PERSONAL FOCUS, COMMUNITY STRONG

NLCU

ANNUAL REPORT 2018

FINANCIALS 2018

Financial Statements of

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Newfoundland and Labrador Credit Union Limited

Opinion

We have audited the financial statements of Newfoundland and Labrador Credit Union Limited (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income and retained earnings for the year then ended
- the statement of retained earnings for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's 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

St. John's, Canada

February 12, 2019

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Cash and cash equivalents (note 3)	$ 6,793,039	$ 9,378,134
Investments (note 4)	56,041,406	52,553,612
Loans and mortgages receivable (note 5):		
Personal loans	90,869,017	88,841,959
Mortgage loans	380,837,014	360,952,882
Commercial loans and mortgages	40,389,067	40,808,854
	512,095,098	490,603,695
Less allowance for impaired loans and mortgages (note 9)	(2,656,492)	(1,044,559)
	509,438,606	489,559,136
Property and equipment (note 8)	17,585,842	18,043,198
Derivative financial instruments (note 17)	1,136,554	2,490,186
Other assets	2,208,943	2,006,921
	$ 593,204,390	$ 574,031,187
Liabilities and Retained Earnings Attributed to Members		
Liabilities:		
Members' deposits (note 10)	$ 565,647,963	$ 546,384,153
Note payable	677,784	-
Accounts payable and accrued liabilities	1,867,774	1,020,357
Severance provisions	1,859,155	1,826,392
Derivative financial instruments (note 17)	1,136,554	2,490,186
	571,189,230	551,721,088
Retained earnings attributed to members	22,015,160	22,310,099
Commitments (note 15)		
	$ 593,204,390	$ 574,031,187

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Comprehensive Income and Retained Earnings

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

	2018	2017
Revenue:		
Interest income (note 6)	$ 19,371,573	$ 18,253,340
Investment income	1,078,898	992,880
	20,450,471	19,246,220
Financial expenses:		
Interest on members' deposits (note 7)	5,912,106	5,668,949
Financial margin	14,538,365	13,577,271
Other income:		
Service charges	3,340,066	3,176,707
Other	184,978	204,434
Insurance commissions	1,031,760	855,421
Rental	140,513	209,368
	4,697,317	4,445,930
Financial margin and other income	19,235,682	18,023,201
Non interest expenses:		
Personnel	10,044,468	9,629,025
General business	4,149,271	3,728,909
Occupancy	1,555,149	1,525,341
Members' security	1,670,111	1,510,071
Depreciation	909,808	908,151
	18,328,807	17,301,497
Income before income taxes	906,875	721,704
Income taxes (note 12)	115,953	133,813
Net income and comprehensive income for the year	790,922	587,891
Retained earnings, beginning of year:		
As previously stated	22,310,099	21,854,208
Cumulative effect of adopting IFRS 9 (note 11)	(948,861)	-
As restated	21,361,238	21,854,208
Dividends	(137,000)	(132,000)
Retained earnings, end of year	$ 22,015,160	$ 22,310,099

See accompanying notes to financial statements.

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operations:		
Net income and comprehensive income for the year	$ 790,922	$ 587,891
Items not involving cash:		
Depreciation	909,808	908,151
Provision for impaired loans and mortgages	256,419	176,652
Financial margin	(14,538,365)	(13,577,271)
Current income taxes	-	113,652
Increase in severance provision	32,763	50,211
Deferred income tax expense	316,694	(55,825)
	(12,231,759)	(11,796,539)
Changes in operating assets / liabilities:		
Change in accounts payable and accrued liabilities	847,417	(89,792)
Change in members' deposits	18,998,677	2,156,103
Note payable	677,784	-
Change in loans and mortgages receivable	(21,792,620)	(15,320,494)
Change in other assets	262,814	651,929
Interest received	20,751,688	18,820,443
Interest paid	(5,646,974)	(5,703,662)
Income taxes paid	(374,876)	(205,152)
	1,492,151	(11,487,164)
Investing activities:		
Decrease (increase) in investments	(3,487,794)	13,180,251
Purchase of property and equipment	(452,452)	(363,825)
	(3,940,246)	12,816,426
Financing activities:		
Dividends paid on membership shares	(137,000)	(127,000)
Decrease in member share capital	-	(132,082)
	(137,000)	(259,082)
Net (decrease) increase in cash and cash equivalents	(2,585,095)	1,070,180
Cash and cash equivalents, beginning of year	9,378,134	8,307,954
Cash and cash equivalents, end of year	$ 6,793,039	$ 9,378,134

See accompanying notes to financial statements.

Newfoundland and Labrador Credit Union Limited (NLCU) is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act") and is a member of the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador. NLCU commenced operations in 1957. It currently operates twelve branches that offer a full range of financial services to the people of Newfoundland and Labrador. The registered office of NLCU is at 240 Water Street, St. John's, Newfoundland and Labrador.

1. Basis of preparation and statement of compliance:

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

These financial statements have been approved and authorized for issue by the Board of Directors on January 25, 2019.

Basis of preparation

NLCU's accounting policies, including changes during the year, are in note 2 (a). As explained in note 11, NLCU has adopted IFRS 9 Financial Instruments with a date of initial application of January 1, 2018.

Measurement basis

These financial statements are presented in Canadian dollars, which is NLCU's functional currency. They are prepared on the historical cost basis except for the following material items:

Items	Measurement Basis
Financial instruments at fair value through profit or loss (FVTPL)	Fair Value
Financial instruments at fair value through OCI (FVTOCI) – applicable from January 1, 2018	Fair Value
Available-for-sale financial assets (applicable prior to January 1, 2018)	Fair Value
Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationship (which otherwise would have been measured at amortized cost)	Amortized cost adjusted for hedging gain or loss

1. Basis of preparation and statement of compliance (continued):

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to NLCU's financial statements are as follows:

(a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, and prepayment rates.

(b) Impairment losses on loans and mortgages

Applicable from January 1, 2018, Note 2(a)(v) - Impairment of financial instruments assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (expected credit estimates of percentage losses based on historical data loss).

1. Basis of preparation and statement of compliance (continued):

(b) Impairment losses on loans and mortgages (continued)

Application before January 1, 2018

NLCU reviews its individually significant loans and mortgages at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income and Retained Earnings. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as the length of time payments are past due and the amount of security held on the loan. Actual results may differ, resulting in future changes to the allowance.

Loans and mortgages have been assessed individually for impairment. The impairment loss on loans and mortgages is disclosed in more detail in Note 9.

(c) Economic lives of property and equipment

Management determines the estimated useful lives of its property and equipment based on historical experience of the actual lives of property and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

(d) Syndicated loans:

NLCU has entered into syndication agreements with various approved business partners to limit exposure to certain commercial loans.

Management is required to use judgment in the determination under IFRS 9 (prior year IAS 39) if the loans meet the criteria for derecognition.

1. Basis of preparation and statement of compliance (continued):

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

(e) Change in accounting policies

Except for the changes below, NLCU has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

IFRS 9 Financial Instruments

The NLCU has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the NLCU's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the NLCU classifies financial assets under IFRS 9, see Note 2 (a)(i).

1. Basis of preparation and statement of compliance (continued):

(e) Change in accounting policies (continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

• the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

• the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the NLCU classifies financial liabilities under IFRS 9, see 2 (a) (i).

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the NLCU applies the impairment requirements of IFRS 9, see Note 2 (a) (iii) (v).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

1. Basis of preparation and statement of compliance (continued):

(e) Change in accounting policies (continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

– The determination of the business model within which a financial asset is held.
– The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then NLCU has assumed that credit risk on the asset had not increased significantly since its initial recognition to the date of initial application.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 11.

(f) Revenue from Contracts with Customers

NLCU adopted IFRS 15 as at January 1, 2018. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

There is no material impact on NLCU's adoption of IFRS 15 and it's accounting policies as the majority of the revenue includes interest income from financial instruments, which do not fall within the scope of this standard.

(g) New standards and interpretations not yet adopted

Leases

On January 13, 2016, the IASB issued IFRS 16 Leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers. Management of NLCU is assessing the potential impact of this new standard.

2. Significant accounting policies:

The following significant accounting policies have been applied consistently by NLCU to all periods presented in these financial statements without exception.

(a) Policy applicable after January 1, 2018:

Financial assets and financial liabilities are recognized when NLCU becomes a party to the contractual provisions of the financial instrument.

NLCU initially recognizes loans, mortgages, and member deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which NLCU becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2. **Significant accounting policies (continued):**

(a) Policy applicable after January 1, 2018 (continued):

(i) Classification

a) Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

• the asset is held within a business model whose objective is to hold assets 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.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, NLCU may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, NLCU 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 an accounting mismatch that would otherwise arise.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

(i) Classification (continued)

a) Financial assets (continued)

Business model assessment

NLCU makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to NLCU's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how NLCU stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

(i) Classification (continued)

a) Financial assets (continued)

NLCU has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria the financial asset is expected to be securitized as part of a portfolio that:

- qualifies for derecognition as detailed below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, NLCU has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, NLCU considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, NLCU considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit NLCU’s claim to cash flows from specified assets (e.g. non recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

(i) Classification (continued)

a) Financial assets (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after NLCU changes its business model for managing financial assets. There we no changes to any of NLCU's business models during the current year (prior year: nil).

b) Financial liabilities

NLCU classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

(ii) Derecognition:

a) Financial assets

NLCU derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which NLCU neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by NLCU is recognized as a separate asset or liability.

In transactions in which NLCU neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, NLCU continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

(ii) Derecognition (continued)

a) Financial assets (continued)

In certain transactions, NLCU retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(b) Financial liabilities

NLCU derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Membership shares, surplus shares and incentive shares

In accordance with IFRIC 2, NLCU's membership shares, surplus shares, and incentive shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. They are classified as financial liabilities unless NLCU has the unconditional right to refuse redemption as a result of regulatory requirements outlined in their bylaws. Discretionary dividends on these shares will be recorded as a reduction in retained earnings, if and when declared.

(c) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL, if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in comprehensive income. NLCU's financial instruments designated as FVTPL consist of derivative financial instruments.

(iii) Modifications of financial assets and financial liabilities

a) Financial assets

If the terms of a financial asset are modified, NLCU evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

(iii) Modifications of financial assets and financial liabilities (continued)

a) Financial assets (continued)

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, NLCU recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(b) Financial liabilities

NLCU derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, NLCU has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Impairment

NLCU recognizes loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and advances and certain investment securities);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

v) Impairment (continued)

NLCU measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

NLCU considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to NLCU in accordance with the contract and the cash flows that NLCU expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to NLCU if the commitment is drawn down and the cash flows that NLCU expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that NLCU expects to recover.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

v) Impairment (continued)

Loans and receivables captions in the statement of financial position include:

- loans and receivables measured at amortization cost, they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method; and
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL, these are measured at fair value with changes recognized immediately in profit or loss.

Interest income is recognized by applying the effective interest rate.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, NLCU assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. **Significant accounting policies (continued):**

(a) Policy applicable after January 1, 2018 (continued):

v) Impairment (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by NLCU on terms that NLCU would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for moer than 90 days is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and NLCU cannot identify the ECL on the loan commitment component separately from those on the drawn component: NLCU presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when NLCU determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with NLCU's procedures for recovery of amounts due.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

v) Impairment (continued)

Impairment of financial assets and allowance for impaired loans

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

Designation of fair value through profit or loss

Financial assets

At initial recognition, NLCU has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

Financial liabilities

NLCU has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 11 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 9.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

Presentation

Interest income and expense presented in the statement of comprehensive income and retained earnings:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in comprehensive income from other financial instruments at FVTPL.

Investments

The investment caption in the statement of financial position includes:

- debt investment measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt and equity investments mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognized immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment designated as at FVOCI.

2. Significant accounting policies (continued):

(a) Policy applicable after January 1, 2018 (continued):

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

NLCU elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

Membership shares

Membership shares recorded as liabilities are classified as measured at amortized cost under IFRS 9. Payments of dividends on special shares presented as a financial liability are recognized as a distribution of income.

2. Significant accounting policies (continued):

(b) Policy effective Before January 1, 2018:

Financial assets and financial liabilities are recognized when NLCU becomes a party to the contractual provisions of the financial instrument.

Classification

Cash and cash equivalents Loans and receivables	
Investments:	
Equity investments	Available-for-sale
Liquidity reserve	Loans and receivables
Loans and mortgages	Loans and receivables
Other assets:	
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Members' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative financial instruments	Fair value through profit or loss

Membership shares and surplus shares and incentive shares

In accordance with IFRIC 2, NLCU's membership shares, surplus shares, and incentive shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. Discretionary dividends on these shares will be recorded as a reduction in retained earnings, if and when declared.

Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL, if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in comprehensive income. NLCU's financial instruments designated as FVTPL consist of derivative financial instruments.

2. Significant accounting policies (continued):

(b) Policy effective Before January 1, 2018 (continued):

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are initially recognized at fair value. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and the gains and losses on such assets are recorded in other comprehensive income until the investment is derecognized or until the investment is identified as being subject to impairment.

Shares in Central 1, League Data, and Concentra Financial held by NLCU are not traded in an active market and are classified as available-for-sale. Available-for-sale equity investments with a fair value that cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which NLCU does not intend to sell immediately or in the near term. Loans and receivables including cash, liquidity reserve investments, loans and mortgages to members, accrued interest on loans, accrued interest on investments and accounts receivable, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees, transaction costs and other premiums or discounts) through the expected life of the asset/liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. Significant accounting policies (continued):

(b) Policy effective Before January 1, 2018 (continued):

Impairment of financial assets and allowance for impaired loans

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly. Each component of the allowance for impaired loans is reviewed at least on the reporting date.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to comprehensive income in the year.

2. Significant accounting policies (continued):

(b) Policy effective Before January 1, 2018 (continued):

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

Derecognition of financial assets

NLCU derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

NLCU continues to recognize the transferred asset to the extent that NLCU neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset or when NLCU retains substantially all the risks and rewards of ownership. In the latter case, NLCU also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in comprehensive income.

Other liabilities

Other liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

NLCU derecognizes financial liabilities when, and only when, NLCU's obligations are discharged, cancelled or expire.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through comprehensive income.

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits with banks and Credit Union Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

(d) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When parts of a capital asset have different useful lives, they are accounted for as separate assets.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives with the exception of depreciation of paved areas and furniture and equipment, which is recognized using the declining balance method.

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

(e) Leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

Rental income from operating leases is recognized on a straight-line basis over the term of the related lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

2. Significant accounting policies (continued):

(f) Employee benefits:

a) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

b) Long service provisions

Severance provisions are calculated based on management's best estimate of long service payment for years of service and current salary levels discounted from the expected payment date. The right to be paid long service award pay vests with employees with twenty years of continual service with NLCU. Severance is payable when the employee ceases employment with NLCU. The severance provision is unfunded.

(g) Revenue recognition:

Interest income is accrued on a time basis, in calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired).

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income on the statement of comprehensive income.

Other fees and commission income include account service fees, investment management fees, and insurance fees, which are recognized over the period the services are performed.

2. Significant accounting policies (continued):

(h) Income taxes:

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not included in comprehensive income.

(i) Foreign currency translation:

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in comprehensive income and are included in the 'other income' line item in the Statement of Comprehensive Income and Retained Earnings.

3. Cash and cash equivalents:

	2018	2017
Cash on hand	$ 3,507,813	$ 3,885,062
Cash held with Credit Union Central	600,161	3,918,816
Cash held with other chartered banks	1,685,065	1,574,256
Investments held with Central 1	1,000,000	-
	$ 6,793,039	$ 9,378,134

NLCU has available lines of credit with Central 1 in the amounts of $6,000,000 (CDN) and $300,000 (USD). As at December 31, 2018, there was $677,784 drawn on these facilities (2017 - nil). During the prior year a $3,000,000 credit facility with Atlantic Central was available to NLCU, which was not drawn on at December 31, 2017.

4. Investments:

The following table provides information on the investments held by NLCU.

	2018	2017
Mandatory liquidity reserve deposits	$ 33,953,250	$ 32,832,750
Central 1 deposit note	11,400,000	10,000,000
Consumer loan pool	3,129,409	4,327,737
Syndicated loan	6,175,529	3,851,891
Other deposits	712,271	891,256
Equity investments	457,107	457,107
	55,827,566	52,360,741
Accrued interest	213,840	192,871
	$ 56,041,406	$ 52,553,612
Fair value	$ 56,041,406	$ 52,553,612

As a condition required under Newfoundland and Labrador Regulations 56/09 Credit Union Regulation 2009 Section 19, NLCU is required to maintain on deposit with Central 1 an amount equal to 6% of NLCU's total liabilities as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in NLCU's liabilities or upon withdrawal of membership from Central 1.

Mandatory liquidity deposits are fixed rate notes with maturity dates ranging between 2019 and 2023 and earn a weighted average interest rate of 1.49%.

The Central 1 deposit note matures in 2019 and earns interest at a rate of 2.48%.

The syndicated loans have maturity dates between 2019 and 2023 and earn a fixed rate weighted average interest rate of 3.90%.

Central 1 Credit Union - liquidity reserve deposit

Interest on mandatory reserve deposits and other deposits generated an average annual return of 2.24% (2017 - 1.8%).

Equity investments

4. Investments (continued):

Equity investment shares are issued and redeemable at par value. As there is no active market for these shares, fair value is not reliably determinable as future cash flows cannot be reasonably predicted with a standard valuation technique. Therefore these equity investments are carried at cost.

NLCU's classified these shares as amortized cost. NLCU has no intention of withdrawing from membership in Central 1.

5. Loans to members:

Personal and commercial mortgages are repayable in monthly blended principal and interest installments over a maximum term of seven years up to the maximum amortization period as prescribed by Provincial law. Mortgages are secured by residential and commercial properties as noted below. Mortgages earn a weighted average interest rate of 3.27% (2017 - 3.20%). Many of the loans are insured.

Personal loans, including line of credit loans, are repayable in monthly blended principal and interest installments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees. Personal loans earn a weighted average interest rate of 6.24% (2017 - 5.50%).

5. Loans to members (continued):

As of December 31, 2018 NLCU had $76,559,854 in approved lines of credit that had not been disbursed. See note 17 for additional disclosures related to managements policies and procedures to manage credit risk.

Commercial loans are repayable in periodic blended principal and interest installments and earn a weighted average interest rate of 5.91% (2017 - 5.22%).

Security held on a portfolio basis is as follows:

	2018	2017
Insured mortgages	$ 213,424,942	$ 226,714,032
Uninsured mortgages	187,341,819	155,028,897
Secured loans	68,919,867	69,312,068
Unsecured loans	42,408,470	39,548,698
	$ 512,095,098	$ 490,603,695

Loans to members are classified as measured at amortized cost under IFRS 9.

6. Financial revenue - members' loans and mortgages:

	2018	2017
Personal loans	$ 5,363,908	$ 4,833,748
Residential mortgages	12,057,878	11,740,897
Commercial loans and mortgages	1,949,787	1,678,695
	$ 19,371,573	$ 18,253,340

Total interest income reported is calculated using the effective interest method, and related to financial assets not carried at FVTPL.

7. Interest on members' deposits:

	2018	2017
Personal chequing accounts	$ 31,269	$ 13,740
Savings accounts	480,941	463,236
Term deposits	2,633,894	2,542,648
Registered savings accounts	1,731,961	1,702,296
Tax free savings accounts	639,566	542,221
Index - linked deposits	335,324	391,567
Other	59,151	13,241
	$ 5,912,106	$ 5,668,949

8. Property and equipment:

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Total 2018
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	
Cost											
Balance, beginning of year	$ 3,951,343	$ 15,434,212	$ 2,413,903	$ 775,517	$ 1,741,429	$ 6,460,090	$ 620,478	$ 2,268,826	$ 52,755	$ 2,005,390	$ 35,723,943
Additions	-	30,751	-	-	-	129,302	119,927	100,850	-	71,622	452,452
Balance, end of year	3,951,343	15,464,963	2,413,903	775,517	1,741,429	6,589,392	740,405	2,369,676	52,755	2,077,012	36,176,395
Accumulated depreciation											
Balance, beginning of year	-	4,657,348	672,841	390,016	1,739,100	5,668,862	585,777	2,009,234	21,102	1,936,465	17,680,745
Depreciation expense	-	383,443	99,177	30,840	439	184,106	48,408	89,317	10,551	63,527	909,808
Balance, end of year	-	5,040,791	772,018	420,856	1,739,539	5,852,968	634,185	2,098,551	31,653	1,999,992	18,590,553
Net Book Value	$ 3,951,343	$ 10,424,172	$ 1,641,885	$ 354,661	$ 1,890	$ 736,424	$ 106,220	$ 271,125	$ 21,102	$ 77,020	$ 17,585,842

8. Property and equipment (continued):

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Total 2017
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	
Cost											
Balance, beginning of year	$ 3,951,343	$ 15,420,340	$ 2,413,903	$ 778,771	$ 1,741,429	$ 6,406,666	$ 620,478	$ 2,056,960	$ 52,755	$ 1,917,473	$ 35,360,118
Additions	-	13,872	-	(3,254)	-	53,424	-	211,866	-	87,917	363,825
Balance, end of year	3,951,343	15,434,212	2,413,903	775,517	1,741,429	6,460,090	620,478	2,268,826	52,755	2,005,390	35,723,943
Accumulated depreciation											
Balance, beginning of year	-	4,274,791	573,662	356,494	1,735,933	5,471,056	561,354	1,927,575	10,552	1,861,177	16,772,594
Depreciation expense	-	382,557	99,179	33,522	3,167	197,806	24,423	81,659	10,550	75,288	908,151
Balance, end of year	-	4,657,348	672,841	390,016	1,739,100	5,668,862	585,777	2,009,234	21,102	1,936,465	17,680,745
Net Book Value	$ 3,951,343	$ 10,776,864	$ 1,741,062	$ 385,501	$ 2,329	$ 791,228	$ 34,701	$ 259,592	$ 31,653	$ 68,925	$ 18,043,198

9. Allowance for impaired loans and mortgages:

	Personal	Mortgages	Commercial	2018 Total
Current	$ 89,104,471	$ 376,739,907	$ 32,244,153	$ 498,088,531
Past due (1)				
31 to 90 days	58,158	1,409,736	112	1,468,006
91 and greater	33,582	2,390,533	7,457,954	9,882,069
Impaired	1,672,807	296,838	686,847	2,656,492
	90,869,018	380,837,014	40,389,066	512,095,098
Less: allowances	(1,672,806)	(296,838)	(686,848)	(2,656,492)
	$ 89,196,212	$ 380,540,176	$ 39,702,218	$ 509,438,606

.

	Personal	Mortgages	Commercial	2017 Total
Current	$ 87,627,850	$ 358,176,574	$ 26,873,628	$ 472,678,052
Past due (1)				
31 to 90 days	207,383	1,467,835	67	1,675,285
91 and greater	20,520	1,308,473	13,876,806	15,205,799
Impaired	986,206	-	58,353	1,044,559
	88,841,959	360,952,882	40,808,854	490,603,695
Less: allowances	(986,206)	-	(58,353)	(1,044,559)
	$ 87,855,753	$ 360,952,882	$ 40,750,501	$ 489,559,136

(1) A loan is considered to be past due when the counterparty has not made a payment on the day of the contractual payment date.

9. Allowance for impaired loans and mortgages (continued):

Personal loans to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 285,991	$ 316,399	$ 983,272	$ 1,585,662
Provision for credit losses:				
Stage 1 net provision	4,087	-	-	4,087
Stage 2 net provision	-	(11,264)	-	(11,264)
Stage 3 net provision	-	-	326,393	326,393
	290,078	305,135	1,309,665	1,904,878
Write-offs	-	(3,394)	(228,678)	(232,072)
Allowance December 31, 2018	$ 290,078	$ 301,741	$ 1,080,987	$ 1,672,806

Personal mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 6,417	$ 9,792	$ 114,250	$ 130,459
Provision for credit losses:				
Stage 1 net provision	168	-	-	168
Stage 2 net provision	-	1,427	-	1,427
Stage 3 net provision	-	-	164,784	164,784
	6,585	11,219	279,034	296,838
Write-offs	-	-	-	-
Allowance December 31, 2018	$ 6,585	$ 11,219	$ 279,034	$ 296,838

9. Allowance for impaired loans and mortgages (continued):

Commercial loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 3,920	$ -	$ 680,032	$ 683,952
Provision for credit losses:				
Stage 1 net provision	407	-	-	407
Stage 2 net provision	-	2,178	-	2,178
Stage 3 net provision	-	-	311	311
	4,327	2,178	680,343	686,848
Write-offs	-	-	-	-
Allowance December 31, 2018	$ 4,327	$ 2,178	$ 680,343	$ 686,848

Total loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 296,328	$ 326,191	$ 1,777,554	$ 2,400,073
Provision for credit losses:				
Stage 1 net provision	4,662	-	-	4,662
Stage 2 net provision	-	(7,659)	-	(7,659)
Stage 3 net provision	-	-	491,488	491,488
	300,990	318,532	2,269,042	2,888,564
Write-offs	-	(3,394)	(228,678)	(232,072)
Allowance December 31, 2018	$ 300,990	$ 315,138	$ 2,040,364	$ 2,656,492

10. Members' deposits:

	2018	2017
Personal and commercial chequing accounts	$ 107,530,010	$ 108,389,531
Savings accounts	110,982,624	112,816,641
Term deposits	145,038,320	129,655,104
Registered retirement savings plans	96,451,557	101,165,780
Registered retirement income funds	35,697,978	31,034,227
Tax free savings accounts	63,641,543	57,016,080
Share accounts	6,305,931	6,306,790
	$ 565,647,963	$ 546,384,153

Chequing accounts

Commercial and personal chequing accounts are due on demand and pay an average interest rate of 0.04% (2017 - 0.01%).

Savings accounts are due on demand and pay an average interest rate of 0.55% (2017 - 0.46%).

Term deposits

Term deposits are for periods of 30 days to seven years and generally may not be withdrawn prior to maturity. During the year ended 2018, they paid an average interest rate of 1.83% (2017 - 1.96%).

Registered retirement plans

NLCU has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in NLCU. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by NLCU, on behalf of the trustee. Registered retirement savings plans have terms of 6 months to 7 years or are due on demand. During the year ended 2018, they paid an average interest rate of 1.63% (2017 - 1.46%). Retirement income funds have terms of 6 months to 5 years or are due on demand. During the year ended 2018, they paid an average interest rate of 1.86% (2017 - 1.85%).

Tax free savings account

Tax free savings accounts have terms of 6 months to seven years or are due on demand. During the year they paid an average interest rate of 1.55% (2017 - 1.13%).

10. Members' deposits (continued):

Share accounts

Member equity shares consist of 20 shares at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member. Currently, there are 16,654 (2017 - 16,544) fully paid equity share accounts with an aggregate value of $2,868,906 (2017 - $2,764,195). Member equity shares are voting shares and are redeemable at the option of the member upon closing all accounts.

Surplus shares may be issued in an unlimited number at par value of five dollars ($5.00) per share. The holders of surplus shares have all of the rights and privileges and are subject to the restrictions applicable to members, as outlined in the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 2,255 (2017 - 2,269) fully paid surplus share accounts with an aggregate value of $11,275 (2017 - $11,345).

Incentive shares may be issued by NLCU to a maximum number of ten thousand shares as approved by the Regulator in accordance with the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 741 (2017 - 758) share accounts outstanding with an aggregate value of $3,425,750 (2017 - $3,531,250). Incentive shares are voting shares and are redeemable at par at the option of the member upon giving 90 days notice.

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in Note 12.

The Board of Directors declared a dividend of $137,000 as of December 31, 2018 (2017 - $132,000).

11. Financial assets and financial liabilities:

From financial liabilities at FVTPL under IAS 39

Fair value at December 31, 2018

Fair value gain that would have been recognized during 2018 in profit or loss if the financial liabilities had not been reclassified

The effective interest rate determined on the date of initial application

The interest expense recognized during 2018

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the liability credit reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.

	December 31, 2017 Using IAS39		January 1, 2018 Using IFRS 9	
	Measurement category	Carrying value	Carrying value	Measurement category
Cash and cash equivalents	Amortized Cost	$ 9,378,134	$ 9,378,134	Amortized Cost
Investments - interest bearing	Amortized Cost	52,096,505	52,096,505	Amortized Cost
Investments - equity	FVTPL	457,107	457,107	FVTPL
Loans and mortgage receivables	Amortized Cost	490,603,695	490,603,695	Amortized Cost
Allowance for impaired loans and mortgages	ECL	(1,044,559)	(2,400,073)	ECL
Derivative financial instruments	FVTPL	2,490,186	2,490,186	FVTPL
Other assets	Amortized Cost	2,006,921	2,413,574	Amortized Cost
Total Financial Assets		$ 555,987,989	$ 555,039,128	

11. Financial assets and financial liabilities (continued):

	December 31, 2017 Using IAS39		January 1, 2018 Using IFRS 9	
	Measurement category	Carrying value	Carrying value	Measurement category
Member deposits	Amortized Cost	$ 546,384,153	$ 546,384,153	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost	1,020,357	1,020,357	Amortized Cost
Other liabilities	Amortized Cost	1,826,392	1,826,392	Amortized Cost
Derivative financial instruments	FVTPL	2,490,186	2,490,186	FVTPL
		551,721,088	551,721,088	
Retained Earnings		22,310,099	21,361,238	
Total Liabilities and Equity		$ 574,031,187	$ 573,082,326	

12. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 30% (2017 - 30%) to the income before income taxes. The reasons for the differences and related tax effects are as follows:

		2018		2017
Income before income taxes	$	906,875	$	721,704

		2018		2017
Income taxes on income before income taxes, at above basic rate	$	272,063	$	216,511
Increase (decrease) in taxes resulting from:				
Effect of non-deductible expenses		6,002		10,766
Other		(72,421)		(37,639)
Deferred income tax recovery		(89,691)		(55,825)
	$	115,953	$	133,813

Temporary differences, which give rise to the deferred income tax asset, are as follows:

		2018		2017
Deferred income tax assets (liabilities)				
Capital assets and other	$	(293,534)	$	(358,650)
Severance		557,747		547,917
Loan impairment		421,399		-
Deferred income tax asset	$	685,612	$	189,267

13. Capital adequacy:

Capital management

The Board approves annually the capital management policy and the annual business plan. This policy outlines NLCU's overall objectives and guidelines to ensure that NLCU has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of NLCU and to support the current and future operating plans.

13. Capital adequacy (continued):

The Credit Union Act 2009 requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of total assets. Alternatively, credit unions are able to use a risk weighted model when evaluating capital adequacy reserve that requires a minimum of 10.5%. Additionally, retained earnings cannot be less than 3% of NLCU's total assets and common equity cannot be less than 7% of risk weighted assets.

NLCU is in compliance with its policies and those of the Act regarding regulatory capital as at December 31 as outlined in the following table based on the alternative capital adequacy revenue model.

	2018	2017
Retained earnings (common equity)	$ 22,015,160	$ 22,310,098
Members' shares	6,305,931	6,306,790
Deferred tax asset	(685,612)	(189,267)
	$ 27,635,479	$ 28,427,621
Risk weighted assets	$ 182,557,253	$ 172,082,108
Risk weighted capital ratio		
Actual	15.14 %	16.52 %
Regulatory requirement	10.50 %	10.50 %
Common equity capital ratio		
Actual	12.06 %	12.97 %
Regulatory requirement	7.00 %	7.00 %
Retained earnings as a percentage of assets		
Actual	3.71 %	3.89 %
Regulatory requirement	3.00 %	3.00 %

14. Related party transactions:

At December 31, 2018, the aggregate value of personal and mortgage loans outstanding to directors, designated employees and all related parties totaled $2,529,008 (2017 - $1,773,567). The maximum balances of these loans during the year was $2,787,915 (2017 - $2,220,051). The aggregate value of deposits outstanding to directors, designated employees and all related parties totaled $6,539,051 (2017 - $5,481,487).

The interest rates charged on balances outstanding from directors and all related parties are the same as those charged in an arm's length transaction. Loans to designated employees are granted at a discount rate, consistent with industry practices and in accordance with board approved policy. Loan and mortgage balances with directors, designated employees and all related parties are secured as per NLCU's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2018 and December 31, 2017.

Key management personnel received salaries and other short-term employee benefits during the year of $3,833,078 (2017 - $3,794,428).

At December 31, 2018, directors received expense reimbursement of $20,064 (2017 - $17,530) and remuneration of $55,225 (2017 - $37,160) for serving NLCU.

15. Commitments:

Under present lease agreements for rental space NLCU is committed to the following expenditures:

2019	$	132,750
2020		95,635
2021		28,773
	$	257,158

16. Fair value of financial instruments:

NLCU's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets/liabilities that are not considered financial instruments, such as prepaids, property and equipment, deferred tax asset and accrued severance liability.

16. Fair value of financial instruments (continued):

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Shares in Central 1, League Data, and Concentra are measured at cost less any identified impairment losses at the end of each reporting period. These shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. As there is no active market for these shares, fair value is not reliably determinable as future cash flows cannot be reasonably predicted with a standard valuation technique. Therefore these equity investments are carried at cost.

NLCU holds derivative financial instruments including embedded derivatives classified as FVTPL. These are classified as Level 2 financial instruments. Their fair value is determined by option pricing models that take into account changes in respective equity indices.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2018 and 2017.

Additionally, there are no financial instruments classified in Level 1 or 3.

Interest rate sensitivity is the main reason for changes in fair values of NLCU's financial instruments with the exception of derivative assets.

16. Fair value of financial instruments (continued):

The fair value of cash and cash equivalents, interest receivable, accounts payables and accrued liabilities, loans to members due on demand, deposits from members due on demand and member share accounts redeemable on demand approximate their carrying amount due to short term to maturity.

The fair value of deposits with Central 1 is approximated by its carrying amounts due to the short - term maturity and repricing of the investments at market rates of return.

	Carrying amount	Fair value	2018 fair value difference
Financial assets			
Loans to members	$ 509,438,606	$ 506,466,823	$ (2,971,783)
Cash resources	6,793,039	6,739,039	-
Investments	56,041,406	56,041,406	-
Financial liabilities			
Members' deposits	$ 565,647,963	$ 564,431,035	$ (1,216,928)
Accounts payable and accrued liabilities	1,867,774	1,867,774	-

The above estimates were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumptions. Interest rate sensitivity is the main reason for changes in fair values of NLCU's financial instruments as many loans and deposits to members are at fixed interest rates.

The following are the methods and assumptions used to estimate the fair value of financial instruments:

The fair values of loans to members, and members' deposits are determined by two methods. Variable rate loans to members and demand deposit members' accounts are estimated to be at fair value, as the interest rates of these financial instruments vary with market interest rates. Fixed rate loans to members, and fixed term deposit members' deposits fair value is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks. The expected fair value of these loans to members, direct financing lease, fixed term deposits may differ with changes in interest rates.

17. Nature and extent of risks arising from financial instruments:

NLCU is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how NLCU manages its exposure to these risks.

Credit risk

The business of NLCU necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of NLCU oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of NLCU and reviews the effectiveness of internal control processes.

NLCU uses a lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist NLCU in assessing the borrower's ability to repay.

NLCU mitigates credit risk by obtaining quality collateral and requiring higher risk loans to be CMHC insured. NLCU considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. NLCU's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, NLCU monitors its loan concentration to ensure that it is in compliance with its policies.

Inputs, assumptions and techniques used for estimating impairment

Credit Risk Model:

NLCU uses a credit risk based predictive model to calculate Expected Credit Losses (ECL). This model incorporates the following concepts to calculate ECL:

- Significant Increase in Risk – This factor measures the change in the probability a facility will go into default.
- Staging – All facilities have been classified into one of three stages which represent their risk of default.
- Exposure at Default (EAD) – On a consolidated basis, the EAD looks at the future value of facilities using scheduled payments, facility interest rates and reasonable assumptions on prepayments. The present values of these future exposures are then used as the potential EAD.

17. Nature and extent of risks arising from financial instruments (continued):

• Probability of Default (PD) – Using historical information and current macroeconomic factors, NLCU has calculated a percentage probability of facilities going into default in future periods. This probability has been calculated using a 12 month window or a lifetime window depending on the stage represented.
• Risk Adjustment (RA) factor - NLCU uses a risk factor to adjust our PD for forwarding looking information that could increase or decrease the stage's PD. Forwarding looking information considers current and future macroeconomic factors including interest rates, unemployment rates, insolvency rates and oil prices.
• Risk Adjusted Probability of Default (RAPD) – The RAPD is determined by multiplying PD by RA Factor.
• Expected Loss Before Collateral (ELBC) – The ELBC Is the expected loss before taking into consideration recoveries that could be realized through collateral. It is calculated by multiplying the EAD by the RAPD.
• Loss Given Default (LGD) ratio – The LGD is the percentage of a facility that would be uncollectible should a facility go into default.
• Expected Credit Loss (ECL) – The ECL represents the estimated loss NLCU can expect from the existing portfolio of business. It is calculation by multiplying the ELBC by the LDG.

Definition of Default:

NLCU considers a facility to be in default when payments are past due more than 90 days. NLCU maintains a watch list of facilities where known potential of default exists such as where NLCU has received insolvency documentation.

Significant Increases in Risk:

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, NLCU considers reasonable and supportable information that is relevant and available without undue cost and effort. This involves both quantitative and qualitative information and analysis based on NLCU's historical experience incorporating forward looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

• The remaining lifetime PD as at the reporting date; with
• The remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted, where relevant for changes in prepayment exceptions).

17. Nature and extent of risks arising from financial instruments (continued):

Credit Classification and Staging:

For the purposes of determining our Expected Credit Loss (ECL) in accordance with IFRS 9, NLCU has classified all loans and mortgages of members in the following categories: Personal Loans, Personal Lines of Credit, Chequing Account credit limits, Retail Insured Mortgages, Retail Uninsured Mortgages, Commercial Loans, Commercial Mortgages, and Commercial Lines of Credit.

In addition, NLCU has classified all loans and mortgages of members in three stages. Each stage is based on the change in credit risk of the facility in comparison to the risk at origination or previous reporting period. Variables and data used to assess a change in credit risk include: knowledge of credit facility, current and historical data collected related to the facility such as payment history and current payment status, external data from credit agencies and macroeconomic factors. The three stages used by NLCU for classification of facilities are:

Stage 1:
Stage 1 represents facilities with the lowest risk rating for NLCU. These consist of facilities where the credit risk has not significantly changed from that identified at origination. ECL for facilities included in stage 1 have been estimated for a twelve month period.

Stage 2:
Stage 2 represents facilities where the credit risk has significantly changed from that identified at origination. ECL for facilities included in stage 2 have been estimated for the life of the facility.

Stage 3:
Stage 3 represents facilities for members who are in default or who are being monitored by NLCU. ECL for facilities included in stage 3 have been estimated for the life of the facility.

Probability of Default (PD):

To estimate a reasonable PD ratio NLCU examines historical data and specific facilities that have experienced default. The data was reviewed to determine default time frames in relation to year of origination. Statistical analysis was then completed to predict future probability of default. Additional weighting was given to more current data to more accurately reflect current economic conditions. The probabilities were adjusted statistically to represent twelve month and life time circumstances associated with each stage.

As stage 3 facilities were already in default or deemed to be high risk of default, these were included at a PD of 100%.

17. Nature and extent of risks arising from financial instruments (continued):

Loss Given Default (LGD):

At the point of default, NLCU needed to determine the percentage of each credit class that would be deemed uncollectable. To determine this ratio NLCU analyzed historical data including recovery rates and collateral values.

Liquidity risk

The business of NLCU necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

NLCU's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, NLCU's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

	2018	2017
Cash and cash equivalents	$ 6,793,039	$ 9,378,134
Central 1 (matures December 2019, redeemable)	2,000,000	-
Central 1 (matures December 2019, redeemable)	2,000,000	-
Central 1 (matures December 2019, redeemable)	2,000,000	-
Central 1 (matures December 2019, redeemable)	2,000,000	-
Central 1 (matures December 2018)	-	10,000,000
Central 1 (matures February 2019)	3,400,000	-
Liquidity reserve deposit	33,953,250	32,832,750
Total assets held for liquidity	$ 52,146,289	$ 52,210,884

Contractual maturities of financial liabilities are shown under interest rate risk. NLCU has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

17. Nature and extent of risks arising from financial instruments (continued):

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates and market prices. NLCU is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with NLCU's Asset and Liability Management and Investment Policy set by the Board. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by NLCU. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on NLCU's earnings. It is the policy of NLCU to keep exposure to interest rate fluctuations within limits set by the Board and regulations by matching, when possible, the maturity of interest bearing liabilities and assets and pricing interest rate assets consistent with the basis used for liabilities.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates.

2018	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 99,812,171	$ 119,716,395
Less than three months	8,507,878	21,011,561	37,626,314
Three months to a year	17,430,284	97,899,883	112,492,482
One to five years	29,811,597	291,323,634	164,511,181
Non-rated sensitive	291,647	2,047,848	131,301,591
Effective interest rate	2.24 %	3.89 %	1.13 %
Total	$ 56,041,406	$ 512,095,097	$ 565,647,963

17. Nature and extent of risks arising from financial instruments (continued):

2017	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 96,981,146	$ 120,231,423
Less than three months	4,091,603	22,445,965	32,386,343
Three months to a year	13,764,041	87,163,601	99,680,594
One to five years	34,240,861	281,995,136	161,065,847
Non-rate sensitive	457,107	2,017,847	133,019,946
Effective interest rate	1.52 %	3.75 %	1.00 %
Total	$ 52,553,612	$ 490,603,695	$ 546,384,153

At December 31, 2018, if interest rates at that date had been 100 (2017 - 100) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately $165,431 (2017 - $179,026) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages, and lower interest revenue on liquidity investments. If interest rates had been 100 (2017 - 100) basis points higher, with all other variables held constant, after-tax net income would have been approximately $168,275 (2017 - $178,763) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages, and higher interest on liquidity investments.

Market price risk

Market price risk refers to the potential impact of changes in foreign exchange rates on NLCU's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of NLCU to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. NLCU does not hold foreign investments beyond cash required to meet daily operational requirements. Index-linked deposits

At December 31, 2018, NLCU has issued $24,692,638 (2017 - $30,955,244) of index-linked term deposits (registered and non-registered deposits) to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term based on the performance of various Toronto Stock Exchange ("TSX") indices.

The interest feature of these term deposits have been accounted for by an embedded derivative liability of fair value separate from the host deposit.

17. Nature and extent of risks arising from financial instruments (continued):

NLCU has entered into derivative agreements with the Central 1 to offset or hedge the exposure to these indices associated with these products. NLCU pays the Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, NLCU receives payments from the counterparty, Central 1, equal to the amount that will be paid to the depositors based on the performance of various TSX indices.

These agreements have a fair value that varies based on the particular contract and changes in linked indices. The fair value of these agreements is $1,136,554 (2017 - $2,490,186) at year end and has been accounted for as derivative in accordance with NLCU's accounting policy.

17. Nature and extent of risks arising from financial instruments (continued):

Credit quality analysis

				2018	2017
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	Total
Personal loans to members at amortized costs:					
Low to Fair Risk	80,367,712	9,235,678	-	89,603,390	87,627,850
Watch List Loans	-	133,367	150,552	283,919	207,383
Loans in Default	-	-	981,709	981,709	1,006,726
	80,367,712	9,369,045	1,132,261	90,869,018	88,841,959
Allowance for loan loss	(290,077)	(301,741)	(1,080,988)	(1,672,806)	-
Carrying amount	80,077,635	9,067,304	51,273	89,196,212	88,841,959

				2018	2017
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	Total
Personal mortgages to members at amortized costs:					
Low to Fair Risk	320,314,583	54,255,596	-	374,570,179	358,176,574
Watch List Loans	-	3,597,152	-	3,597,152	1,467,835
Loans in Default	-	-	2,669,683	2,669,683	1,308,473
	320,314,583	57,852,748	2,669,683	380,837,014	360,952,882
Allowance for loan loss	(6,585)	(11,220)	(279,033)	(296,838)	-
Carrying amount	320,307,998	57,841,528	2,390,650	380,540,176	360,952,882

17. Nature and extent of risks arising from financial instruments (continued):

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2018 Total	2017 Total
Commercial loans and mortgages to members at amortized costs:					
Low to Fair Risk	21,777,199	10,476,640	-	32,253,839	26,873,628
Watch List Loans	-	-	-	-	67
Loans in Default	-	-	8,135,227	8,135,227	13,935,159
	21,777,199	10,476,640	8,135,227	40,389,066	40,808,854
Allowance for loan loss	(4,327)	(2,178)	(680,343)	(686,848)	(58,353)
Carrying amount	21,772,872	10,474,462	7,454,884	39,702,218	40,750,501

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2018 Total	2017 Total
Total loans and mortgages to members at amortized cost:					
Low to Fair Risk	422,459,494	73,967,914	-	496,427,408	472,678,052
Watch List Loans	-	3,730,519	150,552	3,881,071	1,675,285
Loans in Default	-	-	11,786,619	11,786,619	16,250,358
	422,459,494	77,698,433	11,937,171	512,095,098	490,603,695
Allowance for loan loss	(300,989)	(315,139)	(2,040,364)	(2,656,492)	(1,044,559)
Carrying amount	422,158,505	77,383,294	9,896,807	509,438,606	489,559,136

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