KINDRED Credit Union

Annual Report and Financial Statements

Year ended December 31, 2020

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A message from our CEO

Ian Thomas, Chief Executive Officer

Along with the economic challenges, loneliness, and loss wrought by the COVID-19 pandemic, 2020 offered genuine experiences of light and hope. The lessons we learned over the past year, as well as the inspiration offered by our members and communities, will never be forgotten. I can say with confidence that Kindred was able to live out its values and purpose throughout the COVID-19 pandemic. We were able to demonstrate in meaningful and tangible ways that we were there for our members in 2020 and, as the pandemic continues, I want to reassure you that we're still here, working for you.

We're committed to making more tools available to enrich our members' banking experience, and we recognize that providing a variety of ways to bank is now a necessity rather than simply a convenience. In fact, the pandemic put our plans to offer increased digital access into overdrive. From digital membership opening and e-signature to video meetings, extended hours at our Member Contact Centre, and contactless banking solutions, we've made it easier for people across Ontario to experience Banking with Purpose whenever and wherever they're at. I'm so proud of my team for delivering when our members and community needed it most.

As the CEO of a financial institution, I love numbers … and the numbers in 2020 tell us that our plans are working! We added 1,949 new members in 2020, bringing our total membership to just shy of 25,000. We expect to see this growth trend continue with digital membership opening and our enhanced mobile app already available, to be followed by digital lending and other services throughout 2021.

We continue to make progress towards the financial objectives in our 2021 strategic plan. At the end of 2020, Kindred's net assets grew to nearly $1.6 billion. In addition, our core earnings reached a record $5.5 million as of December 31, 2020. We're very grateful that the credit union was able to maintain its strong financial performance in such challenging and uncertain circumstances. These results underscore our financial stability and allow Kindred to continue to support our members and further our purpose.

With a keen eye on the foundational areas of our business, and thanks to our members' trust in us, we recorded record-breaking results in 2020 with solid loan growth of $137.4 million and strong deposit growth of $213.7 million. This was achieved, in part, thanks to Kindred staff members proactively connecting with more than 10,000 members to discuss their financial needs! Our Financial Planning team was able to use their extensive investing experience to help our members plan for their future, even as they had to pivot to take their advisory services (mostly) online. As a result, we grew our total Assets Under Management* to more than $242 million at year end, an 18.3% increase over 2019.

When the credit union succeeds, our members and the communities in which we live and work also benefit. Our Profit Shares program allowed us to share $1.1 million from our 2020 earnings with our personal and business members.

Ensuring a safe and healthy local food supply proved to be critical during the pandemic, and so we were pleased to further develop our deep-rooted relationships with the agricultural community over the past year. Our strength in commercial and small business lending also paid dividends, as we moved quickly to connect with our members to offer advice, planning, and loans where needed, while building our capacity to help hundreds of business members access federal COVID-19 relief programs.

In addition to being a record year for growth, it was also a record year to demonstrate our values. Building relationships with community partners is an ongoing focus for Kindred, and I'm pleased to say we made strides in our connections with a host of organizations that support our chosen focus areas.

Our Community Inspiration Framework is a guide to how we bring our purpose to life in the communities we serve. I invite you to take a look at BankingWithPurpose.ca to watch an illustrated video that celebrates and shares the spirit and rationale behind our framework and helps explain what we mean by "inspiring peaceful, just, and prosperous communities."

Our support to communities in 2020 came through our people, programs, products and services, as well as philanthropy. Kindred gave $622,000 to strengthen local communities through branch sponsorships, donations to churches and charities through our

Church Builder GIC, and a variety of partnerships that further our purpose. Through the Kindred Charitable Fund, $81,000 in grants was distributed to charities, supporting 16 organizations in our operating area.

Early in the pandemic, Kindred donated $15,000 to local organizations serving those who are most vulnerable to the economic effects of the pandemic. This was made possible thanks to our members who chose to connect their values and faith with their finances by investing in Kindred's Crisis Care GIC. Sales of this unique investment surpassed $2 million!

Finally, celebrating a local leader in affordable housing, we committed to contributing $250,000 to MennoHomes' capital campaign. Kindred has a longstanding relationship with MennoHomes and we were excited to deepen this relationship with a valued community partner. Our new partnership commitment extends beyond financial contributions, including financial literacy programming and a plan to explore other innovative ways to inspire peaceful, just, and prosperous communities.

Living out our values means we continue to advocate for fair compensation as a Living Wage Champion, to promote socially responsible investing, and to be an active member in the Global Alliance for Banking on Values (GABV), an international organization that seeks to redefine banking. Please see page 10 to learn more about GABV and how we're measuring and presenting our impact to the 'real economy'. With another successful year behind us, as a dedicated B Corp, Kindred is building a stronger credit union that shows how business can be a force for good.

Just as 2020 offered some unexpected lessons in resilience and managing expectations, 2021 will continue to offer challenges that we must overcome. Yet, with hope on the horizon, we're looking forward to another successful year that will enable your credit union to help members secure their financial future and further our purpose to connect values and faith with finances, inspiring peaceful, just, and prosperous communities.

Thank you to all our staff and members who continue to put their trust in this amazing organization.

With appreciation,

Ian Thomas, Chief Executive Officer

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

A message from our Board Chair

Susan Taves, Board Chair

This was not the year we expected. We started 2020 with optimism for the year ahead, confident in our plans for improving members' financial lives and contributing to positive change in our communities. Then we learned that COVID-19 had reached Canada and everything changed.

Immediately, we were concerned about the financial impact of the lockdown on our members, our community, and local businesses. Yet in spite of the pandemic, we're pleased to report that the credit union did, in fact, have a very successful year. Thanks to our secure financial position, Kindred was able to support and give back to our members and our community when it was needed most.

Overseeing Kindred's growth and financial success is one aspect of the Board's responsibilities; we must also manage the organization's risk, ensure strong governance, represent the interests and needs of members, and support our communities by living out our purpose. Given the amount of change encountered in 2020, we're pleased that Kindred's comprehensive risk management plan allowed us to address and manage the risks we identified.

A number of updates to Kindred's General By-laws have been approved by the Board and will be presented for a member vote at the Annual General Meeting (AGM). I'm pleased to highlight these proposed By-law changes. First, we'd like to add some flexibility to the number of Directors on the Board; second, we propose that the maximum term length for Directors be four consecutive three-year terms; third, we've simplified language in the committee section; fourth, we propose changing the name of the Executive Committee to the Governance Committee. In addition, we plan to add a clause in our By-laws in support of B Corp Certification, allowing us to continue to fulfill our commitments and maintain B Corp's rigorous standards of social and environmental performance, accountability, and transparency.

All of our proposed By-law changes were contemplated in light of our financial and social purpose priorities, as well as market trends for good governance. Regulatory and legal needs were also taken into consideration. A summary of the proposed By-law updates can be found at kindredcu.com/AGM.

Kindred's Board has two vacancies in 2021. To ensure the ongoing good governance of your credit union, it's vital that well-qualified and dedicated individuals are recruited to stand as Director candidates. The Council of Members and Executive Committee used all information available, including our Director Skills Matrix, to recommend the slate of Directors for member ratification at the AGM.

We continue to look for ways that we can more fully live out our purpose to connect values and faith with finances, inspiring peaceful, just, and prosperous communities. As part of this work, we've been considering how we can be a more inclusive organization. The global and political events of 2020, as well as the economic upheaval brought on by the pandemic, highlighted the many inequities in our society and spurred us to move forward. In 2020, Kindred Board and staff members embarked on a journey of learning around Equity, Diversity, and Inclusion recognizing that, over time, financial systems can and have played a role in furthering inequities and marginalization. We're raising awareness and taking action to create opportunities for positive change.

After a challenging year that required constant change and quick decision making, I would like to extend my thanks to many for their varied and vital contributions:

- Ian Thomas, Kindred's CEO, for his focus, energy, and leadership, as well as the dedicated and capable Senior Leadership Team. They worked tirelessly to manage competing demands, shifting priorities, uncertain deadlines, pandemic protocols, and more, all while keeping the wellness of Kindred staff members and the needs of members top of mind.

- All Kindred staff members who adapted quickly and with care to many new processes, including working in scaled back office or branch environments in very new and unfamiliar circumstances, or working from home full-time. The near constant change and uncertainty was trying, yet they handled it with grace and always put members' needs first.

- My fellow Board members for their guidance, availability, and commitment to Kindred.

- Our two departing Directors, Nelson Scheifele and Randy Shantz, deserve added recognition for their nine years of dedicated service.

- Kindred's industry partners including the Canadian Credit Union Association, Central 1, and Financial Services Regulatory Authority of Ontario, as well as leaders from peer credit unions, for their thoughtful contributions to meetings, deliberations, and initiatives to ease the impact of the pandemic on our shared stakeholders.

- Finally, our members and community. Your remarkable collaboration, care, and concern for one another is an ongoing source of inspiration!

Cooperatively yours,

Susan Taves, Board Chair

Financial Position Summary

Year ended December 31, 2020 with comparative figures for 2019.

Detailed audited financial statements are found on page 16.

	Thousands of dollars			
		December 31, 2020		**December 31, 2019**
Assets				
Cash resources	**$**	**12,364**	$	9,640
Investments		**163,420**		96,150
Loans to members		**1,381,755**		1,244,313
Property and equipment		**14,966**		16,388
Other assets		**13,640**		5,100
Total Assets	**$**	**1,586,145**	$	1,371,591

Liabilities and Members' Equity				
Total deposits of members	**$**	**1,405,208**	$	1,191,531
Mortgage securitization liabilities		**36,056**		41,983
Lease liability		**10,302**		10,992
Other liabilities		**11,850**		10,015
Member shares		**537**		511
Owner shares		**18,900**		18,175
Investment shares		**48,209**		46,522
Accumulated other comprehensive income		**(7)**		–
Retained earnings		**55,090**		51,862
Total Liabilities and Members’ Equity	**$**	**1,586,145**	$	**1,371,591**

Earnings Summary

Year ended December 31, 2020 with comparative figures for 2019.

Detailed audited financial statements are found on page 16.

		Thousands of dollars December 31, 2020		December 31, 2019
Income from interest and investments	$	**50,204**	$	49,058
Other revenue		**6,336**		5,525
Total Income	$	**56,540**	$	54,583
Less:				
Interest expense on member deposits	$	**20,366**	$	20,157
Profit Shares (patronage return)		**1,120**		1,040
Loss (gain) on derivative financial instruments		**(1,477)**		(32)
Mortgage securitization cost of funds		**1,027**		1,010
Interest on external borrowings		**107**		308
Interest on investment shares		**1,991**		1,237
Personnel expense		**17,708**		16,383
Occupancy expense		**866**		782
Lease finance cost		**269**		272
Administration expense		**6,103**		5,911
Amortization of property and equipment		**2,031**		1,961
Insurance expense		**1,164**		1,133
Provision for loan losses (gains)		**411**		(361)
Charitable giving		**622**		321
Income tax provision (recovery)		**1,032**		490
Net earnings (loss)	$	**3,200**	$	3,971
Other comprehensive income net of tax	$	**21**	$	–
Comprehensive income	$	**3,221**	$	3,971

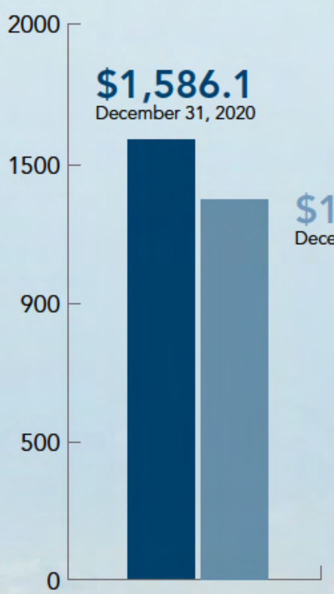
Net Earnings

Thousands of dollars

		December 31, 2020		December 31, 2019
Earnings from core operations	$	**5,500**	$	4,622
Profit Shares (patronage return)		**(1,120)**		(1,040)
Extraordinary Charitable Gift	$	**(250)**	$	–
Net earnings after patronage		**4,130**		3,582
Unrealized Fair Market Value gain (loss)	$	**102**	$	879
Earnings from operations before tax		**4,232**		4,461
Income tax (provision) recovery	$	**(1,032)**	$	(490)
Net earnings (losses) from operations		**3,200**		3,971
Other comprehensive income loss net of tax		**21**		–
Comprehensive income	$	**3,221**	$	3,971

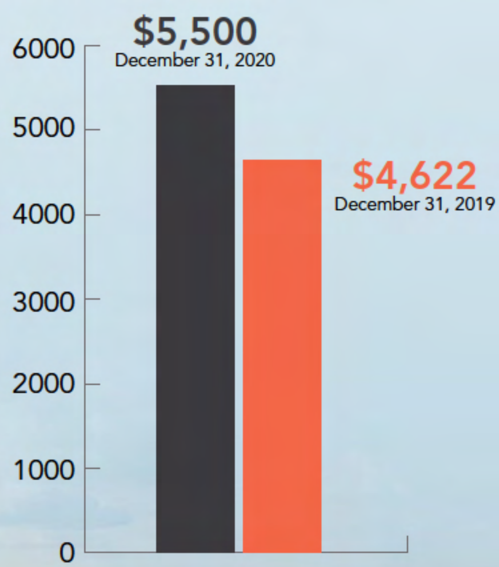
Assets

(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, Profit Shares (patronage return), and extraordinary items.

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 organizations, 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 organizations 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 organizations controlled by their members. If they enter into agreements with other organizations, 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 cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

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

Fostering the Real Economy: Enhancing our Relationships

The Global Alliance for Banking on Values (GABV) is a group of more than 65 financial institutions from around the world working together to redefine banking by prioritizing social, environmental, and economic sustainability.

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

GABV 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 at a macro level to our economy, focussing on closer connections reinforces real relationships.

At Kindred, we're committed to stewarding 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, we're working to enhance the relationships with our members and community partners so that 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. GABV defines financial economy as more than one layer away from a real activity.

	December 31, 2020 $ in thousands			December 31, 2019 $ in thousands		
Assets	**On-book***	**% of total**	**Off-book****	On-book*	% of total	Off-book**
Financial Economy (Cash, impact investments, accruals, taxes, leases)	**$194,079**	12.2%		$124,160	9.1%	
Real Economy (Loans to members, receivables)	**$1,392,067**	87.8%	$60,818	$1,247,431	90.9%	$50,168
Total Assets	**$1,586,146**		$60,818	$1,371,591		$50,168
Liabilities/Equity						
Financial Economy (reserves, net income, taxes, leases, off-book mutual funds)	**$120,780**	7.6%	$242,014	$121,926	8.9%	$204,888
Real Economy (savings/combinations, deposits, shares)	**$1,465,365**	92.4%		$1,249,665	91.1%	
Total Liabilities/Equity	**$1,586,146**		$242,014	$1,371,591		$204,888

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 investments with a third party, such as Credential Asset Management mutual funds.

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're 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 Board Nominees

The Council, with support of the Board of Directors, recommends for member ratification two 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 Randy Shantz (Board) and Nelson Scheifele (Board), as well as Kevin Huber (Council) and Wayne Martin (Council) 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.

Board of Directors – New

Rosemary McCrie, CPA, CMA, Chartered Director
- Kitchener branch member
- Self-employed finance management consultant
- Director, Kitchener Downtown Community Health Centre
- Board Chair, Audit, Risk, and Finance Committee, Food Banks Canada

Henry Paetkau, PhD
- Waterloo branch member
- Served as pastor and church administrator in Mennonite Church Eastern Canada and Mennonite Church Canada
- Former president of Conrad Grebel University College

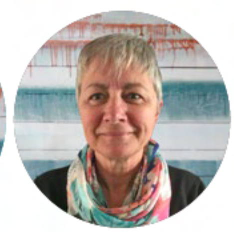
2020 Board of Directors

Carolyn Albrecht
Executive Committee

Gregory Brimblecombe
Audit and Risk Committee

Jim Erb
Finance Committee

Gerry Frey
Finance Committee Chair



Gloria Martin
Finance Committee

Nelson Scheifele
Finance Committee

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

Tim Wagler
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 four times during 2020 to complete its responsibilities. Key activities included:

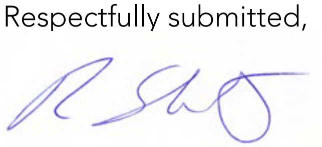
- Reviewing the financial statements and results of the year end audit with the external auditor;
- Reviewing the performance of the external auditor and their proposed engagement letter;
- Ensuring that regulatory filings were submitted on time;
- Reviewing the credit union's policies, procedures, and 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, Kaylie Tiessen, Tim Wagler

Kindred Credit Union Limited

Financial Statements
December 31, 2020

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, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the statement of financial position as at December 31, 2020;
- 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 significant accounting policies and other explanatory information.

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.

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

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.

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 25, 2021

Kindred Credit Union Limited

Statement of Financial Position

As at December 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Assets		
Cash	12,364	9,640
Investments – liquidity reserve deposits (note 5)	93,570	81,088
Loans to members (note 6)	1,381,755	1,244,313
Investments – other (note 5)	69,850	15,062
Income tax receivable	165	-
Derivative financial assets (note 19)	202	100
Property and equipment (note 7)	14,966	16,388
Deferred income tax asset (note 16)	1,000	1,102
Prepaid expenses and other receivables	12,273	3,898
Total assets	1,586,145	1,371,591
Liabilities		
Deposits of members		
Members' deposits (note 8)	1,395,930	1,182,515
Accrued interest payable	9,278	9,016
	1,405,208	1,191,531
Liabilities to non-members		
Accounts payable and accrued charges (note 11)	11,850	9,734
Income taxes payable	-	281
Lease liabilities (note 10)	10,302	10,992
Mortgage securitization liabilities (note 20)	36,056	41,983
	58,208	62,990
Liabilities qualifying as regulatory capital		
Investment shares (note 12)	48,209	46,522
Owner shares (note 12)	18,900	18,175
Member shares (note 12)	537	511
	67,646	65,208
Total liabilities	1,531,062	1,319,729
Members' Equity		
Retained earnings	55,090	51,862
Accumulated other comprehensive income (loss)	(7)	-
Total members' equity	55,083	51,862
	1,586,145	1,371,591

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 Income and Comprehensive Income

For the year ended December 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Revenue		
Interest income	48,796	47,212
Investment income	1,408	1,846
	50,204	49,058
Interest expense (income)		
Interest on members' deposits	20,366	20,157
Patronage refund (note 15)	1,120	1,040
Interest on investment shares	1,991	1,237
Interest on external borrowings	107	308
Gain on derivative financial instruments (note 19b)	(1,477)	(32)
Mortgage securitization cost of funds	1,027	1,010
Lease finance cost	269	272
	23,403	23,992
Financial margin	26,801	25,066
Fee revenue	4,574	3,988
Commission revenue	1,762	1,537
	6,336	5,525
Income before the undernoted	33,137	30,591
Operating expenses		
Personnel	17,708	16,383
Administration	6,103	5,911
Occupancy	2,897	2,743
Insurance	1,164	1,133
	27,872	26,170
Income before (provision for) recovery of loan losses and charitable giving	5,265	4,421
(Provision for) recovery of loan losses (note 6)	(411)	361
Charitable giving	(622)	(321)
Income before income taxes	4,232	4,461
Provisions for income taxes (note 16)	1,032	490
Net income for the year	3,200	3,971
Other comprehensive income – net of tax		
Net change in unrealized gain on investments (note 5)	21	-
Comprehensive income for the year	3,221	3,971

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, 2020

(in thousands of dollars)

	Retained earnings $	Accumulated other comprehensive income $	Total $
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)	-
Balance – December 31, 2019	51,862	-	51,862
Net income before the following:	3,200	-	3,200
Other comprehensive income, net of taxes (note 16c)	28	(7)	21
Balance – December 31, 2020	55,090	(7)	55,083

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, 2020

(in thousands of dollars)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net income for the year	3,221	3,971
Adjustments for		
Interest and investment income	(50,204)	(49,058)
Interest expense	22,464	21,702
Lease finance cost	269	272
Provision for income taxes	1,032	490
Patronage refund	1,120	1,040
Provision for loan losses	411	361
Amortization of property and equipment (note 7)	2,031	1,961
Net change in unrealized gains on derivative instruments	(102)	(878)
Change in non-cash working capital	2,675	1,615
Changes in member activities, net		
Change in loans to members	(137,853)	(112,799)
Change in members' deposits	213,415	110,178
Cash flows relating to interest and income taxes		
Interest received on loans to members	48,644	50,092
Interest paid on members' deposits	(20,515)	6,741
Income taxes paid	(1,211)	(482)
	85,397	35,206
Financing activities		
Decrease in demand loan	-	(35,373)
Repayments of lease liabilities	(959)	(960)
(Decrease) increase on mortgage securitization	(5,927)	5,543
Redemption of owner shares (note 12)	(395)	(545)
Net increase in member shares (note 12)	26	21
	(7,255)	(31,314)
Investing activities		
Purchase of investments	(74,813)	(5,834)
Purchase of property and equipment (note 7)	(605)	(955)
	(75,418)	(6,789)
Increase (decrease) in cash during the year	2,724	(2,897)
Cash – Beginning of year	9,640	12,537
Cash – End of year	12,364	9,640

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

(tabular amounts in thousands of dollars)

1 Reporting entity

Kindred Credit Union Limited (the 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 25, 2021.

On March 11, 2020, a virus known as COVID-19 was declared a pandemic by the World Health Organization. The pandemic resulted in governments worldwide enacting emergency measures to combat the spread of the virus including the implementation of travel bans, self-imposed quarantine periods and social distancing. These emergency measures caused significant disruption to businesses globally resulting in an economic slowdown that depressed world stock prices, decreased bond yields and increased the volatility in discount rates at the beginning of the year. To combat the economic slowdown, governments and central banks have since provided significant fiscal and financial assistance and markets have experienced recoveries. Governments have started to roll out mass vaccination campaigns, but it is still difficult to predict the duration and impact of the pandemic.

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.

(tabular amounts in thousands of dollars)

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 4.

3 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.

Lifetime 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.

(tabular amounts in thousands of dollars)

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.

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.

(tabular amounts in thousands of dollars)

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.

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 loss allowance) 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.

(tabular amounts in thousands of dollars)

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.

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.

(tabular amounts in thousands of dollars)

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:

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.

(tabular amounts in thousands of dollars)

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
Excess liquidity deposits	Amortized cost
Loans to MEDA	Amortized cost
Derivatives	FVTPL
Shares in Central 1	FVOCI
Oikocredit shares	FVTPL
Canadian Cooperative Investment Fund	FVOCI

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.

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.

(tabular amounts in thousands of dollars)

As outlined in note 3f), 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.

CEBA loans

The Government of Canada (GoC) launched the Canada Emergency Business Account (CEBA) program to provide interest-free loans of up to $40,000 to qualifying small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced. The Credit Union acts as a credit facilitator for its eligible members to access loans from the GoC through the CEBA program. Loans advanced to borrowers have been derecognized and do not appear on the Statement of Financial Position for the Credit Union as substantially all the risks and rewards associated with the loans, including exposure to payment defaults and principal forgiveness, are assumed by the GoC.

The Credit Union receives a loan administration fee which is recognized in the Statement of Income and Comprehensive Income.

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, 2020 was $28,735 (2019 – $6,472). 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, 2020 was $nil (2019 – $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 3c), 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) Leases

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 residential 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 not to terminate early.

(tabular amounts in thousands of dollars)

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 residential 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.

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.

i) 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.

j) 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 gain on derivative financial instruments. The Credit Union does not apply hedge accounting on its derivative portfolio.

(tabular amounts in thousands of dollars)

k) Member entitlements

Member shares, owner shares and investment shares have certain characteristics that are outlined in note 12 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.

l) 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.

m) 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.

n) 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.

(tabular amounts in thousands of dollars)

4 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.

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 21.

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 6 and 22.

(tabular amounts in thousands of dollars)

Due to COVID-19, there is estimation uncertainty with respect to the recoverability of loans to members and the measurement of expected credit losses. Certain of the inputs and assumptions related to the model are impacted by this uncertainty.

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.

5 Investments

	2020 $	2019 $
Shares in Central 1 (a)	6,743	6,647
Liquidity reserve deposit (b)	93,570	81,088
Excess liquidity deposits (c)	62,240	-
Oikocredit shares (d)	250	7,815
Loans to MEDA (e)	600	600
Canadian Cooperative Investment Fund	17	-
	163,420	96,150

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 $449,089 to $458,243 during 2020 as a result of capital calls.

The Central 1 Class F shares increased to $4,198,045 during 2020 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.

(tabular amounts in thousands of dollars)

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, 2020.

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 0.81% (2019 – 1.71%) 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 pre-set maturity dates. The liquidity reserve deposits are measured at amortized cost.

As a result of regulatory changes, the liquidity reserve deposit held with Central 1 was discharged at fair value in exchange for financial assets on January 4, 2021. In addition, Central 1 Class F shares were redeemed for cash.

c) Excess liquidity deposits

The Credit Union has invested excess funds in term deposits, GICs and short-term funds with Central 1, Manulife, CIBC and Royal Bank. These excess liquidity deposits are measured at amortized cost.

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.

Over the past five years, the Credit Union has supported this work through a program of matching specially branded credit union member owned GICs with credit union owned investments in Oikocredit shares. As of December 31, 2020, the Credit Union has terminated this program and has reduced its holdings of these shares to $250,200 (2019 – $7,814,968).

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.

(tabular amounts in thousands of dollars)

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.

f) Canadian Cooperative Investment Fund (CCIF)

Supported by selected cooperative organizations across Canada, the CCIF is designed to address a gap in the cooperative sector's access to financing. The fund invests in the cooperative sector in the form of loans, equity and quasi-equity investments. The Credit Union has a maximum $150,000 commitment to the fund to be invested over the next several years. CCIF shares are classified as FVOCI.

6 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, 2020
	Gross amount		ECL allowance		Carrying amount
		Stage 1	Stage 2	Stage 3	
	$	$	$	$	$
Residential	414,690	(150)	(38)	(22)	414,480
Personal	8,663	(70)	(21)	(5)	8,567
Agricultural	663,693	(229)	(4)	(662)	662,798
Commercial	296,857	(123)	(3)	(821)	295,910
	1,383,903	(572)	(66)	(1,510)	1,381,755

					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

(tabular amounts in thousands of dollars)

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 $39,718,524 (2019 – $50,156,769).

During the year, the Credit Union sold $nil (2019 – $nil) of agricultural loans to FCC.

The Credit Union acts as a credit facilitator for its eligible members to access loans from the Government of Canada through the Canada Emergency Business Account (CEBA) program. The Credit Union has advanced total loans under the CEBA program of $20,163,000 (2019 – $nil). These loans have been derecognized and do not appear on the Statement of Financial Position.

The Credit Union is holding security in the form of member deposits in the estimated amount of $4,345,308 (2019 – $6,301,812) as security for loans to members.

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, 2019	(123)	(36)	(42)	(201)
Movement	(27)	(2)	20	(9)
Write-offs	-	-	-	-
Ending balance – December 31, 2020	(150)	(38)	(22)	(210)
Personal				
Opening balance – December 31, 2019	(66)	(29)	(1)	(96)
Movement	(4)	8	(32)	(28)
Write-offs	-	-	28	28
Ending balance – December 31, 2020	(70)	(21)	(5)	(96)
Agricultural				
Opening balance – December 31, 2019	(109)	(7)	(591)	(707)
Movement	(120)	3	(70)	(187)
Write-offs	-	-	-	-
Ending balance – December 31, 2020	(229)	(4)	(661)	(894)

(tabular amounts in thousands of dollars)

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial				
Opening balance – December 31, 2019	(65)	(3)	(692)	(760)
Movement	(58)	-	(130)	(188)
Write-offs	-	-	-	-
Ending balance – December 31, 2020	(123)	(3)	(822)	(948)
Total				
Opening balance – December 31, 2019	(363)	(75)	(1,326)	(1,764)
Movement	(209)	9	(212)	(412)
Write-offs	-	-	28	28
Ending balance – December 31, 2020	(572)	(66)	(1,510)	(2,148)

The Credit Union is holding security against the Stage 3 loans in the estimated amounts of $nil (2019 – $10,000) for personal loans, $1,141,981 (2019 – $1,335,967) for residential mortgages, $24,539,749 (2019 – $26,946,447) for agricultural loans, and $37,860,928 (2019 – $31,422,004) 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 3);
- 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 3.

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 $	2020 Total $	2019 Total $
Total loans	269,789	237,972	876,142	1,383,903	1,246,077
Average effective yield	3.35%	3.65%	3.59%	3.56%	4.05%

(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, 2020. 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	3	-
	60-90 days	3	-
	90-120 days	15	200
	120+ days	1	-
Agricultural	30-60 days	15	423
	60-90 days	-	-
	90-120 days	71	2,175
	120+ days	125	360
Commercial	30-60 days	-	-
	60-90 days	-	-
	90-120 days	-	-
	120+ days	23	251
		256	3,409

(tabular amounts in thousands of dollars)

7 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, 2019	10,129	777	2,313	3,493	1,878	2,645	21,235
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
Additions	-	-	-	77	409	119	605
Disposals	-	-	-	-	432	83	515
Balance on December 31, 2020	10,400	777	2,320	4,126	1,530	2,901	22,054
Accumulated amortization							
Balance on January 1, 2019	-	-	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
Amortization	721	-	98	441	482	289	2,031
Disposals	-	-	-	-	432	87	519
Balance on December 31, 2020	1,442	-	792	2,598	850	1,406	7,088
Net book value							
December 31, 2019	9,679	777	1,626	1,892	753	1,661	16,388
December 31, 2020	8,958	777	1,528	1,528	680	1,495	14,966

Amortization expense of $2,031,198 (2019 – $1,961,420) 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)

8 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 $	2020 Total $	2019 Total $
Chequing and savings accounts	533,049	-	-	533,049	397,482
GICs	-	334,357	215,238	549,595	489,920
RRSP and other registered plans	7,569	40,541	71,584	119,694	118,246
RRIF	1,665	19,487	47,367	68,519	68,427
Tax free savings accounts	15,820	45,813	63,440	125,073	108,440
Total	558,103	440,198	397,629	1,395,930	1,182,515
Average effective interest rates	0.23%	1.79%	2.56%	1.38%	1.78%

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.

9 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 $42,981,500 (2019 – $37,500,000) 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 (2019 – $nil) and has borrowings of $nil under the demand loan facility (2019 – $nil).

The Credit Union also has access to a standby letter of credit line of $700,000 (2019 – $700,000) utilizing $471,607 (2019 – $30,301) at year-end and a financial guarantee line of $50,000,000 of which $10,000,000 is utilized (2019 – $nil).

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)

10 Lease liabilities

The Credit Union has various leases which are included in property and equipment.

	Minimum lease payments		Present value of minimum lease payments	
	2020 $	2019 $	2020 $	2019 $
Not later than 1 year	959	959	707	690
Later than 1 year and not later than 5 years	4,310	4,561	3,319	3,484
Later than 5 years	7,771	8,479	6,276	6,818
	13,040	13,999	10,302	10,992
Less: Future finance charges	2,738	3,007	-	-
Present value of minimum lease payments	10,302	10,992	10,302	10,992

11 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

	2020 $	2019 $
Balance – Beginning of year	3,290	3,076
Current service cost	158	152
Interest cost	120	113
Benefits paid	(73)	(51)
Remeasurements:		
Loss from change in assumptions	(35)	-
Balance – End of year, included in accounts payable and accrued charges	3,460	3,290

There are no separate plan assets.

(tabular amounts in thousands of dollars)

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

	2020 $	2019 $
Current service cost	158	152
Interest cost	120	113
Net benefit plan expense	278	265

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 2.90 % (2019 – 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

	2020 $	2019 $
Liability change resulting from:		
1% increase in trend rate	556	528
1% decrease in trend rate	(421)	(400)
1-year increase in retirement age	(37)	(87)
1% increase in discount rate	(618)	(583)
1% decrease in discount rate	831	782

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, 2020.

The weighted average duration of the defined benefit obligation is 16.5 years.

(tabular amounts in thousands of dollars)

12 Liabilities qualifying as regulatory capital

	2020 $	2019 $
Investment shares – 48,208,869 (2019 – 46,521,934)	48,209	46,522
Owner shares – 17,780,302 (2019 – 17,134,807)	17,780	17,135
Provision for the issuance of owner shares – 1,120,000 (2019 – 1,040,000)	1,120	1,040
Member shares – 536,788 (2019 – 510,688)	537	511
	67,646	65,208

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 ended December 31, 2019, 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.

(tabular amounts in thousands of dollars)

	Opening balance 2020 $	Issued $	Redeemed $	Closing balance 2020 $
Investment shares	46,522	1,687	-	48,209
Owner shares	18,175	1,120	(395)	18,900
Member shares	511	49	(23)	537

	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

13 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% (2019 – 4.00%) of total assets, and not less than 8.00% (2019 – 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	2020	2019
Liquidity		12.05%	7.67%
Regulatory capital			
As percentage of total assets	4.0%	7.75%	8.54%
As percentage of risk-weighted assets	8.0%	12.37%	13.05%
		$	$
Tier 1 capital		115,071	110,090
Tier 2 capital		7,897	7,080
Total regulatory capital		122,968	117,170

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%. Due to COVID-19, the Credit Union deems the elevated liquidity at December 31, 2020 to be temporary.

(tabular amounts in thousands of dollars)

The Credit Union met its regulatory liquidity requirements as at and during the year ended December 31, 2020 and exceeded the minimum requirements of the Act and Regulations regarding regulatory capital as at December 31, 2020.

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.

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.

14 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 $2,383,950 (2019 – $4,837,210). None of these loans are considered impaired.

   Outstanding deposits from key management personnel, their spouses, dependants, children and related corporations amounted to $3,644,814 (2019 – $3,562,310).

b) Remuneration paid to directors of the Credit Union is $159,042 (2019 – $111,035). Other expenses of the Board amounted to $153 (2019 – $9,264).

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	328	21	105	454
John Klassen	Chief, Finance and Compliance	189	13	52	254
Nolan Andres	Chief, Technology and Innovation	180	13	50	243
Rebecca Smith	VP, Culture and Wellness	166	12	46	224
Nick Savva	VP, Credit Strategy and Underwriting	165	8	45	218

(tabular amounts in thousands of dollars)

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:

	2020 $	2019 $
Salaries and other short-term employee benefits	1,343	1,366
Other long-term benefits	78	99
Bonus	340	220
	1,761	1,685

15 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 0.57% (2019 – 1.51%) on their December 31, 2020 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.

16 Income taxes

a) Income tax expense is calculated as follows:

	2020 $	2019 $
Earnings before income taxes	4,232	4,461
Combined Canadian federal and provincial income tax rate applicable to the Credit Union	18.2%	19.5%
Income tax (recovery) provision based on combined federal and provincial income tax rate	770	870
Differences from statutory rate		
Other	262	(380)
	1,032	490
Provision for (recovery of) income taxes		
Current	935	550
Deferred	97	(60)
	1,032	490

(tabular amounts in thousands of dollars)

b) Deferred income taxes resulted from the following:

	2020 $	2019 $
Deferred income tax asset arising from the following:		
Property and equipment and leases	230	354
Allowance for impaired loans	143	112
Post retirement employee future benefit plan	636	641
Other	(9)	(5)
	1,000	1,102
Deferred tax asset:		
To be recovered after more than 12 months	857	990
To be recovered within 12 months	143	112
	1,000	1,102

	Opening balance December 31, 2019 $	Recognized in statement of income and comprehensive income $	Recognized in other comprehensive income $	Closing balance December 31, 2020 $
Deferred tax asset				
Property and equipment and leases	354	(124)	-	230
Allowance for impaired loans	112	31	-	143
Post retirement employee future benefit plan	641	(4)	(7)	630
Other	(5)	-	2	(3)
Net deferred tax asset (liability)	1,102	(97)	(5)	1,000

(tabular amounts in thousands of dollars)

	Opening balance January 1, 2019 $	Recognized in statement of income and comprehensive income $	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 (liability)	795	60	247	1,102

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

			2020
	Gross $	Taxes $	Net of taxes $
Tax recovery on investments designated as FVOCI and post retirement employee future benefit plan	(9)	2	(7)

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

(tabular amounts in thousands of dollars)

17 Commitments and contingencies

a) Members' loans

The Credit Union has made commitments to members for loans of approximately $89,191,493 (2019 – $77,537,912), which have not been disbursed by December 31, 2020. In addition, unutilized portions of lines of credit extended to members at December 31, 2020 amounted to approximately $275,978,690 (2019 – $231,693,751).

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.

18 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 pre-January 1, 2017). The expenses and payments for the year ended December 31, 2020 were $773,445 (2019 – $736,004). The Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

19 Derivative financial instruments

a) Index-linked purchase option agreements

Included in GICs, RRSPs and tax-free savings accounts are a total of $205,452 (2019 – $477,752) 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 $205,452 (2019 – $477,752) 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 $21,470 at December 31, 2020 (2019 – $38,076). The fair value of the options embedded in the index-linked deposits included in members' deposits amounted to $21,470 at December 31, 2020 (2019 – $38,076).

(tabular amounts in thousands of dollars)

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, 2020, the Credit Union was party to two interest rate swap agreements with Central 1. The agreements in aggregate represent a notional principal amount of $125,000,000 (2019 – $125,000,000), 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.

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, 2020, the fair value of these agreements was an asset of $201,986 (2019 – $100,256). 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 $(1,374,788) (2019 – net interest revenue of $846,281) and net unrealized gains on interest rate swap transactions of $101,730 (2019 – net unrealized gains of $878,598).

Notional Amount $	Maturity date	Paying rate	Receiving Rate %	Fair Value $
50,000	January 4, 2021	Three-month CDOR	2.64	9
75,000	March 16, 2021	Three-month CDOR	1.76	193
				202

20 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	33,612	34,450
Principal payments to be applied (included in cash)	1,808	1,808
Total securitized assets	35,420	36,258
Mortgage securitization liabilities	36,056	36,894
Net amount	(636)	(636)

(tabular amounts in thousands of dollars)

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.

21 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 5 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, excess liquidity 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;
- Canadian Cooperative Investment Fund do not trade in a public market. Fair market value is based on the Credit Union's share of net asset value.
- 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, 2020; and,
- The fair value of investment, owner and membership shares approximate carrying values.

(tabular amounts in thousands of dollars)

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.

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:

		2020		2019	
	Fair value hierarchy	Carrying value $	Fair value $	Carrying value $	Fair value $
Recurring measurements:					
Financial assets					
Shares in Central 1 Class A	Level 2	458	458	449	449
Shares in Central 1 Class E	Level 2	2,086	2,086	2,086	2,086
Shares in Central 1 Class F	Level 2	4,198	4,198	4,112	4,112
Derivative financial instrument assets	Level 2	202	202	100	100
Shares in Oikocredit	Level 2	250	250	7,815	7,815
Fair values disclosed:					
Financial assets					
Liquidity reserve deposits	Level 2	93,570	94,064	81,088	81,465
Loans to MEDA	Level 2	600	600	600	600
Loans to members	Level 3	1,381,775	1,397,883	1,244,313	1,246,321
Excess liquidity deposits	Level 2	62,240	62,240	-	-
Financial liabilities					
Deposits of members	Level 3	1,395,930	1,410,248	1,184,495	1,187,394
Demand loan	Level 2	-	-	-	-
Derivative financial instrument liabilities	Level 2	-	-	-	-
Mortgage securitization liabilities	Level 2	34,248	35,086	40,003	40,431
Investment shares	Level 2	48,209	48,209	46,522	46,522
Owner shares	Level 2	18,900	18,900	18,175	18,175
Member shares	Level 2	537	537	511	511

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.

(tabular amounts in thousands of dollars)

22 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.

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

(tabular amounts in thousands of dollars)

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 full extent of the interest rate swaps which the Credit Union has in place are included in note 19b).

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 $823,000.

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, 2020. 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	684,586	(1,023,459)	(125,000)	(463,873)
1 to 2 years	186,517	(174,542)	125,000	136,975
2 to 3 years	237,044	(125,874)	-	111,170
3 to 4 years	173,111	(84,660)	-	88,451
4 to 5 years or more	296,877	(45,413)	-	251,464
Non-interest sensitive	8,010	(132,197)	-	(124,188)
	1,586,145	(1,586,145)	-	-

(tabular amounts in thousands of dollars)

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 3.26% and interest-bearing liabilities is 1.40%.

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 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, 2020, the classes of financial instruments for which the Credit Union is most exposed to credit risk are as follows:

Credit risk exposure	**Outstanding $**
Investments	163,420
Loans to members	1,381,755
	1,545,175

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 17(a).

(tabular amounts in thousands of dollars)

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.

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.

(tabular amounts in thousands of dollars)

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	414,690	363,833	80
Personal	8,663	-	-
Agricultural	663,693	574,204	75
Commercial	296,857	204,265	60
	1,383,903	1,142,302	

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

	Board maximum %	2020 %	2019 %
Residential	No limit	30.0	30.3
Personal	No limit	0.6	0.8
Agricultural	55	48.0	47.5
Commercial	25	20.0	19.4
Institutional	10	0.6	1.0
Unincorporated association	5	0.8	1.0

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, 2020, commercial and agricultural loan exposure on this basis was 59.2%.

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.

(tabular amounts in thousands of dollars)

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 $	2020 Total $	2019 Total $
1 – Low	28,292	-	-	28,292	34,306
2 – Medium low	226,231	-	328	226,559	225,428
3 – Medium	562,394	-	3,194	565,588	441,316
4 – Medium high	102,219	233	15	102,467	99,121
5 – High	14,611	1,218	1,480	17,309	23,407
6 – Watch	-	-	12,239	12,239	15,379
	933,747	1,451	17,256	952,454	838,957

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 $116,426,707.

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, 2020, 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 $42,981,500 as an integral part of its liquidity management strategy as disclosed in note 9.

(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	558,104	440,198	397,628	-	1,395,930
Accrued interest payable	-	9,278	-	-	9,278
Accounts payable and accrued charges	-	8,390	-	-	8,390
Demand loan	-	-	-	-	-
Lease liabilities	-	707	3,319	6,276	10,302
Mortgage securitization liabilities	-	11,689	22,559	-	34,248
Unadvanced loan commitments	-	89,191	-	-	89,191
	558,104	559,453	423,506	6,276	1,547,339

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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