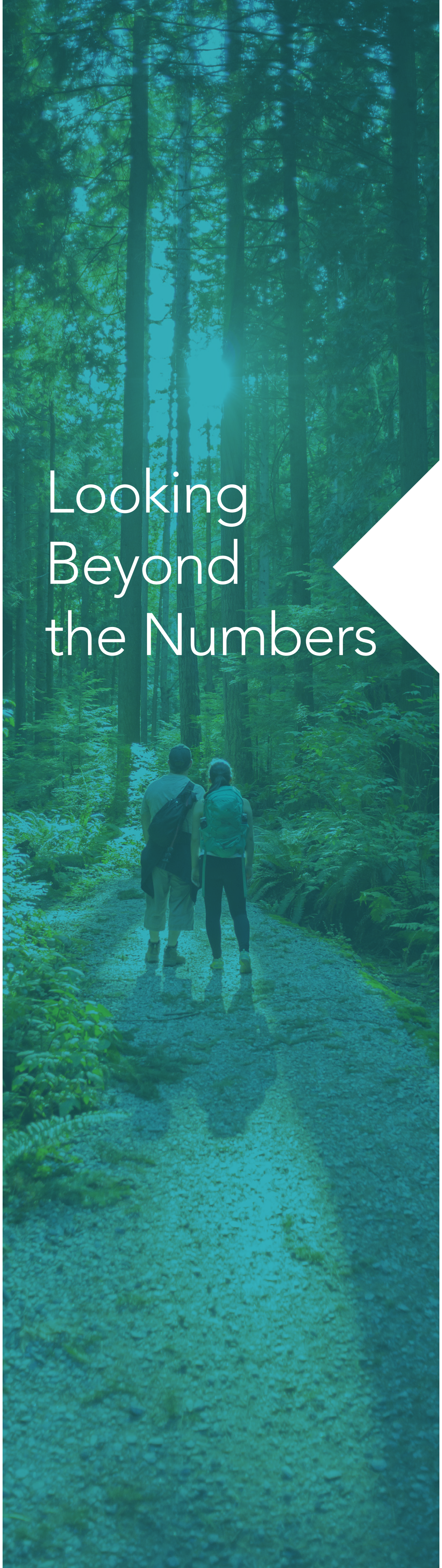

KINDRED
Credit Union

Annual Report and Financial Statements

Year ended December 31, 2019

Not everything that can be counted counts,
and not everything that counts
can be counted.

– William Bruce Cameron

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Ian Thomas, Chief Executive Officer

A message from our CEO

Kindred Credit Union was built on a desire to see mutual aid put into practice. Today, guided by our purpose, we seek to create impact in everything we do. We're making a difference and our impacts are felt all around us.

In this report we hope to give you a peek behind the scenes, allowing you to look beyond the numbers through some of our stories. Kindred's impact is felt by members, within our local communities, and among changemakers around the world. Our values-centred and faith-inspired approach to banking is noticed by others; for example, it was our approach that prompted our initial invitation to membership in the Global Alliance for Banking on Values (see page 10). Here in Ontario, a new member congregation felt our impact when they were looking to expand the church's leadership role within their community (see page 4). Locally, we helped thousands of members improve their financial stability through residential home ownership, and we provided financing for more than 4,600 businesses.

It's all part of our plan. We're following a strategic path to success, and our 2019 results show what an intentional approach can achieve. The year brought strong and stable deposit and loan growth; this meant more profitable growth for the credit union. We also focussed our efforts on growing Kindred overall, adding more members and new products and services (see chart below).

At the end of 2019, Kindred's net assets grew to more than $1.3 billion. Our core earnings reached $4.6 million as of December 31, 2019—surpassing our 2018 earnings by nearly $1 million. These results demonstrate a successful progression towards the objectives laid out in our strategic plan ending in 2021.

Our deep-rooted relationships within the agricultural community, as well as our strength in commercial lending, continue to be good news stories for Kindred. These relationships foster local job growth, build our communities, and create prosperity for our members. From loans that support affordable housing to investments in cooperatives, simply operating our business in this way advances our purpose and makes an impact.

Kindred's Class B Investment Shares captured the attention of local investors: we saw new members join and current members jump at the opportunity to invest in Kindred. The offering sold out well ahead of schedule and helped Kindred build $25 million in capital, contributing to our long-term sustainability and preparing us for future growth. We were so pleased to see this level of support to help us build a stronger tomorrow.

We continue to demonstrate that Kindred's way of doing business resonates with Ontarians who want to experience banking with purpose. Thanks in part to successful initiatives, including our Investment Shares offering, Kindred added 1,500 new members in 2019, bringing our total membership to almost 24,000. This growth is helping to strengthen our credit union for today's generation and the next.

Our established leadership role in socially responsible investing (SRI) sets us apart from other financial institutions. The market for SRI is experiencing phenomenal growth both in Canada and abroad, and we're so pleased that investors are seeing how their financial choices can make social and environmental change. Through our financial planning services, as well as member and public education opportunities, we continue to spread the word about SRI and its transformative potential. We continued to build our investment portfolio this year: our total Assets Under Management* reached $1.576 billion at year-end, which is a 10.8% increase over 2018.

Lending Growth	Deposit Growth	New Memberships	Assets Under Management*
$112.4 million	$112.8 million	1,500	$1.576 billion
Ahead of target ✔	Ahead of target ✔	Ahead of target ✔	10.8% increase over 2018

*Assets Under Management refers to a combination of Kindred assets and member investments with Aviso Wealth.

For Kindred, part of stewardship means choosing to give back to our members and the communities in which we live and work. We shared $1,040,000 from our 2019 earnings with members through our Profit Shares program.

Thanks a million…and then some!
$1,040,000 returned to members through Profit Shares

We're excited about the talented people who are joining Kindred's growing team. By investing in people, as well as education, training and technology, we're creating an inspired and engaged workforce that supports our purpose and puts members first. In addition to all the usual supports available to employees such as salaries and benefits, Kindred also commits to paying for more than 1,700 staff volunteer hours each year. Building a team that truly cares about members' financial well-being is key to helping us fulfill our commitment to our members.

The Kindred Charitable Fund distributed $67,000 in grants to charities in 2019, supporting 17 organizations doing good work that aligns with our purpose. This fund has distributed $1.12 million dollars since 2001. In addition to the Kindred Charitable Fund, we committed $320,000 in 2019 to a variety of programs and organizations that inspire peaceful, just, and prosperous communities.

After a year of working with my dedicated leadership team and passionate staff members, as well as meeting many members and community partners, I'm so pleased to be part of Kindred's success. As a Living Wage Champion and dedicated B Corp, Kindred continues to show how business can be a force for good™. We're building our future with ongoing, profitable growth, and we're supporting our members so they can benefit from cooperative banking that connects values and faith with finances, inspiring peaceful, just, and prosperous communities.

With appreciation,

Looking Beyond the Numbers: Stories of Impact

Supporting Community through our Business
A large, urban church was searching for a refinancing loan to support their renovation and expansion to include an on-site daycare. They were also planning to establish a funeral home to service needs in their community. After encountering some difficulty with their existing lender, they sought help through a commercial mortgage broker. The few options on the table came with unfavourable rates and terms. In fact, many financial institutions prefer not to lend to churches at all, due to the perceived risk.

When Kindred bid on the large financing deal, the church's leaders were pleasantly surprised to learn that our interest rate was fair and competitive, and that Kindred **specializes in church relationships**. Our lending agreement is helping them reach their goal to support their community. On the flip side, Kindred is gaining business while furthering our purpose through the support of a faith-based organization.

Take a look at our 'Kindred Understands Churches' video (https://bit.ly/2HSg5nF) to learn more about our impact in the faith community.

Offering Peace of Mind
A woman living close to the Waterloo branch decided to drop in to find out what Kindred was about. In fact, she'd already heard good things…however, it was her visit that made up her mind. The advice she received helped her as she was struggling through a recent job loss, and she discovered that Kindred truly had her **best interests at heart**.

Susan Taves, Board Chair

A message from our Board Chair

There are many moving parts in any successful business, and all parts must work towards a common goal while each take on a role distinguished from the others. Kindred's operations team led Kindred to a very successful 2019. Thanks to outstanding, dedicated leadership, and sound governance, your credit union is in a very secure financial position.

As Chair of our Board of Directors, I'm pleased to have the opportunity to highlight some of the work the Board is doing to govern the credit union toward continuing levels of success.

Your Board of Directors has many responsibilities, which include leading Kindred towards growth, managing the organization's risk to protect your credit union, and enhancing our communities. To oversee the credit union's activities, Directors are required to offer their time and skills to one of three key Board committees: Executive Committee; Audit and Risk Committee; or the Finance Committee.

The credit union's growth is fostered in so many different ways. In partnership with the Senior Leadership team, the Board outlines Kindred's vision, shapes the long-term strategic direction, and sets broad plans for financial growth. In addition, the Board offers direction related to market trends and economic shifts. For example, we must consider Kindred's approach to digital banking and online services to ensure we meet member needs for varied and seamless access. Directors also work to stay informed about the broader environment in which Ontario credit unions operate. Acknowledging our dynamic operating needs and constantly changing regulatory requirements, we act on external pressures that may affect Kindred's growth and sustainability.

Your credit union has a comprehensive risk management plan to ensure that our risks are known, managed, and proactively addressed. In 2019, Kindred's Board oversaw audit reports from our external auditor, as well as our regulator DICO, whose responsibilities have shifted to a new organization called Financial Services Regulatory Agency (FSRA). Solid risk management offers members peace of mind.

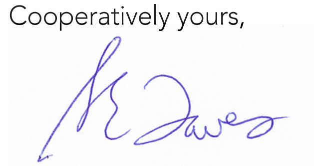
In addition to leading the credit union towards financial prosperity, Directors are asked to lead in ways that help support our community. For example, we approve the annual budget to fund our values-centred programs, which include Church Builder bonus interest and contributions to the Kindred Charitable Fund endowment. Further, we remain committed to Kindred's Member Assistance Services mutual aid program. And, we're pleased to share the credit union's success with our member organizations, businesses, churches, and individuals, which together received more than $1 million of 2019 earnings through our Profit Shares program.

In a constantly changing world, strict regulatory environment, and evolving marketplace, Kindred supports ongoing director education. This approach aligns with governance best practices for Canadian credit unions.

A forward-looking perspective is important for Directors and the Board as a whole. To ensure that the Board possesses the necessary leadership qualities and skills to forge a path to success, we worked with the Council of Members to recruit a talented slate of new Directors for member ratification at the upcoming annual general meeting.

Change is a constant and this year is no different. I would like to thank our three departing Directors (see page 12): your remarkable dedication shone as you spoke up to highlight issues that are critical to our communities. Thanks also, to our Council of Members, the Senior Leadership Team, all Kindred staff, and our community and industry partners for your role in helping us continue to build this unique credit union that serves fellow members and our community each and every day.

Cooperatively yours,



Financial Position Summary

Year ended December 31, 2019 with comparative figures for 2018.

Detailed audited financial statements are included in the 2019 Annual Report and Financial Statements.

Thousands of dollars

		December 31, 2019		**December 31, 2018**
Assets				
Cash resources	**$**	**9,640**	$	12,537
Investments		**96,150**		90,316
Loans to members		**1,244,313**		1,131,875
Property and equipment		**16,388**		6,994
Other assets		**5,100**		4,163
Total Assets	**$**	**1,371,591**	$	1,245,885

Liabilities and Members' Equity				
Total deposits of members	**$**	**1,191,531**	$	1,078,728
Demand loan from Central 1		**–**		35,373
Mortgage securitization liabilities		**41,983**		36,638
Lease liability		**10,992**		–
Other liabilities		**10,015**		7,546
Member shares		**511**		490
Owner shares		**18,175**		17,680
Investment shares		**46,522**		20,518
Accumulated other comprehensive income		**–**		2,355
Retained earnings		**51,862**		46,557
Total Liabilities and Members' Equity	**$**	**1,371,591**	$	1,245,885

Earnings Summary

Year ended December 31, 2019 with comparative figures for 2018.
Detailed audited financial statements are included in the 2019 Annual Report and Financial Statements.

Thousands of dollars

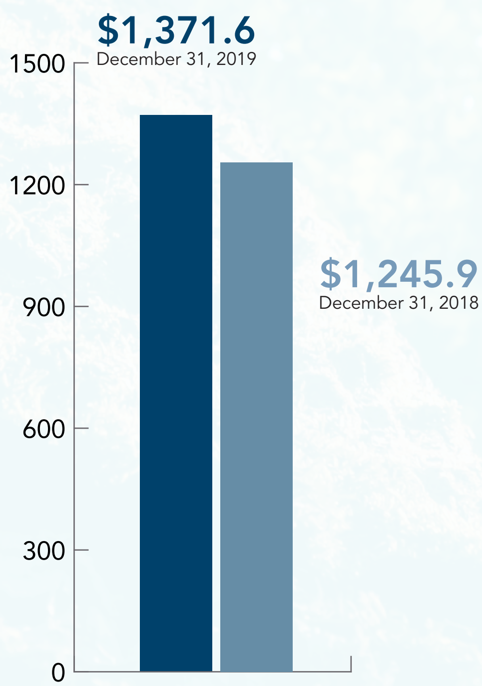
		December 31, 2019		December 31, 2018
Income from interest and investments	**$**	**49,058**	$	42,780
Other revenue		**5,525**		5,418
Total Income	**$**	**54,583**	$	48,198
Less:				
Interest expense on member deposits	**$**	**20,157**	$	15,697
Profit Shares (patronage return)		**1,040**		700
Loss (gain) on derivative financial instruments		**(32)**		(270)
Mortgage securitization cost of funds		**1,010**		568
Interest on external borrowings		**308**		1,017
Interest on investment shares		**1,237**		654
Personnel expense		**16,383**		15,732
Occupancy expense		**782**		1,705
Lease finance cost		**272**		–
Administration expense		**5,911**		5,645
Amortization of property and equipment		**1,961**		1,281
Insurance expense		**1,133**		1,072
Provision for loan losses (gains)		**(361)**		(92)
Charitable giving		**321**		331
Income tax provision (recovery)		**490**		1,145
Net earnings (loss)	**$**	**3,971**	$	3,013
Other comprehensive income net of tax	**$**	**–**	$	340
Comprehensive income	**$**	**3,971**	$	3,353

Net Earnings

		Thousands of dollars December 31, 2019		December 31, 2018
Earnings from core operations	**$**	**4,622**	$	3,687
Profit Shares (patronage return)		**(1,040)**		(700)
Net earnings after patronage	**$**	**3,582**	$	2,987
Unrealized Fair Market Value gain (loss)		**879**		1,171
Earnings from operations before tax	**$**	**4,461**	$	4,158
Income tax (provision) recovery		**(490)**		(1,145)
Net earnings (losses) from operations	**$**	**3,971**	$	3,013
Other comprehensive income loss net of tax		**–**		340
Comprehensive income	**$**	**3,971**	$	3,353

Assets

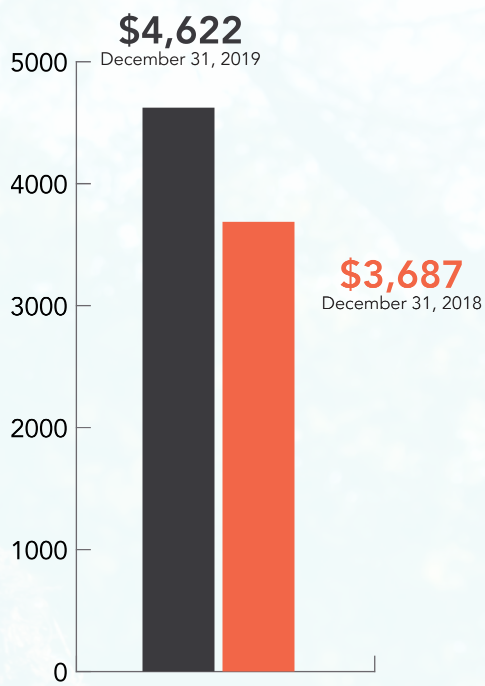
(millions of dollars)



Core Earnings*

Before Tax and Profit Shares

(thousands of dollars)



*Core earnings exclude the impact of unrealized fair market value adjustments, taxes, and Profit Shares (patronage return).

Looking Beyond the Numbers: Stories of Impact

The Raw Carrot, a not-for-profit social enterprise, employs people who receive disability support and have challenges that make it difficult to retain employment. The group received the Kindred Charitable Fund's annual Focus Grant of $10,000 in 2018, and this year we continued our support by participating in discussions to develop their long-term strategy. The Raw Carrot operates in three regions, with more in development. Its success to date shows that **meaningful employment can make a real difference in people's lives**.

A proactive phone call from Kindred prompted one member couple to take life-changing action to save for their future. At first, they weren't certain they had the money, yet a simple budget and cash flow review **uncovered opportunities for saving**. They followed through with a financial plan, set up emergency savings, established an RESP for their children's education, and are now considering their retirement savings options, as well.

Kindred became a Living Wage Champion in 2016. In partnership with MCCO and others, we supported the establishment of the Ontario Living Wage Network, which publishes regional calculations using a common methodology and framework to determine an hourly living wage that allows them to **support their families and participate in the community**. The network encourages employers to pay a living wage, provides the rationale, and recognizes them as certified Living Wage Employers. Kindred continued to advance the movement in 2019 by working to expand the network. Living Wage Canada was incorporated as a not-for-profit in early 2020.

A neighbour saw a Kindred advertisement and was intrigued by the focus on socially responsible investing. After doing some research online and meeting with Kindred staff members at his local branch, he was confident that Kindred would help him align his investments with his values. As a new member, he appreciates our **values-centred approach to banking**—and we're happy he found us!

In an effort to expose youth to the **rewards of volunteering**, Rockway Mennonite Collegiate hosts the annual Envirathon Servathon each spring. Kindred partnered on the event by offering staff volunteers and funds to support the activities. In 2019, the Envirathon Servathon benefited 14 organizations across Waterloo Region, with a focus on the environment and community service.

Real Relationships, Real Economy

We're all feeling the impact of digitization: the convenience, the speed, and the immediacy. There's also competition for your attention, the always-on feeling, and the need to keep up. So, what does this mean for banking? We see it as an opportunity to streamline the basics, which allows us to focus on what matters most. At Kindred, we want to ensure we nurture our relationships, so that we can build meaningful connections that have an impact.

Building these **real** relationships goes beyond the numbers to uncover your challenges and aspirations, and the needs in our communities, as well. We're striving to listen and serve in ways that enable stronger, deeper relationships.

In 2019, we reached out to our members and communities to better understand how we can partner with them to address their challenges and opportunities. The more we learned, the more opportunity we found to apply our financial services expertise in ways that empower people who may be facing challenges related to housing affordability or stress linked to climate change impacts, for example. At the same time, we were impressed by our partners' deep commitments to supporting a vibrant food system and creating inclusive environments that are welcoming to all. We're taking this knowledge and working to determine how Kindred, with our knowledge and community connections, can make a difference.

Kindred's Role in Redefining Banking

The Global Alliance for Banking on Values (the alliance) is a group of more than 60 financial institutions from around the world working together to redefine banking by prioritizing social, environmental, and economic sustainability.

Our membership in the alliance provides a window into the crucial conversations and innovative ideas taking root in visionary financial institutions around the world. We may be a small player on the global scale; however, our commitment to values-centred, faith-inspired banking propels us to speak loudly and to act locally.

The alliance uses the term **real economy** as a principle to help ground us in community and focus our service on members' direct needs. This contrasts with the layered **financial economy**, where an investment or loan may pass through several institutions before eventually being used by a business in service to a community. While some of these layers are important to our economy at a macro level, focussing on closer connections reinforces real relationships.

At Kindred, we're committed to being good stewards of our members' resources. This includes financial assets as well as human connections, local knowledge, digital infrastructure, and physical spaces. As we build the technologies and systems that improve the speed and efficiency of our services, while also enhancing relationships with our members and community partners, we become better equipped to live out our purpose. We're connecting values and faith with finances in a real economy of real relationships, inspiring peaceful, just, and prosperous communities.

Putting a Real Economy Lens on Kindred's Financial Activity

The real economy relates to economic activities that generate goods and services as opposed to the financial economy that is concerned exclusively with activities in the financial markets. The alliance defines financial economy as more than one layer away from a real activity.

	December 31, 2019 $ in thousands			December 31, 2018 $ in thousands		
Assets	**On book***	**% of total**	**Off book****	On book*	% of total	Off book**
Financial Economy (Cash, impact investments, accruals, taxes, leases)	**$124,160**	9.1%		$110,762	8.9%	
Real Economy (Loans to members, receivables)	**$1,247,431**	90.9%	$50,168	$1,135,123	91.1%	$56,262
Total Assets	**$1,371,591**		$50,168	$1,245,885		$56,262
Liabilities/Equity						
Financial Economy (reserves, net income, taxes, leases, off-book mutual funds)	**$121,926**	8.9%	$204,888	$134,898	10.8%	$177,412
Real Economy (savings/combinations, deposits, shares)	**$1,249,665**	91.1%		$1,110,987	89.2%	
Total Liabilities/Equity	**$1,371,591**		$204,888	$1,245,885		$177,412

This view of Kindred's financial activities is intended only to show trends from financial to real, highlighting how we're working to increase the amount of business that supports our members and communities directly.
* 'On book' assets are deposits placed with Kindred, such as chequing accounts and GICs.
** 'Off book' assets are held by a third-party, such as member investments with Aviso Wealth.

Governance at Kindred

The Council of Members (Council) is a committee of 16 member volunteers with representation from all eight Kindred branches (two volunteers from each branch). Each year the Council seeks volunteers for governance roles on the Board of Directors (Board). This approach to discerning qualified candidates has resulted in diverse and competent boards for Kindred that have served the membership well and been excellent guardians of our values.

Appointments to the Board are for three-year terms and require a ratification vote with a two-thirds majority at the Annual General Meeting. If you are interested in serving on either the Board or Council, please speak with your Branch Manager or one of the Council representatives for your local branch.

New and Renewing Board Nominees

The Council, with support of the Board of Directors, recommends for member ratification one renewing and three new nominees for the Board. The Board nominees are presented on page 13.

Outgoing Council and Board

On behalf of Kindred's Board of Directors and members, the Council of Members thanks Keith Klassen (Council), Jane Kuepfer (Board), Susan Lofthouse (Board), and Wilf Saarloos (Board) for their important contributions over the past number of years.

Thanks to all Board and Council representatives for their valuable and ongoing contributions to the governance of our credit union.

Kindred is a financial cooperative!

The **cooperative principles** are guidelines by which cooperatives put their values into practice.

1. Voluntary and Open Membership

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Those serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training, and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Source: International Cooperative Alliance

Board of Directors – Renewing

Gerry Frey
- Elmira branch member
- Custom Solution Manager, Eagle Software Canada
- Extensive community experience and board involvement – currently Chairman of Arthur Christian School Board

Board of Directors – New

Jim Erb
- Waterloo branch member
- Funeral Director at Erb & Good Family Funeral Home
- Participant in community and church organizations

Gloria Martin
- Elmira branch member
- Certificate in Health Care Administration, University of Saskatchewan and Accelerated Accounting, University of Alberta
- Served as a board member for Fairview and Parkwood Mennonite Homes, and currently Woolwich Community Services

Tim Wagler CAP, CA, BBA
- New Hamburg branch member
- Bachelor of Business Administration, Wilfrid Laurier University
- Served as a board member for Mennonite Church of Canada, Mutual Aid eXchange, Bolivian Children Foundation and African Christian Mission

2019 Board of Directors

Carolyn Albrecht
Executive Committee

Gregory Brimblecombe
Audit and Risk Committee

Gerry Frey
Finance Committee

Jane Kuepfer
Finance Committee

Susan Lofthouse
Audit and Risk Committee

Wilf Saarloos
Finance Committee

Nelson Schiefele
Finance Committee Chair

Leroy Shantz
Board Vice-Chair, Executive Committee

Randy Shantz
Audit and Risk Committee Chair

Susan Taves
Board Chair, Executive Committee

Kaylie Tiessen
Audit and Risk Committee

John D. Wiebe
Corporate Secretary, Executive Committee

Management's Responsibility for Financial Reporting

The accompanying financial statements of Kindred Credit Union Limited are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. When required, Management has used reasonable and informed judgments and estimates in order to ensure that the financial statements are presented fairly and accurately in all material respects.

To meet its responsibility for the integrity and fairness of the financial statements, Management has designed and maintains accounting processes and systems of internal controls to provide reasonable assurance regarding the accuracy of financial records and to establish reliable data for the preparation of financial statements, and the necessary safeguarding of Credit Union assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its regular review of financial results and operations, and through the Board appointed Audit and Risk Committee. The Audit and Risk Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, matters arising from periodic audits, and other financial reporting issues. The Audit and Risk Committee regularly reports its findings to the Board for consideration.

The financial statements have been audited on behalf of the membership by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit and Risk Committee. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Credit Union.

Ian Thomas MBA, ICD.D
Chief Executive Officer

John Klassen CPA, CMA
Chief, Finance and Compliance

Audit and Risk Committee Report

The Audit and Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities. It does this by reviewing the financial information and reporting processes, including the risks and controls related to those processes which management and the Board have established. The committee is comprised of four directors and has a mandate that includes all of the duties specified for an audit committee in the Credit Union and Caisses Populaires Act, 1994 (The Act) and the associated regulations.

The Audit and Risk Committee met five times during 2019 to complete its responsibilities. Key activities included:

- Reviewing the financial statements and results of the year end audit with the external auditor;
- Reviewing the performance of the external auditor and their proposed engagement letter;
- Ensuring that regulatory filings were submitted on time;
- Reviewing the credit union's policies, procedures, and controls for legislative compliance;
- Reviewing the disaster recovery and business continuity plans;
- Monitoring the adherence of Directors, Officers, and employees with the credit union's policies and code of conduct;
- Reviewing management's identification of the credit union's significant risks and ensuring that enterprise risk management processes are in place to measure, monitor, manage and mitigate them;
- Approving the annual internal audit plan and reviewing internal audit activities;
- Completing a self-assessment on the effectiveness of the Committee and taking the necessary steps to ensure effectiveness.

Based on its findings, the Audit and Risk Committee provides reports and makes recommendations to the Board of Directors or senior management, as appropriate. These recommendations are reviewed to ensure they are considered and appropriate action taken.

The Audit and Risk Committee is pleased to report to the members of Kindred Credit Union that, pursuant to The Act and its regulations, it continues to meet the requirements of its mandate. The committee receives full cooperation and support from management, thus enabling it to play an effective role in improving the quality of financial reporting to its members, and enhancing the overall control environment at Kindred.

In addition, there are no other matters that the Audit and Risk Committee believes should be reported to the members, nor are there any further matters that are required to be disclosed pursuant to The Act or its regulations

Respectfully submitted,

Randy Shantz, Audit and Risk Committee Chair

Committee: Gregory Brimblecombe, Susan Lofthouse, Kaylie Tiessen

Kindred Credit Union Limited

Financial Statements
December 31, 2019

Independent auditor's report

To the Members of Kindred Credit Union Limited

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kindred Credit Union Limited (the credit union) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

What we have audited
The credit union's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the credit union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

PricewaterhouseCoopers LLP
465 Richmond Street, Suite 400, London, Ontario, Canada N6A 5P4
T: +1 519 640 8000, F: +1 519 640 8015

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario
February 27, 2020

Kindred Credit Union Limited
Statement of Financial Position
As at December 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Assets		
Cash	9,640	12,537
Investments – liquidity reserve deposits (note 6)	81,088	75,754
Loans to members (note 7)	1,244,313	1,131,875
Investments – other (note 6)	15,062	14,562
Derivative financial assets (note 20)	100	-
Property and equipment (note 8)	16,388	6,994
Deferred income tax asset (note 17)	1,102	821
Other assets	3,898	3,342
Total assets	1,371,591	1,245,885

Approved by the Board of Directors

_______________ Director _______________ Director

The accompanying notes are an integral part of these financial statements.

Kindred Credit Union Limited
Statement of Financial Position
As at December 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Liabilities		
Deposits of members		
Members' deposits (note 9)	1,182,515	1,072,139
Accrued interest payable	9,016	6,589
	1,191,531	1,078,728
Liabilities to non-members		
Accounts payable and accrued charges (note 12)	9,734	6,529
Income taxes payable	281	213
Demand loan (note 10)	-	35,373
Lease liabilities (note 11)	10,992	-
Derivative financial instrument liability	-	778
Mortgage securitization liabilities (note 21)	41,983	36,638
Deferred income tax liability (note 17)	-	26
	62,990	79,557
Liabilities qualifying as regulatory capital		
Investment shares (note 13)	46,522	20,518
Owner shares (note 13)	18,175	17,680
Member shares (note 13)	511	490
	65,208	38,688
Total liabilities	1,319,729	1,196,973
Members' Equity		
Retained earnings	51,862	46,557
Accumulated other comprehensive income	-	2,355
Total members' equity	51,862	48,912
	1,371,591	1,245,885

The accompanying notes are an integral part of these financial statements.

Kindred Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended December 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Revenue		
Interest income	47,212	41,183
Investment income	1,846	1,597
	49,058	42,780
Interest expense (income)		
Interest on members' deposits	20,157	15,697
Patronage refund (note 16)	1,040	700
Interest on investment shares	1,237	654
Interest on external borrowings	308	1,017
(Gain) loss on derivative financial instruments (note 20b)	(32)	(270)
Mortgage securitization cost of funds	1,010	568
Lease finance cost	272	-
	23,992	18,366
Financial margin	25,066	24,414
Fee revenue	3,988	3,863
Commission revenue	1,537	1,555
	5,525	5,418
Income before the undernoted	30,591	29,832
Operating expenses		
Personnel	16,383	15,732
Administration	5,911	5,645
Occupancy	2,743	2,986
Insurance	1,133	1,072
	26,170	25,435
Income before recovery of loan loss and charitable giving	4,421	4,397
Recovery of loan losses (note 7)	361	92
Charitable giving	(321)	(331)
Income before income taxes	4,461	4,158
Provisions for income taxes (note 17)	(490)	(1,145)
Net income for the year	3,971	3,013
Other comprehensive income – net of tax		
Net change in unrealized gain on investments (note 17c)	-	340
Comprehensive income for the year	3,971	3,353

The accompanying notes are an integral part of these financial statements.

Kindred Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2019

(in thousands of dollars)

	Retained earnings $	Accumulated other comprehensive income $	Total $
Balance – December 31, 2017	43,544	2,015	45,559
Net income before the following:	3,013	-	3,013
Other comprehensive income, net of taxes (note 17c)	-	340	340
Balance – December 31, 2018	46,557	2,355	48,912
Changes on initial application of IFRS 16 Lease adjustment (net of tax) (note 3)	(1,021)	-	(1,021)
Restated balance – January 1, 2019	45,536	2,355	47,891
Net income before the following:	3,971	-	3,971
Reclass of ABCP gain	2,355	(2,355)	-
Other comprehensive income, net of taxes (note 17c)	-	-	-
Balance – December 31, 2019	51,862	-	51,862

The accompanying notes are an integral part of these financial statements.

Kindred Credit Union Limited

Statement of Cash Flows

For the year ended December 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net income for the year	3,971	3,013
Adjustments for		
Interest and investment income	(49,058)	(42,780)
Interest expense	21,702	18,270
Lease finance cost	272	-
(Recovery of) provision for income taxes	490	1,145
Patronage refund	1,040	700
Provision for loan losses	361	117
Amortization of property and equipment (note 8)	1,961	1,280
Net change in unrealized gains on derivative instruments	(878)	(1,172)
Other	1,615	991
Changes in member activities, net		
Change in loans to members	(112,799)	(110,395)
Change in members' deposits	110,178	78,499
Cash flows relating to interest and income taxes		
Interest received on loans to members	50,092	43,814
Interest paid on members' deposits	6,741	(16,773)
Income taxes paid	(482)	(767)
	35,206	(24,058)
Financing activities		
Increase (decrease) in demand loan	(35,373)	4,111
Repayments of lease liabilities	(960)	-
Increase on mortgage securitization	5,543	12,004
Redemption of owner shares (note 13)	(545)	(500)
Net increase in member shares (note 13)	21	23
	(31,314)	15,638
Investing activities		
Purchase of investments	(5,834)	(10,283)
Proceeds on sale of investments (note 6)	-	20,038
Purchase of property and equipment (note 8)	(955)	(1,205)
	(6,789)	8,550
(Decrease) increase in cash during the year	(2,897)	130
Cash – Beginning of year	12,537	12,407
Cash – End of year	9,640	12,537

The accompanying notes are an integral part of these financial statements.

(tabular amounts in thousands of dollars)

1 Reporting entity

Kindred Credit Union Limited (credit union) is incorporated under the Credit Unions and Caisses Populaires Act 1994 (The Act) of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The credit union was formerly known as Mennonite Savings and Credit Union (Ontario) Limited. The credit union officially changed its name to become known as Kindred Credit Union Limited on July 4, 2016. The credit union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, guaranteed investment certificates (GICs), RRSPs, RRIFs, automated banking machines, debit and credit cards and internet banking. The credit union head office is located at 1265 Strasburg Rd., Kitchener, Ontario.

The financial statements have been authorized for issue by the Board of Directors on February 27, 2020.

2 Basis of presentation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of certain financial assets and derivative financial instruments measured at fair value.

The financial statements' values are presented in Canadian dollars ($), which is the functional and presentation currency of the credit union.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the credit union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the credit union's financial statements therefore present its financial position and performance fairly.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are the fair value of financial instruments and the member loan loss provisions. These areas are further disclosed in note 5.

3 Changes in accounting policies

The credit union has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed below.

(tabular amounts in thousands of dollars)

Policy applicable from January 1, 2019

At inception of a contract, the credit union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the rights to control the use of an identified asset, the credit union assesses whether:

- the contract involves the use of identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the credit union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use: and
- the credit union has the right to direct the use of the asset. The credit union has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the credit union has the right to direct the use of the asset if either:
  - the credit union has the right to operate the asset; or
  - the credit union designed the asset in a way that predetermines how and for what purpose it will be used.

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

At inception or on reassessment of a contract that contains a lease component, the credit union allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the credit union has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the credit union determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets: and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(tabular amounts in thousands of dollars)

As a lessee under IFRS 16

The credit union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right–of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the credit union's incremental borrowing rate. Generally, the credit union uses its incremental borrowing rate as the discount rate of 2.50%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date.
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the credit union is reasonably certain to exercise, lease payments in an optional renewal period if the credit union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the credit union is reasonably certain no to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the credit union's estimate of the amount expected to be payable under a residual value guarantee, or if the credit union changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The credit union presents right-of-use assets in 'property and equipment' and lease liabilities as 'lease liabilities' in the statement of financial position.

(tabular amounts in thousands of dollars)

Short-term leases and leases of low-value assets

The credit union has elected not to recognize the right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The credit union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period, as a lessee the credit union classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the credit union's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

Reconciliation of lease treatment from IAS 17 to IFRS 16

The following table reconciles the prior period's closing lease related assets and liabilities under IAS 17 to the new asset and liability values at January 1, 2019. There was no significant change in the total lease liability at January 1, 2019 as compared to the future aggregate minimum lease payments under operating leases as disclosed in the annual financial statements for the year ended December 31, 2019.

	IAS 17	Remeasurements	IFRS 16
	December 31, 2018 $	 $	January 1, 2019 $
Property and equipment	6,994	10,129	17,123
Lease liabilities	-	11,396	11,396
Deferred tax asset	795	247	1,042
Retained earnings	46,557	(1,021)	(45,536)

(tabular amounts in thousands of dollars)

4 Significant accounting policies

a) Allowance for impaired loans

At initial recognition, the credit union recognizes allowances for Expected Credit Loss (ECL) on all debt instruments measured at amortized cost. ECL are also recognized for loan commitments and financial guarantees.

IFRS 9 outlines a 'three-stage' model for impairment base on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not -credit impaired on initial recognition is classified in 'State 1' and has its credit risk continuously monitored by the credit union.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is move to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis.

At each reporting date, the credit union assesses whether financial assets carried at amortised cost are credit-impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs). The EAD is based on the amounts the credit union expects to be owed at the time of default, over the next 12 months or the remaining lifetime. For example, on revolving facilities, the credit union considers the amount that is expected to be drawn upon leading up to default. On term facilities, the credit union considers the amount it expects to be paid down leading up to default. The LGD represents the credit union's expectation of the extent of a loss on a defaulted exposure. The LGD is expressed as a percentage of EAD.

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure and discounted back to present using the instrument's effective interest rate.

When determining whether the risk of default on a loan has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on historical experience and expert credit assessment and including forward-looking information.

(tabular amounts in thousands of dollars)

The credit union uses the following when determining whether there has been a significant increase in credit risk:

- quantitative criteria: 30 days overdue is designated Stage 2 and 90 days overdue is designated as Stage 3; and
- qualitative indicators including but not limited to: deteriorating or lack of financials, adverse management changes, covenant breaches, frequent overdrafts or arrears, debt service shortfalls, deterioration of security, cessation of operations, receivership or bankruptcy.

The credit union allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

i) the remaining lifetime probability of default (PD) as at the reporting date; with

ii) the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

Probability default is estimated using a two-step process. The first step considers an historical anchor parameter (the 12-month PD). This is designed to represent the long-run average default of the borrower. This anchor parameter is then adjusted to reflect forecasted future economic conditions.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The credit union collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

Further information on credit impairment can be found in note 22.

b) Fees and commission

Fee and commission revenue and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see c) below). Other fee and commission revenue from contracts with members or other third parties are measured based on the consideration specified in a contract with the counterparty. The credit union recognizes revenue as the related performance obligation is satisfied, either over time or at a point in time.

The credit union provides retail and corporate banking services to its members, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction based fees for foreign currency transactions and overdrafts are charged to the member's account when the transaction takes place.

(tabular amounts in thousands of dollars)

Servicing fees for the administration of loans that have been sold to a third party are based on fixed rates outlined in the respective contract and are recorded monthly.

The credit union receives commission revenue primarily through its relationship with Aviso Wealth resulting from sales of mutual fund and insurance products. Commission income is recognized monthly when received.

c) Financial assets and liabilities

The credit union has applied IFRS 9 and classifies its financial assets in the following measurement categories: FVTPL, FVOCI, or amortized cost. Management determines the classification of its financial instruments at initial recognition. The credit union uses trade date accounting for regular way contracts when recording financial asset transactions. All financial assets and liabilities including derivative financial instruments are recognized in the statement of financial position and measured in accordance with their assigned category.

The accounting policies related to financial assets and liabilities are as follows:

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any allowance for doubtful accounts) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the credit union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

Interest income and expense

Interest income and expense are calculated by applying the effective interest rate to the gross carrying amount of financial assets and liabilities, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

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

(tabular amounts in thousands of dollars)

At initial recognition, the credit union measures a financial asset or financial liability at its fair value plus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in net income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost, which results in an accounting loss being recognized in net income when an asset is newly originated.

Classification and subsequent measurement

Financial assets

Financial assets are initially recognized at fair value and are classified and are subsequently measured at: amortized cost, FVOCI or FVTPL. A financial asset is classified as amortized cost if it meets both of the following conditions and is not designated as FVTPL:

i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

On initial recognition of an equity investment that is not held for trading, the credit union 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 and subsequently measured at FVTPL.

The business model reflects how the credit union manages the assets in order to generate cash flows. That is, whether the credit union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the credit union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed. For example, the credit union's business model for the mortgage loan book is to hold to collect contractual cash flows. Another example is the liquidity reserve deposits, which are held by the credit union as part of liquidity management and are also classified within the hold to collect business model.

In assessing whether the contractual cash flows are SPPI, the credit union 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, the credit union considers:

(tabular amounts in thousands of dollars)

i) contingent events that would change the amount and timing of cash flows;
ii) leverage features;
iii) prepayment and extension terms;
iv) terms that limit the credit union’s claim to cash flows from specified assets; and
v) features that modify consideration of the time value of money.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The credit union's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in net income as other income when the credit union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the ‘Investment income' line in the statement of income and comprehensive income.

The measurement category of financial assets in accordance with IFRS 9 are as follows:

Financial assets	Measurement category
Cash	Amortized cost
Loans to members	Amortized cost
Liquidity reserve deposits	Amortized cost
Loans to MEDA	Amortized cost
Derivatives	FVTPL
Shares in Central 1	FVOCI
Oikocredit shares	FVTPL

Financial liabilities

The credit union classifies and subsequently measures its financial liabilities at amortized cost or FVTPL.

Derecognition

The credit union 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 the credit union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(tabular amounts in thousands of dollars)

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 derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss on derecognition of such securities.

The credit union enters into transactions whereby it transfers assets recognised on its statement of financial position. The transferred asset is derecognized if it meets the derecognition criteria. In certain transactions, the credit union retains the obligation to service the transferred financial asset for a fee. 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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the credit union is recognised as a separate asset or liability.

As outlined in note 4f), in transactions in which the credit union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the credit union 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.

The credit union derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Loan write-offs

The credit union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the credit union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The credit union may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2019 was $6,472 (2018 – $8,283). The credit union still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

The credit union sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

(tabular amounts in thousands of dollars)

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The credit union monitors the subsequent performance of modified assets. The credit union may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at December 31, 2019 was $nil (2018 – $nil).

The credit union continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

d) Comprehensive income

IAS 1, Presentation of Financial Statements, requires that a complete set of financial statements include a statement of other comprehensive income (OCI). For the credit union, OCI represents the change in members' equity during the year that is attributable to unrealized gains and losses on financial assets classified as FVOCI and remeasurements of the present value of the post-employment obligation.

Consequently, the changes in these items during the year are recognized in the statement of income and comprehensive income (AOCI), net of taxes, which is presented as part of members' equity on the statement of financial position.

e) Sale of receivables

The credit union periodically sells assets, such as agricultural loans, to other financial institutions to manage its portfolio diversification risk. These transactions satisfy the requirements for derecognition under IFRS and accordingly the agricultural loans sold are removed from the statement of financial position. In these instances, the contractual rights to receive the cash flows from the assets and substantially all the risks and rewards associated with the assets are transferred to the purchasing institution. A nominal administration fee, which is recorded as income when received, is paid to the credit union each month.

f) Mortgage securitizations

As part of an ongoing program to manage liquidity, capital and interest rate risk, the credit union enters into mortgage securitization transactions. These transactions allow for the packaging of insured mortgage loan receivables into mortgage backed securities (MBS) and for the subsequent sale of these MBS to unrelated third parties.

As outlined in note 4c), securitized financial instruments are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Costs related to the issuance of MBS are amortized over the life of the issue and are included in interest expense.

(tabular amounts in thousands of dollars)

g) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line method over the expected useful lives of the assets as follows:

Assets	Useful life
Buildings	40 years
Leasehold improvements	Term of lease
Furniture and fixtures, and computer equipment	3-10 years

Land is not subject to amortization and is carried at cost.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income in the year the asset is derecognized.

h) Impairment of non-financial assets

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than its carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized in the statement of income and comprehensive income when there is objective evidence that a loss event has occurred that has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the statement of income and comprehensive income at that time.

i) Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The credit union uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate risk exposure. The credit union's policy is not to utilize derivative financial instruments for speculative purposes.

Derivative financial instruments are carried at fair value and are reported in the statement of financial position as derivative financial instrument assets, where they have a positive fair value, and as derivative financial instrument liabilities, where they have a negative fair value. Changes in the fair value of the derivative instruments are recognized in the statement of income and comprehensive income as net unrealized loss (gain) on derivative financial instruments. The credit union does not apply hedge accounting on its derivative portfolio.

(tabular amounts in thousands of dollars)

j) Member entitlements

Member shares, owner shares and investment shares have certain characteristics that are outlined in note 13 that require them to be classified as liabilities on the statement of financial position. Accordingly, any dividends authorized on these shares are recorded as interest expense.

k) Foreign currency

Assets and liabilities denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in other revenue in the statement of income and comprehensive income.

l) Income taxes

The credit union uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Deferred income tax assets are recognized to the extent that realization is considered more likely than not.

m) Employee benefit plan

The credit union accrues its obligations under the post-retirement benefit plan and the related costs and has adopted the following policies:

- the cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected future costs, discount rate and retirement ages of employees; and
- the average remaining service period of the active employees covered by the benefit plan is 8.0 years.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in other comprehensive income with an immediate allocation to retained earnings. Past-service costs are recognized immediately in income.

5 Critical accounting estimates and judgments

The credit union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(tabular amounts in thousands of dollars)

The effect of a change in an accounting estimate is recognized prospectively by including it in the statement of income and comprehensive income in the year of the change, if the change affects that year only; or in the year of the change and future years, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Fair value of financial instruments

The credit union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates, fair value multipliers and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 22.

b) Member loan loss provision

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for identifying a significant increase in credit risk;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The judgments, inputs, methodology and assumptions used for estimating the expected credit loss allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The methods and assumptions applied, and the valuation techniques used are disclosed in notes 7 and 22.

c) Recognition of securitization arrangements

As part of its program of liquidity, capital and interest rate risk management, the credit union enters into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the credit union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the securitized assets. The determination of the requirements for continued recognition requires significant judgment.

(tabular amounts in thousands of dollars)

6 Investments

	2019 $	2018 $
Shares in Central 1 (a)	6,647	6,507
Liquidity reserve deposit (b)	81,088	75,754
CUCO Co-op Class B investment shares (c)	-	45
Oikocredit shares (d)	7,815	7,410
Loans to MEDA (e)	600	600
	96,150	90,316

a) Shares in Central 1

As a condition of maintaining membership in Central 1, the credit union is required to hold an investment in Central 1 shares as determined by the Central 1 Board of Directors from time to time. These shares are held by the credit union principally for the benefits of membership with Central 1 including realization of savings through cost sharing and other operational synergies as well as access to a variety of products and services and not for the purpose of selling in the near term. Accordingly, the shares have been designated as fair value through other comprehensive income.

Central 1 Class A shares are subject to an annual rebalancing mechanism based on credit union asset growth and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. The credit union's holding of Central 1 Class A shares had a net increase from $447,656 to $449,089 during 2019 as a combination of Central 1's Class F share restructuring, capital calls and rebalancing.

The Central 1 Class F shares increased to $4,111,787 during 2019 through capital calls. The Class F shares are issued at par value, are based on the statutory deposits placed with Central 1 and rebalanced twice a year as the amount of statutory deposits change. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Central 1 Class E shares were issued with a par value of $0.01 per share; however, they are redeemable at $1 per share. There is no separately quoted market value for these shares, the shares are not subject to rebalancing, and new members are not required to subscribe to this class of shares. There has not been a sufficient volume of redemptions of Class E shares nor has a communication plan been released by Central 1 to redeem these shares that could be used to reliably estimate a fair value for the Class E shares. As such the credit union has measured these shares at par value of $2,086,100 which is an approximation of fair value at December 31, 2019.

The credit union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the credit union.

(tabular amounts in thousands of dollars)

b) Liquidity reserve deposit

The credit union is required to maintain a liquidity reserve deposit with Central 1 equal to 6.00% of the credit union's total assets. The amount of the required liquidity reserve deposit is determined monthly based on the amount of total assets in the previous month's financial statements. The deposit bears interest at fixed and variable rates set by Central 1, which averaged approximately 1.71% (2018 – 1.88%) at year-end. Liquidity reserve deposits are consistent with a lending contract whereby cash flows are advanced to Central 1 with a commitment to repay the credit union at a specified rate of interest according to preset maturity dates. The liquidity reserve deposits are measured at amortized cost.

c) CUCO Co-op Class B investment shares (formerly ABCP 2008 Limited Partnership investment)

At a special general meeting of the shareholders on September 27, 2017, the shareholders of CUCO Co-op voted to dissolve the company. As at December 31, 2019, the shares have been completely liquidated. The gain included in OCI of $2,355,000 was reclassified to retained earnings as a result of the disposition.

d) Oikocredit shares

Oikocredit, Ecumenical Development Cooperative Society U.A. (Oikocredit) provides financial services and supports organizations internationally to improve the quality of life of low-income people and communities. Oikocredit mobilizes the capital needed to carry out its mission by issuing shares to its member organizations.

The credit union supports this work through a program of matching specially branded credit union member owned GICs with credit union owned investments in Oikocredit shares.

The credit union's holding of these shares was $7,814,968 at December 31, 2019 (2018 – $7,409,674).

Oikocredit shares are classified as FVTPL. Par value has been determined by management to be representative of fair value due to the fact that share issue and redemption transactions occur at par value on a regular and recurring basis.

e) Loans to MEDA

MEDA is an international economic development organization whose mission is to create business solutions to poverty. The credit union supports this work through the provision of fixed term promissory notes to the organization which are classified and measured at amortized cost.

(tabular amounts in thousands of dollars)

7 Loans to members

a) Credit union's loan portfolio and related allowance for impaired loans

An analysis of the credit union's loan portfolio and related allowance for impaired loans is as follows:

					December 31, 2019
	Gross amount	ECL allowance			Carrying amount
		Stage 1	Stage 2	Stage 3	
	$	$	$	$	$
Residential	377,617	(123)	(36)	(42)	377,416
Personal	10,170	(66)	(29)	(1)	10,074
Agricultural	592,404	(109)	(7)	(591)	591,697
Commercial	265,886	(65)	(3)	(692)	265,126
	1,246,077	(363)	(75)	(1,326)	1,244,313

					December 31, 2018
	Gross amount	ECL Allowance			Carrying amount
		Stage 1	Stage 2	Stage 3	
	$	$	$	$	$
Residential	346,684	(76)	(33)	(80)	346,495
Personal	9,442	(59)	(29)	(52)	9,302
Agricultural	538,627	(103)	(25)	(993)	537,506
Commercial	239,254	(57)	(37)	(588)	238,572
	1,134,007	(295)	(124)	(1,713)	1,131,875

The credit union has an agreement in place to sell loans to Farm Credit Canada (FCC). The credit union continues to service all of these loans as an agent for FCC. Cumulatively, the balance of loans that continue to be serviced by the credit union on behalf of FCC is approximately $50,156,769 (2018 - $56,261,782).

During the year, the credit union sold $nil (2018 - $56,807,260) of agricultural loans to FCC.

The credit union is holding security in the form of member deposits in the estimated amount of $6,301,812 (2018 - $5,109,943) as security for loans to members.

(tabular amounts in thousands of dollars)

b) Allowance for impaired loans

The following table shows the reconciliation from the opening to the closing balance of the loss allowance by class of loans to members:

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Residential				
Opening balance – December 31, 2018	(76)	(33)	(80)	(189)
Movement	(47)	(3)	35	(15)
Write-offs	-	-	3	3
Ending balance – December 31, 2019	(123)	(36)	(42)	(201)
Personal				
Opening balance – December 31, 2018	(59)	(29)	(52)	(140)
Movement	(7)	-	47	40
Write-offs	-	-	4	4
Ending balance – December 31, 2019	(66)	(29)	(1)	(96)
Agricultural				
Opening balance – December 31, 2018	(103)	(25)	(993)	(1,121)
Movement	(6)	18	402	414
Write-offs	-	-	-	-
Ending balance – December 31, 2019	(109)	(7)	(591)	(707)

(tabular amounts in thousands of dollars)

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial				
Opening balance – December 31, 2018	(57)	(37)	(588)	(682)
Movement	(8)	34	(104)	(78)
Write-offs	-	-	-	-
Ending balance – December 31, 2019	(65)	(3)	(692)	(760)
Total				
Opening balance – December 31, 2018	(295)	(124)	(1,713)	(2,132)
Movement	(68)	49	380	361
Write-offs	-	-	7	7
Ending balance – December 31, 2019	(363)	(75)	(1,326)	(1,764)

The credit union is holding security against the Stage 3 loans in the estimated amounts of $10,000 (2018 – $1,214,346) for personal loans, $1,335,967 (2018 – $4,134,816) for residential mortgages, $26,946,447 (2018 – $19,338,574) for agricultural loans, and $31,422,004 (2018 – $2,468,000) for commercial loans.

c) Loan loss provisions

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to loans to members experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL (see note 4);
- Additional allowances for new loans to members recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probability of default, exposure at default and loss given default in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Loans to members derecognized during the period and write-offs of allowances related to loans that were written off during the period.

(tabular amounts in thousands of dollars)

The key inputs into the measurement of ECL are the following variables:

- probability of default;
- loss given default; and
- exposure at default.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month probability of default by the loss given default and exposure at default. Lifetime ECL is calculated by multiplying the lifetime probability of default by the loss given default and exposure at default.

The methodology of estimating the probability of default (PD) is discussed above under note 4.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The exposure at default (EAD) represents the expected exposure in the event of default. EAD is calculated for loans with regular installments (payments) by using the loan's amortization schedule to estimate the outstanding loan amount remaining in future years. This is done by using the current outstanding balance (principal and interest) and deducting from it future payments, producing a list of outstanding balances which decrease over time.

d) Loan portfolio by maturity date

The following table analyzes the credit union's loan portfolio by maturity date.

	Variable rates $	Fixed rates less than 1 year $	Fixed rates 1-5 years $	2019 Total $	2018 Total $
Total loans	242,060	171,467	832,550	1,246,077	1,134,007
Average effective yield	4.96%	3.91%	3.81%	4.05%	3.94%

(tabular amounts in thousands of dollars)

e) Impaired loans

The following table identifies the portion of the credit union's loan portfolio, which is past due but not considered "Stage 3" at December 31, 2019. For each loan type the aging category, the carrying values of the loan and the value of the security held have been presented.

	Past Due	Carrying Amount $	Security Held $
Residential	30-60 days	-	-
	60-90 days	-	-
	90-120 days	-	-
	120+ days	-	-
Personal	30-60 days	14	-
	60-90 days	6	8
	90-120 days	-	-
	120+ days	-	-
Agricultural	30-60 days	45	100
	60-90 days	1,955	3,084
	90-120 days	-	-
	120+ days	-	-
Commercial	30-60 days	-	-
	60-90 days	-	-
	90-120 days	150	150
	120+ days	30	34
		2,200	3,376

(tabular amounts in thousands of dollars)

8 Property and equipment

The movements in property and equipment were as follows:

	Right of use assets $	Land $	Buildings $	Leasehold improvements $	Computers $	Furniture and fixtures $	Total $
Cost							
Balance on January 1, 2018	-	777	2,142	3,375	1,460	2,428	10,182
Additions	-	-	171	138	625	271	1,205
Disposals	-	-	-	20	207	54	281
Balance on December 31, 2018	-	777	2,313	3,493	1,878	2,645	11,106
Adjustment on adoption of IFRS 16 (note 3)	10,129	-	-	-	-	-	10,129
Additions	271	-	7	557	171	220	1,226
Disposals	-	-	-	1	496	-	497
Balance on December 31, 2019	10,400	777	2,320	4,049	1,553	2,865	21,964
Accumulated amortization							
Balance on January 1, 2018	-	-	498	1,408	481	726	3,113
Amortization	-	-	98	378	543	261	1,280
Disposals	-	-	-	20	207	54	281
Balance on December 31, 2018	-	-	596	1,766	817	933	4,112
Amortization	721	-	98	392	479	271	1,961
Disposals	-	-	-	1	496	-	497
Balance on December 31, 2019	721	-	694	2,157	800	1,204	5,576
Net book value							
December 31, 2018	-	777	1,717	1,727	1,061	1,712	6,994
December 31, 2019	9,679	777	1,626	1,892	753	1,661	16,388

Amortization expense of $1,961,420 (2018 - $1,280,427) is included in occupancy expense in the statement of income and comprehensive income.

The right of use assets consists entirely of leases for premises.

(tabular amounts in thousands of dollars)

9 Members' deposits

The following table provides a breakdown and analysis of the credit union's member deposit portfolio by maturity date:

	Variable rates $	Fixed rates less than 1 year $	Fixed rates 1-5 years $	2019 Total $	2018 Total $
Chequing and savings accounts	397,482	-	-	397,482	375,221
GICs	-	262,664	227,256	489,920	415,259
RRSP and other registered plans	9,166	42,812	66,268	118,246	120,504
RRIF	2,219	21,736	44,472	68,427	62,393
Tax free savings accounts	16,523	42,042	49,875	108,440	98,762
Total	425,390	369,254	387,871	1,182,515	1,072,139
Average effective interest rates	0.60%	2.23%	2.66%	1.78%	1.66%

Average effective interest rates are based on book values of deposits and contractual interest rates. All types of member deposits have been designated as financial liabilities and are carried at amortized cost using the effective interest method.

Concentra Trust Company of Canada acts as trustee in connection with Registered Plans.

10 Demand loan

The credit union has access to a line of credit facility totalling $2,500,000 and US$250,000 at Central 1. These facilities are included in demand loan facilities totalling $37,500,000 (2018 – $55,000,000) with interest rates to be agreed upon when amounts are drawn. The facilities are secured by an assignment of loans to members and a general security agreement covering all assets of the credit union. At year-end, the credit union has drawn $nil under its line of credit facility (2018 – $3,373,041) and has borrowings of $nil under the demand loan facility (2018 – $32,000,000).

The credit union also has access to a standby letter of credit line of $700,000 (2018 – $700,000) utilizing $30,301 (2018 – $481,553) at year-end.

In the ordinary course of business, the credit union is temporarily allowed to exceed the maximum line of credit facility due to timing of clearing outstanding deposits and cheques.

(tabular amounts in thousands of dollars)

11 Lease liabilities

The credit union has various leases which are included in property and equipment. The credit union's obligations under the leases are secured by the Lessors' title to the assets.

	Minimum lease payments		Present value of minimum lease payments	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Not later than 1 year	959	-	690	-
Later than 1 year and not later than 5 years	4,561	-	3,484	-
Later than 5 years	8,479	-	6,818	-
	13,999	-	10,992	-
Less: Future finance charges	3,007	-	-	-
Present value of minimum lease payments	10,992	-	10,992	-

With the adoption of IFRS 16 on January 1, 2019, there was a resulting increase to right of use assets within property and equipment of $10,129,000 and lease liabilities of $11,396,000 (note 3).

12 Post retirement employee future benefits

The credit union sponsors a post-retirement benefit plan providing health, dental and life insurance coverage to eligible employees. The credit union's post retirement benefit plan is administered by Great West Life Assurance Company.

Actuarial valuations of the plan are made based on market-related discount rates. The following table presents information related to the credit union's benefit plan as at December 31, including the amounts recorded in accounts payable and accrued charges on the statement of financial position and the components of the net benefit plan expense:

a) Accrued benefit obligation

	2019 $	**2018 $**
Balance – Beginning of year	3,076	2,847
Current service cost	152	147
Interest cost	113	105
Benefits paid	(51)	(23)
Remeasurements:		
Loss from change in assumptions	-	-
Balance – End of year, included in accounts payable and accrued charges	3,290	3,076

(tabular amounts in thousands of dollars)

There are no separate plan assets.

The credit union's benefit plan expenses, included in personnel expenses in the statement of income and comprehensive income were as follows:

	2019 $	2018 $
Current service cost	152	147
Interest cost	113	105
Net benefit plan expense	265	252

Through its post employment medical plan, the credit union is exposed to a number of risks, the most significant of which are detailed below:

- changes in bond yields – a decrease in corporate bond yields will increase plan liabilities;
- trend rates – an increase in expected health care and dental care costs will increase plan liabilities.

The assumptions used in the measurement of the accrued benefit obligation are as follows:

- the discount rate was established at 3.60 % (2018 – 3.60%). The rate of increase in expected health care rates is presumed to be 6.50% and this rate will reduce linearly to 5% after six years. Dental care costs are presumed to increase 5.00% per year.

b) Sensitivity of assumptions

	2019 $	2018 $
Liability change resulting from:		
1% increase in trend rate	528	493
1% decrease in trend rate	(400)	(374)
1 year increase in retirement age	(87)	(81)
1% increase in discount rate	(583)	(545)
1% decrease in discount rate	782	731

Each sensitivity analysis above is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected benefit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

The most recent actuarial valuation was prepared as at December 31, 2017.

The weighted average duration of the defined benefit obligation is 17.5 years.

(tabular amounts in thousands of dollars)

13 Liabilities qualifying as regulatory capital

	2019 $	2018 $
Investment shares – 46,521,934 (2018 – 20,518,260)	46,522	20,518
Owner shares – 17,134,807 (2018 – 16,979,607)	17,135	16,980
Provision for the issuance of owner shares – 1,040,000 (2018 – 700,000)	1,040	700
Member shares – 510,688 (2018 – 98,019)	511	490
	65,208	38,688

a) Investment shares

An unlimited number of non-voting, non-cumulative Class B special shares have been authorized with a stated value of $1 per share. The investment shares provide for redemption, at the option of the holder, five years following issuance. These special shares are issuable in series and rank ahead of owner shares and member shares. Investment shares form part of regulatory capital and have been classified as other liabilities. During the year, the credit union issued 25,000,000 in new investment shares for net proceeds of $25,000,000.

b) Owner shares

An unlimited number of Class A non-voting, non-cumulative patronage shares have been authorized with a stated value of $1 per share. Owner shares, which represent cumulative patronage refunds for existing members, form part of regulatory capital. These shares rank ahead of member shares and are payable to members upon termination of membership, or at the discretion of the Board of Directors. Owner shares form part of regulatory capital and have been designated as other liabilities.

It is the credit union's practice at year-end to accrue a provision for the issuance of owner shares in February of the following year. This provision is presented as a liability qualifying as regulatory capital.

c) Member shares

An unlimited number of voting, non-cumulative member shares have been authorized with a stated value of $5 per share. Member shares are the minimum share deposit requirement for membership and form part of regulatory capital. These shares are non-interest bearing and are payable to members upon termination of membership. Member shares form part of regulatory capital and have been designated as other liabilities.

	Opening balance 2019 $	Issued $	Redeemed $	Closing balance 2019 $
Investment shares	20,518	26,004	-	46,522
Owner shares	17,680	1,040	(545)	18,175
Member shares	490	46	(25)	511

(tabular amounts in thousands of dollars)

	Opening balance 2018 $	Issued $	Redeemed $	Closing balance 2018 $
Investment shares	20,006	512	-	20,518
Owner shares	17,480	700	(500)	17,680
Member shares	467	36	(13)	490

14 Capital and liquidity management

The Act requires credit unions to maintain minimum levels of liquidity and regulatory capital. Liquidity is measured as cash resources and liquidity term deposits, expressed as a percentage of the total of members' deposits and demand loan. As per the Act, regulatory capital must not total less than 4.00% (2018 – 4.00%) of total assets, and not less than 8.00% (2018 – 8.00%) of risk-weighted assets. Regulatory capital, comprising of Tier 1 and Tier 2 capital, includes investment shares, owner shares, member shares, retained earnings and accumulated other comprehensive income, adjusted for certain items under the Regulations to the Act. In the calculation of regulatory capital as a percentage of total assets, total assets are also adjusted for certain items under the Regulations to the Act. In accordance with the Act, no payments shall be made from regulatory capital that would cause regulatory capital to fall below regulatory requirements. Liquidity and regulatory capital as a percentage of assets are as follows:

	Required	2019	2018
Liquidity	6-9%	7.67%	7.97%
Regulatory capital			
As percentage of total assets	4.00%	8.54%	7.04%
As percentage of risk-weighted assets	8.00%	13.05%	10.92%
		$	$
Tier 1 capital		110,090	78,896
Tier 2 capital		7,080	8,841
Total regulatory capital		117,170	87,737

The credit union's liquidity plan is designed to ensure that the credit union will be able to pay obligations when they fall due, be able to repay depositors when funds are withdrawn, and be able to meet commitments to provide loans to members. Under normal operating conditions, Board policy requires management to manage liquidity, inclusive of amounts borrowed, in the range of 6.00% to 9.00% and undertake remedial action if results consistently fall outside of this desired range.

The credit union met its regulatory liquidity requirements as at and during the year ended December 31, 2019 and exceeded the minimum requirements of the Act and Regulations regarding regulatory capital as at December 31, 2019.

Beyond the regulatory requirements outlined above, the Board has established even higher targets with respect to regulatory capital, which it requires management to attain as it undertakes its responsibilities on behalf of the Board.

(tabular amounts in thousands of dollars)

The credit union's capital management plan is designed to establish a strong base for future growth, the payment of dividends and member patronage refunds, as well as provide a cushion in the event of market volatility. By Board policy, the credit union is to attain a regulatory capital as a percentage of total assets of 6.50% and 10.50% as a percentage of risk-weighted assets.

15 Required disclosures under the Act and related party transactions

a) Outstanding loans to key management personnel, their spouses, dependants, children and related corporations amounted to $4,837,210 (2018 – $4,019,206). None of these loans are considered impaired.

Outstanding deposits from key management personnel, their spouses, dependants, children and related corporations amounted to $3,562,310 (2018 – $3,605,795).

b) Remuneration paid to directors of the credit union is $111,035 (2018 – $132,869). Other expenses of the Board amounted to $9,264 (2018 – $1,148).

c) The Act requires credit unions to disclose remuneration paid during the year to employees whose total remuneration exceeds $150,000. If there are more than five employees in this category, the five employees with the highest total remuneration for the year are disclosed. The table below provides this information for the current year.

Name	Position	Salary $	Benefits $	Bonus $	Total $
Ian Thomas	Chief Executive Officer	268	17	69	354
John Klassen	Chief, Finance and Compliance	167	12	34	213
Nolan Andres	Chief, Technology and Innovation	158	11	32	201
Mary Ann Mooney	Chief, Member Experience and Brand Integrity	158	16	24	198
Rebecca Smith	VP, Culture and Wellness	144	10	22	176

d) Compensation of key management personnel

Key management personnel of the credit union include all directors, officers and key management. The summary of compensation for key management personnel is as follows:

	2019 $	2018 $
Salaries and other short-term employee benefits	1,366	1,111
Other long-term benefits	99	66
Bonus	220	248
	1,685	1,425

(tabular amounts in thousands of dollars)

16 Patronage refund

The patronage refund is authorized by the Board of Directors and is allocated to members in two ways. Firstly, members were allocated a dividend of 1.51% (2018 – 2.14%) on their December 31, 2019 owner shares. Secondly, members received an allocation based on the volume of business conducted with the credit union during the year. The patronage refund is classified as part of interest expense in the statement of income and comprehensive income.

17 Income taxes

a) Income tax expense is calculated as follows:

	2019 $	2018 $
Earnings before income taxes	4,461	4,158
Combined Canadian federal and provincial income tax rate applicable to the credit union	19.5%	19.5%
Income tax (recovery) provision based on combined federal and provincial income tax rate	870	811
Differences from statutory rate		
Other	(380)	334
	490	1,145
Provision for (recovery of) income taxes		
Current	550	910
Deferred	(60)	235
	490	1,145

(tabular amounts in thousands of dollars)

b) Deferred income taxes resulted from the following:

	2019 $	2018 $
Deferred income tax asset arising from the following:		
Property and equipment	354	109
Allowance for impaired loans	112	115
Post retirement employee future benefit plan	641	600
Other	(5)	(3)
	1,102	821
Deferred income tax liability arising from the following:		
Net gain on CUCO Co-op Class B investment shares	-	(26)
Deferred tax asset:		
To be recovered after more than 12 months	990	706
To be recovered within 12 months	112	115
	1,102	821
Deferred tax liability:		
To be recovered after more than 12 months	-	-
To be recovered within 12 months	-	(26)
Net deferred tax asset	1,102	795

	Opening balance December 31, 2018 $	Recognized in Statement of income and comprehensive income (loss) $	Recognized in retained earnings on IFRS 16 transition $	Closing Balance December 31, 2019 $
Deferred tax asset				
Property and equipment	109	(2)	247	354
Allowance for impaired loans	115	(3)	-	112
Post retirement employee future benefit plan	600	41	-	641
Other	(3)	(2)	-	(5)
	821	34	247	1,102
Deferred tax liability				
Net gain on CUCO Co-op Class B investment shares	(26)	26	-	-
Net deferred tax asset	795	60	247	1,102

(tabular amounts in thousands of dollars)

	Opening balance January 1, 2018 $	Recognized in statement of income and comprehensive income (loss) $	Recognized in other comprehensive income (loss) $	Closing balance December 31, 2018 $
Deferred tax asset				
Property and equipment	95	14	-	109
Allowance for impaired loans	200	(293)	208	115
Post retirement employee future benefit plan	555	45	-	600
Other	(2)	(1)	-	(3)
	848	(235)	208	821
Deferred tax liability				
Net gain on CUCO Co-op Class B investment shares	(26)	-	-	(26)
Net deferred tax asset (liability)	822	(235)	208	795

c) Tax amounts related to other comprehensive income (loss) are as follows:

			2019
	Gross $	Taxes $	Net of taxes $
Tax recovery on investments designated as FVOCI	-	-	-

			2018
	Gross $	Taxes $	Net of taxes $
Net tax on investments designated as FVOCI	-	340	340

18 Commitments and contingencies

a) Members' loans

The credit union has made commitments to members for loans of approximately $77,537,912 (2018 – $87,724,613), which have not been disbursed by December 31, 2019. In addition, unutilized portions of lines of credit extended to members at December 31, 2019 amounted to approximately $231,693,751 (2018 – $213,253,400).

(tabular amounts in thousands of dollars)

b) Contingent liabilities

The credit union, in the course of its operations, is subject to lawsuits. As a policy, the credit union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated.

19 Pension plan

The credit union has a defined contribution pension plan for qualifying employees. The credit union matches employee contributions up to 5% of the employee's salary (7% for staff hired post January 1, 2017). The expenses and payments for the year ended December 31, 2019 were $736,004 (2018 – $716,099). The credit union has no further liability or obligation for future contributions to fund future benefits to plan members.

20 Derivative financial instruments

a) Index-linked purchase option agreements

Included in GICs, RRSPs and tax-free savings accounts are a total of $477,752 (2018 – $937,558) of index-linked deposits. The index-linked deposits are for a three or five-year period with the return based on the performance of various stock market indices.

The credit union has entered into purchase option agreements with Central 1 for a notional amount of $477,752 (2018 – $937,558) to offset the exposure to the various indices associated with these products, whereby the credit union pays Central 1 a fixed amount of interest at the start of the contract based on the face value of the index-linked deposits sold. At the end of the three or five-year term, Central 1 pays to the credit union an amount equal to the amount that will be paid to the depositor based on the performance of the particular indices.

The purpose of these purchase option agreements is to provide an economic hedge against market fluctuations. These agreements have fair values that vary based on changes in various indices. The fair value of these purchase option agreements included in other assets amounted to $38,076 at December 31, 2019 (2018 – $38,231). The fair value of the options embedded in the index-linked deposits included in members' deposits amounted to $38,076 at December 31, 2019 (2018 – $38,231).

b) Interest rate swaps

The credit union enters into interest rate swap agreements in order to provide an economic hedge against exposure to interest rate fluctuations. At December 31, 2019, the credit union was party to three interest rate swap agreements with Central 1. The agreements in aggregate represent a notional principal amount of $250,000,000, which is used as the basis for determining payments under the contracts and is not actually exchanged between the credit union and Central 1, its counterparty.

Under the term of the agreements, the credit union has contracted with the counterparty to pay interest at a variable rate to be re-priced monthly or quarterly, while receiving interest at a fixed rate on the notional principal amount.

(tabular amounts in thousands of dollars)

These derivative instruments are recorded in the statement of financial position at fair value. Interest rate swaps have a fair value that varies based on the particular contract, considering such factors as the notional value, the term to maturity, and change in interest rates. At December 31, 2019, the fair value of these agreements was an asset of $100,256 (2018 – $778,342). Included as components of loss (gain) on derivative financial instruments in the statement of income and comprehensive income is (gain) loss on derivative financial instruments of $846,281 (2018 – net interest revenue of $901,899) and net unrealized gains on interest rate swap transactions of $878,598 (2018 – net unrealized loss of $1,171,785).

Notional amount $	Maturity date	Paying rate	Receiving rate %	Fair value $
50,000	January 4, 2021	Three-month CDOR	2.64%	306
75,000	March 16, 2021	Three-month CDOR	1.76%	(206)
				100

21 Mortgage securitizations

The following table summarizes the carrying and fair values of mortgages of the credit union that have been securitized and sold by the credit union to third parties as well as the carrying and fair values of the corresponding mortgage securitization liabilities.

	Carrying value $	Fair value $
Securitized mortgages sold as NHA MBS	39,981	40,431
Principal payments to be applied (included in cash)	1,980	1,980
Total securitized assets	41,961	42,411
Mortgage securitization liabilities	41,983	42,433
Net amount	(22)	(22)

All mortgages securitized by the credit union are required to be fully insured prior to sale and therefore give rise to minimal credit risk. However, the credit union remains exposed to interest rate risk, timely payment and prepayment risk associated with the underlying assets. Accordingly, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the credit union's balance sheet and statement of income and comprehensive income as outlined in note 3.

(tabular amounts in thousands of dollars)

22 Fair value of financial instruments

The fair values of the credit union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the credit union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating rate loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market insofar as the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the credit union's own risk.

Derivative financial instruments are recorded at fair value in the statement of financial position. The fair value is determined based on prevailing market rates and notional value.

The fair value for the credit union's investments as detailed in note 6 is determined as follows.

- Membership shares in Central 1 and Oikocredit do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership;
- Liquidity reserve deposits and loans to MEDA are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms;
- Class E membership shares in Central 1 do not trade in a public market, redemptions are infrequent and no clear plan of redemption by Central 1 has been communicated. As such the shares are measured at par value which approximates fair value at December 31, 2019; and,
- The fair value of investment, owner and membership shares approximate carrying values.

Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

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

Level 2 Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly.

(tabular amounts in thousands of dollars)

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the asset or liabilities.

Estimated fair values of financial instrument assets and liabilities are described in the following table:

		2019		2018	
	Fair value hierarchy	Carrying value $	Fair value $	Carrying value $	Fair value $
Recurring measurements:					
Financial assets					
Shares in Central 1 Class A	Level 2	449	449	448	448
Shares in Central 1 Class E	Level 2	2,086	2,086	2,086	2,086
Shares in Central 1 Class F	Level 2	4,112	4,112	3,973	3,973
CUCO Co-op Membership and Class B investment shares	Level 2	-	-	45	45
Derivative financial instrument assets	Level 2	100	100	-	-
Shares in Oikocredit	Level 2	7,815	7,815	7,410	7,410
Fair values disclosed:					
Financial assets					
Liquidity reserve deposits	Level 2	81,088	81,465	75,754	76,044
Loans to MEDA	Level 2	600	600	600	600
Loans to members	Level 3	1,244,313	1,246,321	1,131,875	1,125,404
Financial liabilities					
Deposits of members	Level 3	1,184,495	1,187,394	1,072,139	1,076,578
Demand loan	Level 2	-	-	35,373	35,373
Derivative financial instrument liabilities	Level 2	-	-	778	778
Mortgage securitization liabilities	Level 2	40,003	40,431	36,638	36,531
Investment shares	Level 2	46,522	46,522	20,518	20,518
Owner shares	Level 2	18,175	18,175	17,680	17,680
Member shares	Level 2	511	511	490	490

Fair values for items that are short-term in nature are approximately equal to book value. These include cash resources, accrued interest payable, accounts payable and accrued charges and the demand loan.

23 Financial risk management

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

(tabular amounts in thousands of dollars)

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on compliance with the risk management policies of the credit union. In addition, the credit union utilizes a variety of resources to undertake various internal audit activities and reports to the responsible senior leader and Board the results of these activities.

Financial instruments comprise the majority of the credit union's assets and liabilities. The credit union accepts deposits from members at both fixed and variable rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally loans and mortgages. The primary types of financial risk that arise from these activities are interest rate risk, credit risk, liquidity risk, foreign exchange risk, and other price risk.

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

Activity	**Risks**	**Method in Managing Risks**
An imbalance in the amount of variable rate loans to members compared to variable rate members' deposits	Sensitivity to changes in interest rates	Asset-liability matching, sales of selected loan portfolios and periodic use of derivatives
Index linked deposit products	Sensitivity to changes in underlying equity indices	Options are used to mitigate this risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the credit union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. The financial margin reported in the statement of income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the credit union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the credit union's management and reported to the Board, which is responsible for managing interest rate risk.

In managing interest rate risk, the credit union relies primarily upon use of the asset-liability and interest rate sensitivity models. Periodically, the credit union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the credit union's financial instruments. The credit union has entered into one new interest rate swap in 2019. The full extent of the interest rate swaps which the credit union has in place are included in note 20b).

(tabular amounts in thousands of dollars)

Interest rate shock analysis is used to assess the change in value of the credit union's financial instruments when an immediate increase or decrease to interest rates is introduced and the resulting changes in income are computed over a twelve-month period. This shock analysis is calculated on a monthly basis and is reported to the asset-liability committee (ALCO) and subsequently to the Board. Based on current differences between financial assets and financial liabilities, the credit union estimates that an immediate and sustained 50 basis point increase (decrease) in interest rates would increase (decrease) net interest income for the year by approximately $293,000.

The ALCO also looks at other aspects of interest rate risk such as basis risk, which is the risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk, which is the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans, to ensure they are appropriate and takes actions to ensure these are within acceptable levels.

The following schedule shows the credit union's sensitivity to interest rate changes as at December 31, 2019. Amounts with variable rates, or due or payable on demand, are classified as maturing within less than one year, regardless of maturity. Member loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Assets $	Liabilities and members' equity $	Interest rate swaps $	Net asset/ liability gap $
Expected re-pricing or maturity date				
Less than one year	470,009	(813,665)	-	(343,656)
1 to 2 years	197,286	(140,731)	(125,000)	(68,445)
2 to 3 years	206,868	(126,070)	125,000	205,798
3 to 4 years	261,414	(95,105)	-	166,309
4 to 5 years or more	220,450	(70,074)	-	150,376
Non-interest sensitive	15,564	(125,946)	-	(110,382)
	1,371,591	(1,371,591)	-	-

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectation of borrowers and depositors. The average rate of interest-bearing assets is 3.90% and interest-bearing liabilities is 1.79%.

b) Credit risk

Credit risk is the risk that a credit union member or counterparty will be unable to pay amounts in full when due. Credit risk arises principally from lending activities that result in member loans and advances and investing activities that result in investments in cash resources. Counterparty risk is also a key consideration with respect to derivative contracts which the credit union enters into from time to time with Central 1. Significant changes in the economy of the Province of Ontario or deteriorations in lending sectors that represent a concentration within the credit union's loan portfolio may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is

(tabular amounts in thousands of dollars)

an integral part of the credit union's activities. Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. Management carefully monitors and manages the credit union's exposure to credit risk by a combination of methods.

The credit union maintains levels of borrowing approval limits and prior to advancing funds to a member an assessment of the credit quality of the member is made. The credit union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

At December 31, 2019, the classes of financial instruments for which the credit union is most exposed to credit risk are as follows:

Credit risk exposure	Outstanding $
Investments	96,150
Loans to members	1,244,313
	1,340,463

Beyond the credit risk associated with the above financial assets, the credit union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans as at year-end, as disclosed in note 18(b).

Loan impairment

At each reporting date, the credit union assesses whether a loan or groups of loans are credit-impaired (referred to as "Stage 3 loans"). A loan 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.

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

i) significant financial difficulty of the borrower or issuer;

ii) a breach of contract such as a default or past due event;

iii) the restructuring of a loan or advance by the credit union on terms that the credit union would not consider otherwise; and

iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

The credit union incorporates forward-looking information into both the assessment of whether the credit risk of a loan or groups of loans has increased significantly since its initial recognition and the measurement of ECL.

(tabular amounts in thousands of dollars)

The credit union formulates three economic scenarios: a base case, which is the median scenario assigned 80% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 10% probability of occurring. External information considered includes economic data and forecasts published by government bodies and monetary authorities in the jurisdictions in which the credit union operates.

The key drivers considered for credit risk are unemployment rates, interest rates, and real estate prices. None are considered to have a material impact on the loan loss provision at this time. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Loans to members

Loans to members consist of loans, some of which are supported by specific collateral such as residential properties, and charges over business assets such as premises, inventory and accounts receivable. The credit union maintains guidelines on the acceptability of specific types of collateral. Where significant impairment indicators are identified, the credit union will take additional measures to manage the risk of default, which may include seeking additional collateral. In the case of loans that are conventional mortgages, the Board has established maximum loan to value (Max. LTV) ratios that cannot be exceeded. The following chart gives a profile of these maximums and identifies the amount of conventional mortgages for each loan portfolio that are subject to these maximums:

Portfolio	Total loans $	Conventional mortgage loans $	Max. LTV %
Residential	377,617	322,935	80%
Personal	10,170	-	-
Agricultural	592,404	510,293	75%
Commercial	265,886	194,818	60%
	1,246,077	1,028,046	

The credit union's lending (measured as a percentage of the total loan portfolio) is well diversified by portfolio sectors as follows:

	Board maximum %	2019 %	2018 %
Residential	No limit	30.3	30.6
Personal	No limit	0.8	0.8
Agricultural	55	47.5	47.5
Commercial	25	19.4	18.7
Institutional	10	1.0	1.2
Unincorporated association	5	1.0	1.1

Board policy also requires that the maximum combined exposure for total commercial and agricultural lending (excluding institutional and unincorporated association loans) be less than 65.0% of assets. At December 31, 2019, commercial and agricultural loan exposure on this basis was 60.8%.

(tabular amounts in thousands of dollars)

Furthermore, within the above noted portfolio sectors, the Board has also established maximum loan concentrations within industry sectors to ensure an appropriate diversification within these portfolios. Actual concentrations by industry sector were well below the maximums at year-end.

The credit quality of the commercial and agricultural loan portfolio for those loans which are neither past due nor impaired can be assessed by reference to the credit union's internal risk rating system. The credit union assesses the relative risk of the account using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Loans subject to ratings are assigned a risk score from 1 to 6 (1 = low risk, 6 = watch account). Loans are regularly reviewed and updated as appropriate. With respect to the personal loan and residential mortgage portfolio, procedures are in place to ensure the regular monitoring and review of loans in addition to scheduled audits at the branch and head office levels.

Risk scale	Stage 1 $	Stage 2 $	Stage 3 $	2019 Total $	2018 Total $
1 – Low	34,306	-	-	34,306	68,530
2 – Medium low	225,428	-	-	225,428	230,824
3 – Medium	439,361	1,955	-	441,316	364,329
4 – Medium high	98,506	615	-	99,121	80,228
5 – High	22,040	1,367	-	23,407	15,845
6 – Watch	71	52	15,256	15,379	19,055
	819,712	3,989	15,256	838,957	778,811

The carrying value of all loans restructured for members during the year, where a concession in terms was granted with the loan remaining in good standing, is $11,650,475.

c) Liquidity risk

Liquidity risk is the risk the credit union will encounter difficulty in raising funds to meet its obligations to members and other creditors. To mitigate this risk, the credit union is required to maintain, in the form of cash and liquidity reserve term deposits, a board policy set minimum liquidity at all times, based on total members' deposits and demand loan. At December 31, 2019, the credit union's liquidity exceeded the required level as disclosed in note 13. The credit union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the credit union and to enable the credit union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, sale of loan portfolios and asset-liability maturity management techniques. Management monitors projections of the credit union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The credit union also maintains a borrowing facility with Central 1 of $37,500,000 as an integral part of its liquidity management strategy as disclosed in note 10.

(tabular amounts in thousands of dollars)

The remaining contractual maturity of recognized financial liabilities and loan commitments is as follows.

	Payable on demand $	Less than 1 year $	1 to 5 years $	More than 5 years $	Total $
Deposits of members	427,370	367,274	387,871	-	1,182,515
Accrued interest payable	-	9,016	-	-	9,016
Accounts payable and accrued charges	-	6,444	-	3,290	9,734
Demand loan	-	-	-	-	-
Lease liabilities	-	689	3,484	6,819	10,992
Mortgage securitization liabilities	-	8,867	33,116	-	41,983
Unadvanced loan commitments	-	77,538	-	-	77,538
	427,370	469,828	424,471	10,109	1,331,778

d) Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the credit union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial investments for an extended period. The nature of the foreign exchange risk at the credit union is that members can maintain US dollar deposit accounts and GICs for which the credit union will generally hold an equivalent amount of US denominated assets in the form of cash and investments. The Board has established that the credit union must ensure that the difference between the US dollar denominated assets and liabilities must be less than $500,000. The credit union has traditionally dealt with unwanted levels of foreign exchange risk by taking actions related to US denominated assets and liabilities rather than entering into any foreign exchange derivative contracts. The impact of a 10.00% strengthening (weakening) of the Canadian dollar against the US dollar is considered insignificant.

e) Other price risk

The credit union is also exposed to other price risk on certain of its investments and deposits but given the limited amount of these deposits and investments, the price risk exposure is considered insignificant.

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