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets:					
Measured at fair value					
Cash equivalents	$ -	$ 70,567	$ -	$ 70,567	$ 70,567
Investments	1,141	498,446	-	499,587	499,587
Measured at amortized cost					
Cash and cash equivalents	18,371	-	-	18,371	18,371
Investments	-	35,360	-	35,360	35,474
Loans	-	2,570,097	-	2,570,097	2,568,669
Leases receivable	-	348,100	-	348,100	348,377
	$ 19,512	$ 3,522,570	$ -	$ 3,542,082	$ 3,541,045
Financial liabilities:					
Measured at amortized cost					
Members' deposits	$ -	$ 2,891,133	$ -	$ 2,891,133	$ 2,929,753
Accounts payable and accrued liabilities	14,429	-	-	14,429	14,429
Securitization debt obligations	-	380,505	-	380,505	383,299
	$ 14,429	$ 3,271,638	$ -	$ 3,286,067	$ 3,327,481

2018	Fair value Level 1	Level 2	Level 3	Total	Carrying 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

11. Financial instruments (continued):

(b) Fair value information (continued):

During the years ended December 31, 2019 and 2018, 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.

(Expressed in thousands of dollars, unless otherwise indicated)

11. 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.
- 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:

	2019	2018
Balance at January 1	$ 18,439	$ 14,922
New investments	-	4,911
Sold investments	(19,158)	-
Unrealized change in fair value - recognized in consolidated statement of income	719	(1,057)
Return of capital	-	(324)
Unrealized change in fair value - recognized in other comprehensive income	-	(13)
Balance at December 31	$ -	$ 18,439

(Expressed in thousands of dollars, unless otherwise indicated)

11. 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.

All investments measured at fair value using Level 3 inputs were sold during the year. The sensitivity of fair value to changes in Level 3 inputs for 2018 is shown in the following table.

	2019		2018	
Input	10% increase	10% decrease	10% increase	10% decrease
Reference Index Level	$ -	$ -	$ 607	$ (538)
Risk-free rate	-	-	(81)	96
Spread over risk-free rate	-	-	(55)	55
Volatility	-	-	41	(37)

12. Financial risks and risk management:

The nature of Westminster Savings' 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 member's 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.

12. 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 Management Credit Committee, which reports to the Board's Risk, Investment and Loan Committee, which in turn reports to the Board of Directors. The Risk, Investment and Loan Committee and the Board of Directors are responsible for approving and monitoring the credit union's tolerance for credit exposures which is done through review and approval of the credit union's lending policies and through the monitoring of 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 Risk, 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 commercial leases receivable, SICR is assessed based on whether there have been one or more missed payments since initial recognition.

12. 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):

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.

12. 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.

12. 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 at December 31, 2019 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.

12. 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, 2019, there is no loss allowance recognized for these assets (2018 – nil).

(Expressed in thousands of dollars, unless otherwise indicated)

12. Financial risks and risk management (continued):

(a) Credit risk (continued):

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 stage. The credit union segmented its financial assets into four segments representing shared credit risk characteristics defined as Consumer loans and Commercial loans, representing all mortgages and loans, and Consumer leases and Commercial leases, representing vehicle and equipment leases.

	2019			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1	$ 107	$ 265	$ 55	$ 427
Change in provision	(34)	(50)	111	27
Balance at December 31	$ 73	$ 215	$ 166	$ 454
Commercial loans				
Balance at January 1	$ 1,517	$ 2,043	$ 263	$ 3,823
Change in provision	511	(491)	(20)	-
Balance at December 31	$ 2,028	$ 1,552	$ 243	$ 3,823
Consumer leases				
Balance at January 1	$ 98	$ 159	$ 21	$ 278
Change in provision	34	104	(15)	123
Balance at December 31	$ 132	$ 263	$ 6	$ 401
Commercial leases				
Balance at January 1	$ 747	$ 907	$ 40	$ 1,694
Change in provision	103	(12)	27	118
Balance at December 31	$ 850	$ 895	$ 67	$ 1,812
Total balance at January 1	$ 2,469	$ 3,374	$ 379	$ 6,222
Total change in provision	614	(449)	103	268
Total balance at December 31	$ 3,083	$ 2,925	$ 482	$ 6,490

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

(Expressed in thousands of dollars, unless otherwise indicated)

12. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses (continued)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1	$ 118	$ 298	$ 41	$ 457
Change in provision	(11)	(33)	14	(30)
Balance at December 31	$ 107	$ 265	$ 55	$ 427
Commercial loans				
Balance at January 1	$ 1,810	$ 1,633	$ -	$ 3,443
Change in provision	(293)	410	263	380
Balance at December 31	$ 1,517	$ 2,043	$ 263	$ 3,823
Consumer leases				
Balance at January 1	$ 118	$ 107	$ 32	$ 257
Change in provision	(20)	52	(11)	21
Balance at December 31	$ 98	$ 159	$ 21	$ 278
Commercial leases				
Balance at January 1	$ 703	$ 1,287	$ 102	$ 2,092
Change in provision	44	(380)	(62)	(398)
Balance at December 31	$ 747	$ 907	$ 40	$ 1,694
Total balance at January 1	$ 2,749	$ 3,325	$ 175	$ 6,249
Total change in provision	(280)	49	204	(27)
Total balance at December 31	$ 2,469	$ 3,374	$ 379	$ 6,222

(Expressed in thousands of dollars, unless otherwise indicated)

12. 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:

		2019		2018
Increase (decrease) in allowance for credit losses - loans	$	27	$	350
Increase (decrease) in allowance for credit losses - leases receivable		241		(377)
Decrease in loss allowance for unguaranteed lease residual values		(500)		(325)
Direct write-offs - loans		258		227
Direct write-offs - leases receivable		1,782		945
	$	1,808	$	820

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 stage at December 31, 2019 and December 31, 2018. The amounts in the table represent the gross values of the credit union's committed and undrawn exposures to credit risk.

WESTMINSTER SAVINGS CREDIT UNION

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

Year ended December 31, 2019

12. Financial risks and risk management (continued):

(a) Credit risk (continued):

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

At December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Excellent	$ 1,299,882	$ 84,645	$ 9	$ 1,384,536
Good	469,278	218,050	-	687,328
Fair	44,985	83,379	8	128,372
Poor	5,560	37,179	3,011	45,750
	$ 1,819,705	$ 423,253	$ 3,028	$ 2,245,986
Commercial loans:				
Excellent	$ 20,604	$ -	$ -	$ 20,604
Satisfactory	595,477	34,094	-	629,571
Satisfactory on the watch list	-	5,874	-	5,874
Less than satisfactory	87	20,796	-	20,883
Credit-impaired	-	-	5,606	5,606
	$ 616,168	$ 60,764	$ 5,606	$ 682,538
Consumer leases:				
Excellent	$ 58,235	$ 2,251	$ 22	$ 60,508
Good	28,736	13,439	5	42,180
Fair	3,090	6,135	-	9,225
Poor	798	3,911	-	4,709
	$ 90,859	$ 25,736	$ 27	$ 116,622
Commercial leases:				
Excellent	$ 214,797	$ 1,775	$ 32	$ 216,604
Good	-	7,006	-	7,006
Fair	-	2,497	133	2,630
Poor	-	4,772	35	4,807
	$ 214,797	$ 16,050	$ 200	$ 231,047
Total	$ 2,741,529	$ 525,803	$ 8,861	$ 3,276,193

(Expressed in thousands of dollars, unless otherwise indicated)

12. 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	$ 212,802	$ 3,031	$ 83	$ 215,916
Good	-	5,244	28	5,272
Fair	-	2,169	-	2,169
Poor	-	6,285	-	6,285
	$ 212,802	$ 16,729	$ 111	$ 229,642
Total	$ 2,707,273	$ 535,766	$ 3,929	$ 3,246,968

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

At December 31, 2019 the carrying amount of cash equivalents and investments measured at FVTPL of $570,154 (2018 - $395,290) represents the credit union's maximum exposure to credit risk on these assets. The credit risk exposure on these assets is considered low as the majority of these assets are high quality investments with low risk counterparties.

(Expressed in thousands of dollars, unless otherwise indicated)

12. Financial risks and risk management (continued):

(a) Credit risk (continued):

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.

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:

2019	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 433,703	$ 1,225,499	$ 17,106	$ -	$ -	$ 308	$ 1,676,616
Consumer loans	-	151,903	57,824	1,427	4,784	20,564	236,502
Commercial mortgages	-	372,536	758	-	-	-	373,294
Commercial loans	-	273,164	8	23	7,987	1,286	282,468
Vehicle leases receivable	-	-	-	226,812	-	-	226,812
Equipment leases receivable	-	-	-	-	120,857	-	120,857
	$ 433,703	$ 2,023,102	$ 75,696	$ 228,262	$ 133,628	$ 22,158	$ 2,916,549

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

12. 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). As all premises lease contracts are at fixed rates, the credit union's lease liabilities are not subject to interest rate risk.

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, 2019, the credit union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $316 (2018 - decrease net income by $65) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $988 (2018 - $153) 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, 2019, the balance of interest rate swaps was nil (2018 - nil).

(Expressed in thousands of dollars, unless otherwise indicated)

12. 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):

2019	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	1.80%	$ 88,938	$ -	$ -	$ -	$ -	$ 88,938
Investments	1.71%	137,117	266,201	75,843	40,191	15,709	535,061
Loans	3.83%	1,013,045	329,886	992,705	233,244	(211)	2,568,669
Leases receivable	5.85%	34,250	93,501	208,623	11,295	708	348,377
	3.66%	$ 1,273,350	$ 689,588	$1,277,171	$ 284,730	$ 16,206	$ 3,541,045
Liabilities							
Members' deposits	1.85%	$ 1,553,460	$1,131,375	$ 206,026	$ 14,041	$ 24,851	$ 2,929,753
Securitization debt obligations	2.05%	43,241	63,657	244,484	31,764	153	383,299
Accounts payable and accrued liabilities	-	-	-	-	-	14,429	14,429
	1.87%	$ 1,596,701	$1,195,032	$ 450,510	$ 45,805	$ 39,433	$ 3,327,481
Interest rate sensitivity gap	1.79%	$ (323,351)	$ (505,444)	$ 826,661	$ 238,925	$ (23,227)	$ 213,564

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

(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.

(Expressed in thousands of dollars, unless otherwise indicated)

12. 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 2019 (2018 - 8%). At December 31, 2019 and 2018, 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 10).

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:

2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Members' deposits	$ 1,128,696	$ 369,880	$ 1,213,376	$ 222,518	$ 43,430	$ 2,977,900
Securitization debt obligations	6,139	9,734	55,640	288,034	45,579	405,126
Accounts payable and accrued liabilities	14,429	-	-	-	-	14,429
Total financial liabilities	$ 1,149,264	$ 379,614	$ 1,269,016	$ 510,552	$ 89,009	$ 3,397,455

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

12. 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.

As the equity portfolio was sold during the year, a 10% change in equity prices would not have an impact on net income for the year ended December 31, 2019 (2018 - $4,603). 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 limit the maximum unhedged aggregate exposure to foreign currency to US$5 million. The foreign exchange exposure for the year ended December 31, 2019 is within the policy limit.

During the year ended December 31, 2019, the credit union recognized foreign exchange income of $1,461 (2018 - $1,017), included in unrealized gains (losses) on financial instruments at FVTPL and other income in the consolidated statement of income.

(f) Capital management:

The FIA 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 11.5% (2018 - 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, 2019 and 2018, the credit union's capital ratios were in compliance with the regulatory requirements and with the credit union's internal policy requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Premises and equipment:

2019	Computer and ATM equipment	Furniture and equipment	Leasehold improvements	Total
Balance at January 1	$ 1,264	$ 4,032	$ 2,927	$ 8,223
Additions	158	1,436	1,240	2,834
Disposals	-	-	-	-
Depreciation	(393)	(1,448)	(435)	(2,276)
Balance at December 31	$ 1,029	$ 4,020	$ 3,732	$ 8,781
At December 31				
Cost	$ 4,630	$ 13,627	$ 13,283	$ 31,540
Accumulated depreciation	(3,601)	(9,607)	(9,551)	(22,759)
Carrying amount	$ 1,029	$ 4,020	$ 3,732	$ 8,781

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

During 2019 the credit union did not dispose of any property. During 2018 the credit union disposed of a property for net proceeds after selling costs of $2,452. In 2018 the gain of $971 on disposal was recorded in other income in the consolidated statement of income (note 22).

Depreciation of premises and equipment is recognized in the consolidated statement of income within general and administrative expenses.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Right-of-use assets:

	2019
Balance at January 1	$ -
Recognition of ROU asset on initial application of IFRS 16	25,940
Adjusted balance at January 1, 2019	25,940
Additions	4,468
Depreciation	(4,761)
Balance at December 31	$ 25,647
At December 31	
Cost	$ 30,408
Accumulated depreciation	(4,761)
Carrying amount	$ 25,647

15. Intangible assets:

2019	Computer software licences	Other intangible assets	Total
Balance at January 1	$ 1,301	$ 378	$ 1,679
Additions	354	-	354
Disposals	(201)	-	(201)
Amortization	(398)	(156)	(554)
Balance at December 31	$ 1,056	$ 222	$ 1,278
At December 31			
Cost	$ 5,084	$ 2,192	$ 7,276
Accumulated amortization and impairment	(4,028)	(1,970)	(5,998)
Carrying amount	$ 1,056	$ 222	$ 1,278

(Expressed in thousands of dollars, unless otherwise indicated)

15. Intangible assets (continued):

2018	Computer software licences	Other intangible assets	Total
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

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

16. Other assets:

	2019	2018
Repossessed property (note 8(b))	$ 4,101	$ 1,823
Accounts receivable	1,349	1,390
Prepaid expenses	1,647	1,452
	$ 7,097	$ 4,665

During the year ended December 31, 2019, the credit union recognized impairment losses of $1,585 (2018 - $2,286) on repossessed property, included in impairment losses on other assets in the consolidated statement of income. During the year ended December 31, 2019, the credit union recognized recoveries from repossessed property of $630 (2018 - $1,087), included in fee and commission income in the consolidated statement of income.

(Expressed in thousands of dollars, unless otherwise indicated)

17. Lease liabilities:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 4,436	$ (778)	$ 3,658
Between one and five years	13,225	(2,197)	11,028
More than five years	13,370	(1,082)	12,288
Balance at December 31	$ 31,031	$ (4,057)	$ 26,974

18. 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), collectively referred to as the SERPs. SERP 1 serves a small number of retired participants and is closed to new participants. SERP 2 became effective January 1, 2018 and serves a small number of participants. New participants in SERP 2 are subject to board approval.

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, 2019 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.

(Expressed in thousands of dollars, unless otherwise indicated)

18. 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 SERPs. 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:

	2019	2018
Fair value of plan assets		
Fair value of plan assets, beginning of year	$ 61,278	$ 61,788
Interest income on plan assets	2,455	2,168
Return on plan assets greater (less) than discount rate	2,106	(3,490)
Employer contributions	3,766	4,580
Benefit payments	(3,592)	(3,768)
	66,013	61,278
Present value of defined benefit obligations		
Benefit obligation, beginning of year	71,327	70,571
Current service cost	4,334	4,288
Interest cost	2,781	2,404
Benefit payments	(3,592)	(3,768)
Actuarial (gain) loss	13,174	(2,168)
	88,024	71,327
Deficiency of plan assets over obligations	$ (22,011)	$ (10,049)

(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:

	2019	2018
Current service cost	$ 4,334	$ 4,288
Net interest on net defined benefit liability	326	236
Defined benefit pension expense	$ 4,660	$ 4,524

(Expressed in thousands of dollars, unless otherwise indicated)

18. 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 obligations. 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, 2019, including interest income, was a gain of $4,561 (2018 - loss of $1,322).

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:

	2019	2018
Equity securities	48.1%	55.9%
Debt securities	48.7%	40.4%
Other	3.2%	3.7%
	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:

	2019	2018
Discount rate	3.2%	4.0%
Salary scale	3.0%	3.0%
Inflation	2.0%	2.0%

At December 31, 2019, the weighted average duration of the defined benefit obligations was 20.2 years (2018 - 19.3 years).

(Expressed in thousands of dollars, unless otherwise indicated)

18. Retirement benefit obligations (continued):

(f) Five-year summary:

	2019	2018	2017	2016	2015
Present value of defined benefit obligations	$ 88,024	$ 71,327	$ 70,571	$ 62,621	$ 57,327
Fair value of plan assets	66,013	61,278	61,788	58,635	55,767
Deficit in the plan	22,011	10,049	8,783	3,986	1,560
Experience losses on plan liabilities	19	4,968	87	29	3,469
(Gains)/losses on plan assets	(2,106)	3,490	(1,762)	(686)	(1,797)

(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:

	2019	2018
Discount rate:		
Impact of a 1% increase	$ (15,605)	$ (11,689)
Impact of a 1% decrease	19,477	15,348

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, 2019, the credit union made contributions of $3,766 (2018 - $4,580) to the WSEPP and SERP defined benefit pension plans. Expected contributions to the plans for the year ending December 31, 2020 are $3,512.

(i) Defined contribution pension expense:

During the year ended December 31, 2019, the credit union recognized pension expense of $213 (2018 - $38) 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.

(Expressed in thousands of dollars, unless otherwise indicated)

19. Net interest income:

	2019	2018
Interest income:		
Interest from cash and cash equivalents:		
At amortized cost	$ 162	$ 309
At FVTPL	2,222	166
Interest and dividends from investments:		
At FVTPL	7,095	5,283
At FVOCI	34	164
At amortized cost	613	815
Interest from loans	101,705	92,732
Interest from leases receivable	19,988	19,529
	131,819	118,998
Interest expense:		
Interest expense on borrowings	177	807
Interest expense on members' deposits	52,513	38,705
Interest expense on securitization debt obligations	8,868	7,198
Interest expense on lease liabilities	880	-
	62,438	46,710
	$ 69,381	$ 72,288

20. Net fee and commission income:

	2019	2018
Fee and commission income:		
Wealth management fees	$ 6,478	$ 6,001
Member service fees and commissions	2,995	3,458
Insurance, mortgage and visa commissions	1,583	1,780
Loan and leases receivable fees	780	811
ATM Network fees	342	376
Fee and commission income from contracts with customers	12,178	12,426
Bad debt recoveries	685	1,188
Total fee and commission income	12,863	13,614
Fee and commission expense:		
Member service expenses	1,072	1,620
Loan and leases receivable expenses	1,017	732
Loans and leases receivable securitization fees	301	253
Other fees	490	882
Total fee and commission expense	2,880	3,487
Net fee and commission income	$ 9,983	$ 10,127

(Expressed in thousands of dollars, unless otherwise indicated)

21. Unrealized losses on financial instruments at FVTPL:

	2019	2018
Unrealized gains (losses)	$ 406	$ (6,231)
Foreign exchange (losses) gains	(705)	1,611
	$ (299)	$ (4,620)

22. Other income:

	2019	2018
Foreign exchange gains (losses)	$ 2,166	$ (595)
Reclassification of realized gains on financial instruments measured at fair value through OCI to net income	122	-
Gain on disposition of assets	-	971
	$ 2,288	$ 376

During 2018 the credit union disposed of a property with a gain of $971 (note 13).

23. Salary and employee benefits:

	2019	2018
Salaries and commissions expense	$ 31,172	$ 31,434
Employee benefits expense (notes 18(b) and 18(i))	8,206	7,268
Other	1,309	979
	$ 40,687	$ 39,681

24. General and administrative:

	2019	2018
Data processing and electronic banking	$ 6,539	$ 6,283
Insurance, audit and dues	3,686	4,161
Stationary, supplies and other	2,797	2,150
Consulting and legal	2,952	1,826
Marketing and sales expenses	1,533	1,687
Amortization of intangible assets	554	538
	$ 18,061	$ 16,645

(Expressed in thousands of dollars, unless otherwise indicated)

25. Occupancy and equipment:

		2019		2018
Depreciation of right-of-use assets	$	4,761	$	-
Property tax and common area		2,586		2,335
Depreciation of leasehold improvements and equipment		2,276		1,962
Repairs and maintenance, utilities and security		1,327		1,258
Rent		296		4,969
	$	11,246	$	10,524

26. Income taxes:

		2019		2018
Current taxes:				
Corporate tax on income for the year	$	2,366	$	1,076
Adjustments in respect of prior years		(441)		85
Other		(108)		(341)
		1,817		820
Deferred taxes:				
Origination and reversal of temporary difference		303		(36)
Change in estimated tax rate applied		251		(67)
		554		(103)
Income tax expense	$	2,371	$	717

The combined federal and provincial corporate income tax rate for 2019 is 27.0% (2018 - 27.0%). The credit union's income tax expense (recovery) differs from the amount that would arise using the combined corporate income tax rate as a result of the following items:

	2019			2018		
		Amount	% of pre-tax income		Amount	% of pre-tax income
Income taxes based on combined statutory income tax rates	$	3,675	27.0 %	$	2,007	27.0%
Credit union rate reduction		(1,326)	(9.7)%		(547)	(7.4)%
Non-deductible or taxable items		(45)	(0.3)%		(194)	(2.6)%
Effect of change in estimated tax rate on deferred tax provision		252	1.8 %		(97)	(1.3)%
Other		(185)	(1.4)%		(452)	(6.0)%
Actual income tax expense	$	2,371	17.4%	$	717	9.7%

(Expressed in thousands of dollars, unless otherwise indicated)

26. Income taxes (continued):

The effective tax rate for 2019, based on income before tax, was 17.4% (2018 - 9.7%). 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:

		2019		2018
Deferred tax assets:				
Pension	$	4,716	$	2,709
Allowance for losses on loans and leases receivable		1,238		1,267
Deferred revenues and intangible assets		1,601		1,613
Loss carryforward		2,001		3,063
Premises and equipment		254		58
ROU assets and lease liabilities, net		241		-
	$	10,051	$	8,710
Deferred tax liabilities:				
Pension	$	443	$	615
Leasing		12,224		11,876
Deferred expenses		1,914		2,203
	$	14,581	$	14,694

27. Commitments:

The credit union is committed to payments for information systems under contracts extending to 2024 as follows:

		Total
Less than one year	$	3,816
Between one and five years		4,818
More than five years		-
	$	8,634

Expenses for information systems are recognized in general and administrative expenses in the consolidated statement of income.

28. 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.

29. Related party transactions:

Related parties of the credit union include wholly owned subsidiaries, the WSEPP and SERP pension plans (note 18), 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, 2019 amounted to $439 (2018 - $824). The credit union paid interest of $6 during the year ended December 31, 2019 (2018 - $8) on these deposits.

During the year the credit union sold preferred shares to the Westminster Savings Foundation at the fair market value of $646 (2018 - $nil).

The credit union donated nil (2018 - $500) to Westminster Savings Foundation during the year ended December 31, 2019.

(Expressed in thousands of dollars, unless otherwise indicated)

29. 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	
	2019	2018	2019	2018
Balance at January 1	$ 1,680	$ 1,517	$ 2,774	$ 2,946
Net transactions during the year	840	163	(504)	(172)
Balance at December 31	$ 2,520	$ 1,680	$ 2,270	$ 2,774
Interest income earned on loans/ paid on deposits during the year	$ 72	$ 67	$ 26	$ 30

There was no allowance for credit losses recognized in respect of loans receivable from related parties at December 31, 2019 (2018 - nil) and no impairment losses recognized during the year ended December 31, 2019 (2018 - nil). The loans receivable from directors and key management personnel (and close family members) at December 31, 2019 and 2018 are repayable monthly over a range of 1 to 5 years and have interest rates ranging from 2.0% to 5.0%. The loans advanced to the directors and key management personnel 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, 2019 and 2018 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:

	2019	2018
Salaries and other short-term employee benefits	$ 5,413	$ 5,268
Post-employment and termination benefits	714	902
Total	$ 6,127	$ 6,170

30. Subsequent events:

Pursuant to Section 20 of the Credit Union Incorporation Act (British Columbia) and in accordance with guidelines provided for in BC Financial Services Authority (“BCFSA” (formerly the Financial Institutions Commission)) Bulletin No. CU-18-001, Westminster Savings Credit Union (“Westminster”) and Prospera Credit Union (“Prospera”) amalgamated effective January 1, 2020 (the “amalgamation date”) to form a single credit union that will operate under the name Prospera Credit Union (“New Prospera”) (“the amalgamation”).

On the amalgamation date, the issued shares of Westminster and Prospera were exchanged for shares in New Prospera as follows:

(a) one (1) Class A Membership Equity Share of New Prospera was issued in exchange for each issued Class A Membership Equity Share of Westminster; and

(b) one (1) Class A Membership Equity Share of New Prospera was issued in exchange for each issued Class A Membership Equity Share of Prospera.

Following the share exchange, New Prospera will redeem from any member holding in excess of five (5) Class A Membership Equity Shares, those shares that are in excess. Westminster and Prospera combined their respective operations by way of amalgamation to build on the strengths of each credit union to recognize operational synergies and to capture economies of scale as a combined entity.

Key dates of the amalgamation:

- February 28, 2019 - The credit unions submitted an Application for Consent to the proposed amalgamation of Prospera and Westminster to BCFSA.
- September 23, 2019 - Consent to the proposed amalgamation of Prospera and Westminster issued by BCFSA.
- September 26, 2019 - Westminster and Prospera entered into an agreement to combine their businesses.
- November 21, 2019 - The amalgamation was voted on and approved by members of both credit unions.
- January 1, 2020 – acquisition date

Prospera was incorporated pursuant to the CUIA and its operations were subject to the FIA. Prospera’s primary business activities included providing financial services to its members and the general public across British Columbia. It provided personal banking, business banking, and wealth management services through a network of 16 branches, online and mobile banking, the Exchange ATM network and contact centre.

The amalgamation will be accounted for using the acquisition method as determined under IFRS 3 – *Business Combinations* (“IFRS 3”). Consideration is measured at the aggregate of the fair values of assets transferred, liabilities incurred or assumed, and equity instruments issued in

30. Subsequent events (continued):

exchange for control of the acquiree at the acquisition date. The acquisition date is the date the acquirer obtains control over the acquiree. At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at their fair values with the exception of certain items such as deferred taxes and employee benefit arrangements, where IFRS provides exceptions to recording amounts at fair value. Acquisition related costs are recognized in net income as incurred. The excess of consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3, is recorded as goodwill. If the total consideration is less than the net of the identifiable assets acquired and the liabilities assumed, a purchase gain is recognized in earnings.

Due to the timing of the amalgamation, the accounting acquirer has not yet been determined. Judgment is required to determine which entity is the acquirer. In identifying the acquirer, the credit unions are considering, among others, the voting rights of all equity instruments exchanged into New Prospera, the corporate governance structure of New Prospera, the composition of senior management of New Prospera, the relative size of each of the credit unions and tax considerations. In addition, given the ongoing nature of the fair value process in determining the identifiable assets acquired and liabilities assumed and consideration transferred, a preliminary purchase price allocation was not available as of March 13, 2020.

Goodwill, if any, could result from the ability of the combined business to grow its relationships with existing members and attract new members as a result of improved product offerings, quality of service, and convenience, resulting from benefits driven by the increased size and scale of the combined business.

In 2019, the credit union has incurred $3,196 related to the amalgamation and ongoing integration efforts (2018 - $1,211). These costs were recognized under salary and employee benefits, and general and administrative expenses in the consolidated statement of income.