PACE Savings & Credit Union Limited

Consolidated Financial Statements

For the Year Ended December 31, 2019

Independent auditor's report

To the Members of PACE Savings & Credit Union Limited

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PACE Savings & Credit Union Limited and its subsidiaries (together, the Company) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

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

Basis for qualified opinion

The Company's investment in Continental Currency Exchange (CCE), an investment accounted for by the equity method, is carried at $12.514 million ($11.914 million as at December 31, 2018) on the consolidated statement of financial position as at December 31, 2019, and the Company's share of CCE's net income of $0.6 million ($2.050 million for the year ended December 31, 2018) is included in the consolidated statement of income and comprehensive income for the year then ended (refer to note 8). We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investment in CCE as at December 31, 2019 and the Company's share of CCE's net income for the year then ended because key audit evidence was not available at the date of this report. Consequently, we were unable to determine whether any adjustments were necessary to investment in associate and deferred income tax assets as at December 31, 2019 and December 31, 2018, retained earnings at the beginning and the end of the years ended December 31, 2019 and December 31, 2018, income on investment in joint ventures and associates, income tax expense, net income and comprehensive income and cash provided by operating activities and used in investing activities for the years ended December 31, 2019 and December 31, 2018. Our audit opinion on the financial statements for the year ended December 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

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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 consolidated 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 qualified opinion.

Independence

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Toronto, Ontario
April 8, 2020

PACE Savings & Credit Union Limited

Consolidated Statements of Financial Position

(Thousands of Canadian dollars unless otherwise stated)

As at December 31

	2019	**2018**
Assets		
Cash and cash equivalents (note 5)	$ 41,341	$ 18,345
Investments (note 6)	274,162	229,110
Investment in joint ventures (note 7)	20,559	19,997
Investment in associate (note 8)	12,514	11,915
Loans to members (notes 9 & 10)	743,762	859,256
Property and equipment (note 11)	22,887	15,430
Intangible assets (note 12)	2,373	2,751
Investment properties (note 13)	4,338	4,164
Other assets (note 14)	36,621	25,914
Deferred income tax assets (note 17)	887	1,384
	1,159,444	**1,188,266**
Liabilities		
Deposits from members (note 15)	1,052,776	1,066,328
Other liabilities (note 16)	54,320	68,304
	1,107,096	1,134,632
Members' Equity		
Membership shares (note 18)	7,916	7,745
Class A profit shares (note 18)	5,262	4,790
Class B investment shares (note 18)	12,296	12,103
Contributed surplus	3,544	3,544
Retained earnings	22,472	21,709
Accumulated other comprehensive income	-	1,657
Equity attributable to members	51,490	51,548
Equity attributable to non-controlling interests	858	2,086
	52,348	53,634
	1,159,444	**1,188,266**

The accompanying notes are an integral part of the consolidated financial statements.

Approved by:

Guy Hubert, Executive Vice President
Credit Union and Prudential, on behalf of FSRA
acting in its capacity as the administrator of the Credit Union

Rubina Havlin, Interim CEO
PACE Savings & Credit Union Limited

PACE Savings & Credit Union Limited

Consolidated Statements of Income and Comprehensive Income
(Thousands of Canadian dollars unless otherwise stated)

For the year ended December 31

	2019	2018
Interest income (note 19)	$ 45,535	$ 44,819
Interest expense (note 20)	(20,425)	(17,166)
Net interest income	25,110	27,653
Provision for credit losses (note 10)	3,154	1,687
Net interest income after provision for credit losses	21,956	25,966
Non-interest income		
Investment income	821	448
Other operating income (note 21)	11,682	12,025
	12,503	12,473
Net interest and non-interest income	34,459	38,439
Non-interest expense		
Personnel expenses	13,607	14,416
General and administrative	11,805	12,168
Deposit insurance premium (note 24)	1,118	1,082
Marketing	547	1,663
Depreciation of property and equipment	1,987	1,220
Occupancy	1,427	1,640
Amortization of intangible assets	403	355
Impairment loss on investment property and other assets	125	763
	31,019	33,307
Administration costs (note 24)	(2,118)	(2,449)
Other costs (note 24)	(543)	(275)
Dividends on preference shares	(639)	(1,159)
Income on investment in joint ventures and associate (notes 7 & 8)	1,313	3,689
Income before tax	**1,453**	**4,938**
Income tax expense (note 17)	(498)	(881)
Net income and comprehensive income for the year	**955**	**4,057**

The accompanying notes are an integral part of the consolidated financial statements.

PACE Savings & Credit Union Limited

Consolidated Statements of Changes in Members' Equity
(Thousands of Canadian dollars unless otherwise stated)

	Member-ship shares $	Class A profit shares $	Class B invest-ment shares $	Contri-buted surplus $	Retained earnings $	Accumu-lated other compre-hensive income $	Equity attribu-table to members $	Equity attribut-able to non-controlling interests $	Total $
As at December 31, 2017	7,023	4,310	10,893	3,544	28,856	1,657	56,283	2,086	58,369
Adjustment for initial application of IFRS 9	-	-	-	-	(11,277)	-	(11,277)	-	(11,277)
Deferred tax on IFRS 9	-	-	-	-	700		700	-	700
Restated December 31, 2017	7,023	4,310	10,893	3,544	18,279	1,657	45,706	2,086	47,792
Net income and comprehensive income		-	-	-	4,057	-	4,057	-	4,057
Issued shares	722	480	1,210	-	-	-	2,412	-	2,413
Adjustment due to consolidation	-	-	-	-	(627)	-	(627)	-	(627)
As at December 31, 2018	7,745	4,790	12,103	3,544	21,709	1,657	51,548	2,086	53,634
Net income and comprehensive income	-	-	-	-	955	-	955	-	955
Issued shares	171	11	63	-	-	-	245	-	245
Dividends paid	-	-	-	-	(880)	-	(880)	-	(880)
Reinvested dividends	-	461	130	-	-	-	591	-	591
Non-controlling interests arising in the year	-	-	-	-	(541)	-	(541)	541	-
Net redemption of shares	-	-	-	-	-	-	-	(1,769)	(1,769)
Release of AOCI	-	-	-	-	1,657	(1,657)	-	-	-
Adjustment due to consolidation					(428)	-	(428)	-	(428)
As at December 31, 2019	7,916	5,262	12,296	3,544	22,472	-	51,490	858	52,348

The accompanying notes are an integral part of the consolidated financial statements.

PACE Savings & Credit Union Limited

Consolidated Statements of Cash Flows
(Thousands of Canadian dollars unless otherwise stated)

For the year ended December 31

	2019	2018
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	$955	$ 4,057
Adjustments for		
Provision for credit losses (recovery) (note 10)	3,154	1,687
Interest income (note 19)	(45,535)	(44,819)
Interest expense (note 20)	20,425	17,166
Depreciation of property and equipment	1,987	1,203
Amortization of intangible assets	403	337
Gain/loss on disposition of property and equipment	(49)	41
Loss on disposition of intangible assets	-	23
Impairment loss on investment properties and other assets	125	763
Income from investment in joint ventures and associate and other income	(747)	(1,126)
Income tax expense (note 17)	498	881
Changes in operating assets/liabilities		
Loans to members	112,260	(59,797)
Deposits from members	(15,424)	109,750
Other operating assets	(10,707)	429
Other operating liabilities	(19,426)	3,138
Changes generated (used) from operating activities before interest and taxes		
Interest received	45,616	41,960
Interest paid	(18,554)	(14,401)
Income tax paid	(1)	(994)
	74,980	60,298
Investing activities		
Net purchase of investments	(45,998)	(70,568)
Capital contribution in investments in joint ventures and associate	(340)	(2,887)
Withdrawals from investments in joint ventures and associate	746	3,587
Purchase of property and equipment	(5,337)	(4,088)
Disposition of property and equipment	1,493	-
Purchase of intangible assets	(25)	(219)
Purchase of investment properties	(174)	-
	(49,635)	(74,175)
Financing activities		
Issuance of membership shares	171	722
Issuance of Class A profit shares	11	481
Issuance of Class B Investment shares	63	1,210
Dividends paid	(880)	-
Dividends re-invested in Class A profit shares	461	-
Dividends re-invested in Class B investment shares	130	-
Principal portions of lease payments	(536)	-
Net redemptions by non-controlling interests	(1,769)	-
	(2,349)	2,413
Net change in cash and cash equivalents	22,996	(11,464)
Cash and cash equivalents – Beginning of year	18,345	29,809
Cash and cash equivalents – End of year	41,341	18,345

The accompanying notes are an integral part of the consolidated financial statements.

1. Reporting entity

PACE Savings & Credit Union Limited ("the Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act, 1994 (Ontario), (the Act), and is regulated by the Financial Services Regulatory Authority of Ontario (FSRA), formerly Deposit Insurance Corporation of Ontario (DICO), and is a member of Central 1 Credit Union (Central 1). The Credit Union was incorporated on April 1, 2003 and was organized for the benefit of its members. The Credit Union provides financial services including, but not limited to, personal and commercial residential mortgages and loans and deposit taking to its members. These consolidated statements present consolidated financial results for PACE Savings & Credit Union Limited, and its wholly owned subsidiaries:1155081 Ontario Ltd., 2049945 Ontario Ltd., 2049958 Ontario Ltd., 1961783 Ontario Ltd., PACE Securities, PACE General Partners, PACE International LLC, PACE Insurance Brokers, PACE Financial Limited and PACE Capital LLP.

The registered office of the Credit Union is at 8111 Jane Street, Unit 1, Vaughan, Ontario, L4K 4L7.

On September 28, 2018, DICO placed the Credit Union under administration for governance related issues. DICO assumed the responsibilities of Board of Directors of the Credit Union when it placed the Credit Union under administration.

Effective June 8, 2019, FSRA assumed the regulatory responsibilities of DICO and therefore any Credit Union related regulatory filings or references made to DICO will therefore apply to FSRA upon this change. The responsibility for administration of the Credit Unions and the Caisses Populaires Act, 1994 (Ontario), as it relates to the Credit Union was substantially assumed by FSRA on that date.

2. Basis of preparation

Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), and in accordance with the Credit Unions and Caisses Populaires Act of Ontario.

This is the first set of the Credit Union's annual financial statements in which IFRS 16, Leases, has been applied. Changes in accounting policies are described in note 4.

With the exception of the IFRS 16 adoption, the policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2019 were authorized for issue by FSRA on April 8, 2020.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value.
- Financial assets at fair value through other comprehensive income (FVOCI) are measured at fair value.
- Investment in joint ventures and associate are measured using the equity accounting method

2. Basis of preparation (continued)

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All amounts have been rounded to the nearest thousand, except as otherwise indicated.

Use of significant accounting judgments, estimates and assumptions

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

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

Judgments made by management in the application of IFRS that have a significant effect on these consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The referenced notes to the consolidated financial statements below set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's consolidated financial statements.

i) **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the consolidated statements of financial position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The judgments include considerations of liquidity and model inputs such as volatility for longer dated discount rates. The valuation of financial instruments is described in more detail in note 28.

2. Basis of preparation (continued)

ii) Allowance for credit losses

The expected credit loss ("ECL") model requires management to make judgments and estimates in a number of areas. Management must exercise significant judgment in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgment to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgment in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgments directly impact the measurement of ECLs.

The impairment loss on loans is disclosed in further detail in notes 9 and 10.

3. Significant accounting policies

Except for the changes explained in note 4, the Credit Union has consistently applied the following significant accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

Consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and entities controlled by the Credit Union and its subsidiaries. Control is achieved when the Credit Union (i) has the power over the investee; (ii) is exposed, or has rights, to variable returns from the involvement of investee; and (iii) has the ability to use its power to affect its returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgment is applied in assessing the relevant factors and conditions in totality when determining whether the Credit Union controls an entity. Specifically, judgment is applied in assessing whether the Credit Union has substantive decision-making rights over the relevant activities and whether it is exercising its power as a principal or an agent.

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

Income or loss and each component of other comprehensive income are attributed to the members of the Credit Union and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the members of the Credit Union and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests in subsidiaries that the Credit Union consolidates are shown on its consolidated statements of financial position as a separate component of equity which is distinct from its shareholders' equity. The net income attributable to non-controlling interests is separately disclosed in its consolidated statements of income and comprehensive income.

Investments in joint ventures and associates

The Credit Union's investments in associated corporations and limited partnerships over which it has significant influence are accounted for using the equity method. The equity method is also applied to the Credit Union's interests in joint ventures over which it has joint control. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize its share of the investee's net profit or loss, including its proportionate share of the investee's other comprehensive income (OCI), subsequent to the date of acquisition.

Business combinations and goodwill

The Credit Union accounts for acquisitions using the acquisition method as at the acquisition date, which is the date on which control is acquired by the Credit Union. The Credit Union controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Credit Union has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

At the acquisition date, the assets and liabilities of the acquiree are included in the consolidated statement of financial position at their fair value, which are also used as the basis for subsequent measurement in accordance with the Credit Union's accounting policies. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities, unless otherwise indicated. Where the Credit Union has an obligation to purchase a non-controlling interest for cash or another financial asset, a portion of the non-controlling interest is recognized as a financial liability based on management's best estimate of the present value of the redemption amount. Where the Credit Union has a corresponding option to settle the purchase of a non-controlling interest by issuing its own common shares, no financial liability is recorded.

The Credit Union measures goodwill, if any, as the fair value of the consideration transferred, less the net recognized amount of identifiable assets acquired and liabilities assumed at fair value at the acquisition date. When negative goodwill arises, the amount is recognized in the consolidated statement of income and comprehensive income. Goodwill is subsequently carried at cost less accumulated impairment losses.

Transaction costs incurred with the acquisition, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

3. Significant accounting policies (continued)

(b) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into Canadian dollars at the rate of exchange at the consolidated statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation gains and losses are recognized immediately in net income and are included in the 'other operating income' line item in the consolidated statements of income and comprehensive income.

(c) Financial assets and financial liabilities

i) Recognition and initial measurement of financial assets

The Credit Union initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the assets. A financial asset or liability is initially measured at fair value, plus transaction costs that are directly attributable to its acquisition or issuance for an asset or liability not classified at FVTPL. For a financial asset or liability measured at FVTPL, transaction costs are recognized immediately in profit or loss.

ii) Classification and subsequent measurement of financial assets

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, e.g. whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the financial liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

3. Significant accounting policies (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union stated objectives for managing the financial assets are achieved and how cash flows are realized.

Financial assets that are held for trading and financial assets that are managed on a fair value basis are measured as at FVTPL because they are neither held-to-collect contractual cash flows nor held-to-collect and for sale.

Contractual cash flows characteristics assessment

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

In assessing whether the contractual cash flows are solely payments of principal and interest, 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.

If the contractual terms of a financial asset give rise to contractual cash flows that are not solely payments of principal and interest, it is classified as FVTPL.

Financial assets

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI or FVTPL.

Debt instruments measured at amortized cost

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

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

- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  After the initial measurement, these instruments are carried at amortized cost. Interest income on these instruments is recognized using the effective interest rate method. Premiums, discounts and related transaction costs are amortized over the expected life of the instruments to interest income in profit or loss using the effective interest rate method. Impairment on these debt instruments is calculated using the ECL approach.

3. Significant accounting policies (continued)

Debt instruments measured at FVOCI

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified, dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in OCI, unless the instrument is designated in a fair value hedge relationship, in which case any changes in fair value due to changes in the hedged risk is recognized in profit or loss. Upon derecognition, realized gains and losses are reclassified from OCI to profit or loss. Foreign exchange gains and losses that relate to the amortized cost of the debt instruments are recognized in profit or loss.

ECL on debt instruments measured at FVOCI is recognized under IFRS 9. The ECL does not reduce the carrying amount of the asset in the consolidated statements of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to “Provision for (recovery of) credit losses” in the consolidated statements of income and comprehensive income.

Cumulative gains and losses recognized in OCI are recycled to profit or loss upon derecognition of the debt instruments.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the consolidated statements of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

Debt instruments designated at FVTPL

On initial recognition, the Credit Union may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI. For financial assets designated at FVTPL, changes in fair value are recognized in the consolidated statements of income and comprehensive income. All other financial assets are classified as measured at FVTPL.

Equity instruments measured at FVTPL

Equity instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the consolidated statements of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

3. Significant accounting policies (continued)

Equity instruments measured at FVOCI

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis. Subsequent to initial recognition, unrealized gains and losses are recorded in OCI, unless the instrument is designated in a fair value hedge relationship, in which case any changes in fair value due to changes in the hedged risk is recognized in profit or loss. Upon derecognition, the unrealized gains and losses accumulated in the OCI are released to retained earnings.

Financial liabilities

The Credit Union classifies its financial liabilities as measured at amortized cost or at FVTPL.

Financial liabilities designated at FVTPL

The Credit Union may, at initial recognition, irrevocably designate a financial liability at FVTPL when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- a group of financial assets and financial liabilities is managed with its performance being evaluated on a fair value basis; or
- the financial liability contains one or more embedded derivatives which significantly modifies the cash flows that would otherwise be required by the contract.

For financial liabilities designated at FVTPL, all changes in fair value are recognized in the consolidated statements of income and comprehensive income, except for changes in fair value arising from changes in the Credit Union's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in the Credit Union's own credit risk, which are recognized in OCI, are not subsequently reclassified to the consolidated statements of income and comprehensive income upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from OCI to retained earnings upon derecognition/extinguishment of the liabilities.

Financial liabilities measured at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Credit Union changes its business model for managing those financial assets.

Effective interest method

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

3. Significant accounting policies (continued)

Derecognition of financial assets

Management has applied judgment in the application of its accounting policy with respect to derecognition of the loans and other assets used in securitization programs. Certain securitized loans are recognized only to the extent of the Credit Union's continuing involvement, based on management's judgment, that substantially all the risks and rewards of ownership have been transferred while control has been retained. In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgment that substantially all the risks and rewards of ownership have been transferred through the two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management's judgment that the Credit Union has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union continues to recognize the transferred asset to the extent of the Credit Union's continuing involvement in that asset. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Credit Union retains an option to repurchase part of a transferred asset or retains a residual interest that neither results in the retention nor transfer of substantially all the risks and rewards of ownership), the Credit Union allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in OCI is recognized in net income.

Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

3. Significant accounting policies (continued)

iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statements of financial position when, and only when, the Credit Union has a legally enforceable right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

iv) Impairment of financial assets

The Credit Union recognizes ECL on the following financial assets that are not measured at FVTPL:

- Commercial loans measured at amortized cost;
- Personal loans measured at amortized cost;
- Residential mortgages measured at amortized cost;
- Debt instruments measured at amortized cost; and
- Debt instruments measured at FVOCI.

The Credit Union measures ECL at an amount equal to lifetime ECL or 12-month ECL. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Determining the credit stage

The impairment model measures ECL using a three-stage approach based on the extent of credit deterioration since origination: Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial asset, an amount equal to 12-month ECL is recorded.

Stage 2 – when a financial asset experiences a significant increase in credit risk subsequent to the origination but is not considered to be in default, an amount equal to lifetime ECL is recorded.

Stage 3 – when a financial asset is considered credit-impaired, an amount equal to lifetime ECL continues to be recorded or the financial asset is written off.

The interest income is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net of the impairment allowance amount for financial assets, in Stage 3.

3. Significant accounting policies (continued)

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The Credit Union's assessment of significant increases in credit risk is performed quarterly based on the following three factors. If any of these factors indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2.

The Credit Union has established thresholds for significant increases in credit risk based on both a risk rating and change in probability of default relative to initial recognition.

Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.

Instruments which are 30 days past due are generally considered to have experienced a significant increase in credit risk, even if other metrics do not indicate that a significant increase in credit risk has occurred.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purposes of this assessment, credit risk is based on an instrument's probability of default, not the losses the Credit Union expects to incur. The assessment is generally performed at the instrument level.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfil their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment. The Credit Union considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Measurement of ECL

The measurement of ECL is based primarily on the product of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

LGD is an estimate of the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

3. Significant accounting policies (continued)

Expected life

When measuring ECL, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. For facilities without a maximum contractual period or where the contractual period is not enforced as part of normal credit risk management practices, the expected losses are to be calculated over the period that the entity is expected to be exposed to credit risk and that expected losses are not mitigated by credit risk management actions. This period may extend beyond the contractual maturity.

Definition of default

The Credit Union considers a financial asset to be in default when:

- a missed or delayed disbursement of a contractually-obligated interest or principal payment occurs (excluding missed payments restored within a contractually allowed grace period), as defined in credit agreements and indentures;
- a bankruptcy filing or legal receivership is entered by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments;
- the borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any credit obligation to the Credit Union; or
- The Credit Union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing

Incorporation of forward-looking information

The measurement of ECL and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Macroeconomic factors

In its ECL models, the Credit Union relies on a broad range of forward-looking information as economic inputs, such as: GDP growth, unemployment rates, central bank interest rates, and house price indices. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using professional judgment.

3. Significant accounting policies (continued)

Multiple forward-looking scenarios

The Credit Union determines ECL using multiple probability-weighted forward-looking scenarios. The Credit Union considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. The Credit Union prepares the scenarios using forecasts generated by its management and Central 1. The forecasts are created using internal and external models/data, which are then modified by management as necessary to formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves developing two additional economic scenarios and considering the relative probabilities of each outcome.

The 'base case' represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Restructured financial assets

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. For modifications that do not result in derecognition, the Credit Union will recalculate the gross carrying amount of the financial asset and recognize a modification gain or loss in profit or loss;

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. Where modification results in derecognition, the modified financial asset is considered to be a new asset, with the modification date being the date of initial recognition of the modified financial asset.

Presentation of allowance for ECL

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

- Debt instruments measured at amortized cost as a deduction from the gross carrying amount of the instruments; and
- Where a financial instrument includes both a drawn and an undrawn component and the Credit Union cannot identify the ECL on the undrawn component separately from those on the drawn component, the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3. Significant accounting policies (continued)

Write-off

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

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with other chartered banks and Central 1, and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are financial assets carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

(e) Investments in joint ventures and associate

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. An associate is an entity over which the Credit Union has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies.

Investments in joint ventures and associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Credit Union's share of the net income and equity movements of the joint venture or associate after adjustment to align the accounting policies with those of the Credit Union from the date that significant influence commences until the date that significant influence ceases. When the Credit Union's share of losses exceeds its interest in a joint venture or an associate, the carrying amount of that interest, including any long-term investment is reduced to nil and the recognition of future losses is discontinued to the extent that the Credit Union has an obligation or has made payments on behalf of the joint venture or associate.

(f) Loans to members

Loans to members, including personal loans, residential mortgages and commercial loans, are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as amortized cost, which are subsequently measured at amortized cost using the effective interest method.

(g) Whole loan sales

The Credit Union periodically sells residential mortgages to other financial institutions to manage its overall portfolio diversification risk. In these circumstances the contractual rights to receive the cash flows from these residential mortgages ceased to exist and/or substantially all of the risk and rewards of the residential mortgages have been transferred to the purchasing institution. As such, these residential mortgages are removed from the consolidated statement of financial position. The Credit Union continues

3. Significant accounting policies (continued)

to administer these residential mortgages. A minimal administration fee is paid to the Credit Union monthly, which is recorded in other operating income when received.

A gain or loss is recognized at the time of the sale and recorded in other operating income on the consolidated statement of income and comprehensive income based on the difference between the proceeds received on sale and the carrying value of the derecognized mortgage.

(h) Prepaid card program

The Credit Union partnered with various distributers to manage a prepaid card program. The Credit Union acts as an issuer of the prepaid credit cards and the restricted cash and related deposits are held in trust accounts for the distributors and are not included in the consolidated statements of financial position of the Credit Union. Fees paid to the Credit Union monthly are recorded in other operating income when received. Expenses incurred are recorded in the consolidated statements of income and comprehensive income in accordance with their nature.

(i) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The residual values, useful lives and depreciation methods are reviewed each year end and changed if necessary. Cost includes expenditures that are directly attributable to bring the asset into working condition for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in net income.

Depreciation is recognized in net income on a declining basis or straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Depreciation of property and equipment for the current and comparative periods is based on their estimated useful life using the following annual rates:

Buildings	4% declining-balance
Computer equipment	20% straight-line
Furniture and equipment	10% straight-line
Leasehold improvements	term of lease, straight-line
Right-of-use assets	term of lease, straight-line

3. Significant accounting policies (continued)

(j) Leases

The Credit Union as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Credit Union as Lessee

Identification of a lease

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly in the contract, and is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not considered as identified;

- the Credit Union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- the Credit Union has the right to direct the use of the asset. The Credit Union has this right when it has the decision-making rights that are most relevant to changing the purpose of the asset use throughout the period of use.

Recognition

The Credit Union recognizes a right of use (“ROU”) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

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 the rate cannot be readily determined, the Credit Union’s incremental borrowing rate.

3. Significant accounting policies (continued)

Subsequent measurement

The ROU 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 ROU asset or the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. The liability is remeasured if there are changes to the lease rates, or changes to the Credit Union's assessment of whether it will exercise the extension or termination options per the lease contracts.

After the commencement date, if a lease is remeasured, an adjustment is made to the ROU asset. In case the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining amount is recognized in the consolidated statement of income and comprehensive income.

The ROU assets and corresponding lease liabilities are included in property and equipment and other liabilities, respectively, on the Credit Union's consolidated statements of financial position.

Short-term leases and leases of low-value assets

The Credit Union has elected not to recognize a ROU asset and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Credit Union as Lessee (policy applicable before January 1, 2019)

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

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and deferred over the time of the lease. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Cost of such intangible assets includes expenditures directly attributable to the acquisition of the asset and required to establish the asset in working condition given its intended use as well as borrowing costs.

3. Significant accounting policies (continued)

Amortization is recognized in the consolidated statements of income and comprehensive income and is computed on a straight-line basis using the rates and estimated useful lives indicated below. These rates most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Asset description	**Amortization rate**
Computer software	20% straight-line
Core deposits	10 years
Customer relationships	10 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are initially recorded at cost. The cost of self-constructed intangible assets includes the cost of materials and direct labour, any other costs required to establish the asset in working condition given its intended use as well as borrowing costs. Subsequent to initial recognition, indefinite life intangible assets are reported using the cost method and assessed for impairment with any impairment loss recorded in comprehensive income.

(l) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or assets within a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or assets within a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

3. Significant accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in net income.

(m) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in net income.

(n) Property acquired by foreclosure and held for resale

Properties acquired by foreclosure and held for resale represent assets that have been repossessed on delinquent member residential mortgages and are recorded at the lower of their prior carrying value and fair value less costs to sell. Such investments are intended to be sold as soon as practicable.

(o) Deposits from members

Deposits from members include personal chequing accounts, savings accounts, term deposits, registered retirement savings plans, registered retirement income funds and tax-free savings accounts and are the Credit Union’s main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

(p) Employee benefits

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

(q) Provisions and contingent liabilities

Provisions

Provisions are recognized when the Credit Union has a present obligation (legal or constructive) as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3. Significant accounting policies (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognized less cumulative amortization recognized.

(r) Membership shares

Membership shares issued by the Credit Union are only classified as equity to the extent that they do not meet the definition of a financial liability.

Type of shares	**Classification**
Membership shares	Equity
Class A profit shares	Liability and equity
Class B investment shares	Liability and equity

Membership, Class A profit shares and Class B investment shares are recognized as a liability, equity or compound instrument based on their terms and conditions in accordance with IAS 32, Financial Instrument Presentation, and IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments. If the shares are classified as equity, they are recorded at cost. If the shares are recognized as a liability, they are initially measured at fair value and subsequently recorded at amortized cost using the effective interest method.

These shares qualify as capital for regulatory purposes. Payments of dividends on membership shares, profit shares and investment shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the Board of Directors.

3. Significant accounting policies (continued)

(s) Revenue recognition

Interest income is accrued on a time basis, by reference to the amortized cost and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition (see Effective interest method under note 3(c)(ii).

Dividend income is recognized when the right to receive payment is established. Dividends are included in investment income on the consolidated statements of income and comprehensive income.

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

(t) Income taxes

Income tax comprises current tax and deferred tax and is recognized in the Credit Union's consolidated statements of income and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax

Current tax is based on taxable income in the period. Taxable income may differ from income as reported in the consolidated statements of income and comprehensive income because of the items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Credit Union's current income tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying values of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the fiscal year. The measurement of the deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Credit Union expects, at the end of the fiscal year, to recover or settle the carrying value of its assets and liabilities.

3. Significant accounting policies (continued)

(u) New accounting standards and interpretations

A number of new or amended accounting standards are effective for annual periods beginning after January 1, 2019. The Credit Union has adopted the following new or amended standards in preparing its 2019 annual consolidated financial statements.

IFRS 16 - Leases

Effective January 1, 2019, the Credit Union adopted IFRS 16, Leases ("IFRS 16"), issued by the International Accounting Standards Board ("IASB"), which replaced IAS 17, Leases ("IAS 17"). IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a ROU asset and a corresponding lease liability. The Credit Union used the modified retrospective approach with no adjustment made to opening retained earnings. The Credit Union also changed its accounting policies relating to its operating leases as described in Note 4, and added $4,282 ROU assets and $4,275 lease liabilities to property and equipment and other liabilities, respectively, in the consolidated statement of financial position as at January 1, 2019. The lease liabilities were discounted at an incremental borrowing rate of 3.5% as at January 1, 2019.

In applying IFRS 16 for the first time, the group has used the following practical expedients as permitted by the standard:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at January 1, 2019;
- accounted for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Credit Union has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Credit Union relied on its previous assessment made when applying IAS 17 in determining whether an arrangement contains a lease.

The Credit Union did not restate the comparative periods, as permitted by the standard. Therefore, current year disclosures are not directly comparable to prior year disclosures, although the overall impact is deemed immaterial. New disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

(Thousands of Canadian dollars unless otherwise stated)

3. Significant accounting policies (continued)

Amendments to IFRS 9, Financial Instruments

In October 2017, the IASB published amendments to IFRS 9 relating to prepayment features with negative compensation. The amendments have been applied retrospectively to the consolidated financial statements. It did not have a material impact.

4. Change in accounting policies

The Credit Union adopted IFRS 16 effective January 1, 2019. Prior to adoption of IFRS 16, premises leased by the Credit Union were classified as operating leases under IAS 17, Leases. IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a ROU asset and a corresponding lease liability. As a result of adoption of the new standard, the Credit Union changed its accounting policies relating to its operating leases. Please refer to Note 3 to the consolidated financial statements for a summary of the Credit Union’s accounting policies as it relates to IFRS 16. As permitted by the transition provisions of IFRS 16, the Credit Union elected to use the modified retrospective approach and not to restate comparative period results, therefore all comparative period information is presented in accordance with its previous accounting policies.

5. Cash and cash equivalents

The following table provides information on the cash and cash equivalents held by the Credit Union and its subsidiaries as at December 31.

	2019	**2018**
Cash on hand	$ 5,254	$ 3,946
Cash held with Central 1	33,732	13,207
Cash held with other chartered banks	2,355	1,192
	41,341	**18,345**

The average yield on the above accounts as at December 31, 2019 is 1.72% (2018 – 1.38%).

The Credit Union has available lines of credit with Central 1 in the amounts of $7,500 CDN and $250 USD, and a demand loan with Central 1 in the amount of $40,000 CDN, to cover shortfalls in cash resources. These lines of credit and demand loan were unutilized as at December 31, 2019 and 2018.

The Credit Union has a letter of credit with Central 1 in the amount of $2,000 of which $772 is unutilized as at December 31, 2019 (2018 – $2,000, $790 unutilized).

These lines of credit, demand loan and letter of credit are secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union.

(Thousands of Canadian dollars unless otherwise stated)

6. Investments

The following tables provide information on the investments held by the Credit Union and its subsidiaries as at December 31.

Debt securities

	2019	2018
Central 1 – liquidity reserve deposits	$ 67,521	$ 70,697
Term deposits	138,714	80,410
Other loans	15,991	2,180
Marketable debt securities	38,640	63,440
	260,866	216,727
Accrued interest on deposits and loans	1,274	1,167
	262,140	**217,894**

Equity instruments

	2019	2018
Central 1 – Class A shares	$ 413	$ 423
Central 1 – Class E shares	2,112	2,112
Central 1 – Class F shares	3,483	3,601
CUCO Co-op – Class B investment shares	-	46
Other shares	6,014	5,034
	12,022	**11,216**

	2019	2018
Debt securities	$ 262,140	$ 217,894
Equity securities	12,022	11,216
Total investments	**274,162**	**229,110**

Central 1 – liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the total assets as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union’s assets or upon withdrawal of membership from Central 1.

6. Investments (continued)

Central 1 – share investment

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1. These shares are dividend bearing. No market exists for shares of Central 1 except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with Central 1 by-law providing for the redemption of its share capital. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

In addition to the above, Central 1 Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Class A & F shares are carried at fair value, which is considered to be equivalent to par value or redemption value. These shares are rebalanced at least annually. Class E shares are carried at fair value with no annual rebalancing and their redemption value is not equal to par value.

Central 1 – Other transactions

Fees are paid to Central 1 for banking services, educational training and consulting. The total fees paid to Central 1 for the year ended December 31, 2019 amounted to $ 377 (2018 – $373).

(Thousands of Canadian dollars unless otherwise stated)

7. Investment in joint ventures

Details of the Credit Union's investment in joint ventures, as at December 31 are as follows:

Name of joint venture	Principal activity	2019 % Ownership	2018 % Ownership
Geranium Homes (Ballantrae)	Homes development	30	30
Geranium Homes (Ninth Line)	Homes development	30	30
Aurora Highland Gate	Homes development	30	30
Bloomington Woods	Homes development	30	30
Claremont	Homes development	30	30
Geranium Homes (Scugog)	Homes development	30	30

Summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the Credit Union, for the fiscal year ended December 31, in respect of the Credit Union's investment in joint ventures, is set out below.

2019	Ballan-trae	Ninth Line	Aurora Highland Gate	Blooming-ton Woods	Clare-mont	Scugog
Total assets	$ 157	$ 1,808	$ 10,091	$ 980	$ 2,570	$ 3,874
Total liabilities	72	207	-	922	78	4
Net assets	**85**	**1,601**	**10,091**	**58**	**2,492**	**3,870**
Total revenue	-	1,665	1,125	-	-	-
Total net income/(loss) for the year	97	(206)	1,125	(307)	-	-

2018	Ballan-trae	Ninth Line	Aurora Highland Gate	Blooming - ton Woods	Clare-mont	Scugog
Total assets	$ 235	$ 3,496	$ 8,941	$ 872	$ 2,322	$ 3,881
Total liabilities	74	613	-	552	235	5
Net assets	**161**	**2,883**	**8,941**	**320**	**2,087**	**3,876**
Total revenue	-	-	-	-	-	-
Total net income/(loss) for the year	(5)	7,590	(388)	(332)	-	-

(Thousands of Canadian dollars unless otherwise stated)

The Credit Union's carrying value of the investment in the joint ventures for the fiscal year ended December 31 is as follows.

2019	Ballan-trae	Ninth Line	Aurora Highland Gate	Bloomig-ton Woods	Clare-mont	Scugog	Total
Opening investment	$ 224	$ 2,160	$ 10,612	$ 146	$ 2,431	$ 4,424	$ 19,997
Adjustment to opening accrued profit and interest	(170)	(102)	261	245	(383)	(117)	(266)
Capital contribution	-	-	-	-	340	-	340
Withdrawals during the year	-	(700)	-	-	-	(46)	(746)
Accrued interest	84	(72)	550	14	127	257	960
Net income during the year	(32)	(103)	562	(153)	-	-	274
Closing Balance	**106**	**1,183**	**11,985**	**252**	**2,515**	**4,518**	**20,559**

2018	Ballan-trae	Ninth Line	Aurora Highland Gate	Bloomig-ton Woods	Clare-mont	Scugog	Total
Opening investment	$ 267	$ 2,710	$ 12,100	$ 146	$ 1,020	$ 2,330	$ 18,573
Capital contribution	-	-	-	-	754	1,546	2,300
Withdrawals during the year	(43)	(550)	(2,994)	-	-	-	(3,587)
Accrued interest	-	-	1,115	-	365	548	2,028
Net income during the year	-	-	391	-	292	-	683
	224	**2,160**	**10,612**	**146**	**2,431**	**4,424**	**19,997**

8. Investment in associate

Details of the Credit Union's investment in associate Continental Currency Exchange Canada Limited ("CCE"), as at December 31 are as follows:

Name of associate	Principal activity	2019 % Ownership	2018 % Ownership
CCE	Currency services	30	30

Summarized financial information for CCE, not adjusted for the percentage ownership held by the Credit Union, for the fiscal year ended December 31, is set out below:

	2019	2018
Total assets	$ 42,440	$ 38,868
Total liabilities	11,515	10,092
Net assets	30,925	28,776
Total revenue	17,855	16,405
Total net income for the year	2,141	3,911
Dividends payable to Credit Union	-	2,050

(Thousands of Canadian dollars unless otherwise stated)

8. Investment in associate (continued)

The Credit Union's carrying value of the investment in CCE for the fiscal year ended December 31 is as follows:

	2019	2018
Opening investment	$ 11,915	$ 9,277
Capital contribution	-	587
Net Income for the year	599	2,051
	12,514	**11,915**

9. Loans to members

The following tables provide information on the loans to members as at December 31.

	2019	2018
Residential mortgages	$ 395,356	$ 401,505
Personal	42,838	54,214
Commercial	320,671	416,389
	758,865	872,108
Add: accrued interest on loans	1,456	1,537
Less: allowance for credit losses (note 10)	(16,559)	(14,389)
Net loans to members	**743,762**	**859,256**

The loan classifications set out above are as defined in the regulations to the Act.

Residential mortgages are repayable in weekly, bi-weekly and monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of 30 years. residential mortgages are secured by residential properties.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in weekly, bi-weekly and monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

(Thousands of Canadian dollars unless otherwise stated)

9. Loans to members (continued)

Concentration of risk and credit quality of loans

The Credit Union has exposure to groupings of individual loans, which concentrate risk and create exposure to particular segments as noted below. The maximum exposure to credit risk of loans to members at December 31 is below. In addition, below is a breakdown of the security held on a portfolio basis:

	2019	2018
Loans secured by cash	$ 1,882	$ 1,123
Loans secured by real estate property	424,215	436,634
Loans guaranteed by CMHC	15,060	13,460
Residential mortgages insured by Genworth	493	251
Residential mortgages insured by AIG	156	271
Loan secured by other assets	304,424	388,096
Unsecured loans	12,635	32,273
	758,865	**872,108**

Credit quality of loan portfolio

Summary of the aging of member loans at December 31:

	Personal	Residential mortgages	Commercial	2019	2018
Neither past due nor impaired*	$ 40,289	$ 380,092	$ 272,724	$ 693,105	$ 812,220
Past due but not impaired	1,055	10,653	28,305	40,013	42,076
Impaired	1,494	4,611	19,642	25,747	17,812
	42,838	**395,356**	**320,671**	**758,865**	**872,108**

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

Member loans past due but not impaired at December 31:

	Personal	Residential mortgages	Commercial	2019	2018
Past due but not impaired					
Under 30 days	$ 646	$ 6,825	$ 13,597	$ 21,068	$ 32,992
30 to 89 days	409	3,828	14,708	18,945	9,084
	1,055	**10,653**	**28,305**	**40,013**	**42,076**

(Thousands of Canadian dollars unless otherwise stated)

9. Loans to members (continued)

Loan commitments

At December 31, the Credit Union had unutilized additional credit loans of $131,099 (2018 – $156,280).

As at December 31, 2019, the Credit Union has committed to the issuance of $7,407 new commercial loans to members (2018 – $55,037).

See note 29 for additional disclosures related to management's policies and procedures to manage its credit and liquidity risks.

Letters of credit

The Credit Union has issued letters of credit in the amount of $2,274 as at December 31, 2019 (2018 – $3,519).

Whole loan sales

At December 31, 2019, the Credit Union was administering, for a fee, on behalf of Concentra Financial (Concentra), members' mortgage loans aggregating $24,695 (2018 – $34,590). In the current year, no mortgage loans (2018 – $nil) were transferred to/from Concentra. As the Credit Union does not have the rights and benefits of ownership to these mortgage loans, they are not included in these consolidated financial statements.

10 Allowance for credit losses

The following allowance for credit losses or ECL are determined in accordance with the accounting policy in note 3(c)(iv).

The Credit Union's allowance for credit losses and their changes for the fiscal year ended December 31 are as follows:

	Personal	Residential mortgages	Commercial	Total
Balance as at January 1, 2019	1,490	623	12,276	14,389
Gross write-off	(61)	(188)	(803)	(1,052)
Provision for credit losses	1,288	124	1,810	3,222
Balance as at December 31, 2019	**2,717**	**559**	**13,283**	**16,559**

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

The above provision for credit losses include $68 of loan recovery.

	Personal	Residential mortgages	Commercial	Total
Balance as at January 1, 2018	1,364	498	12,547	14,409
Gross write-off	(361)	-	(1,363)	(1,724)
Provision for credit losses	487	125	1,092	1,704
Balance as at December 31, 2018	**1,490**	**623**	**12,276**	**14,389**

The above provision for credit losses include $17 of loan recovery.

The Credit Union's ECL movement among the stages and their ending balances for the fiscal year ended December 31 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance as at January 1, 2019	493	213	784	1,490
Transfer in (out) Stage 1	(30)	5	25	-
Transfer in (out) Stage 2	146	(157)	11	-
Transfer in (out) Stage 3	42	2	(44)	-
New originations	98	-	6	104
Derecognition and maturities	(61)	(31)	(157)	(249)
Remeasurement due to/on transfers	(135)	4	477	346
Remeasurement due to changes in risk, parameters & models	451	30	545	1,026
Balance as at December 31, 2019	**1,004**	**66**	**1,647**	**2,717**

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance as at January 1, 2018	640	266	457	1,363
Transfer in (out) Stage 1	(449)	107	342	-
Transfer in (out) Stage 2	40	(127)	87	-
Transfer in (out) Stage 3	17	6	(23)	-
New originations	472	-	-	472
Derecognition and maturities	(227)	(39)	(79)	(345)
Balance as at December 31, 2018	**493**	**213**	**784**	**1,490**

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at January 1, 2019	464	11	148	623
Transfer in (out) Stage 1	(46)	45	1	-
Transfer in (out) Stage 2	9	(9)	-	-
Transfer in (out) Stage 3	-	-	-	-
New originations	67	-	-	67
Derecognition and maturities	(43)	-	(5)	(48)
Remeasurement due to/on transfers	(1)	32	14	45
Remeasurement due to changes in risk, parameters & models	(84)		(44)	(128)
Balance as at December 31, 2019	**366**	**79**	**114**	**559**

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at January 1, 2018	403	6	89	498
Transfer in (out) Stage 1	(67)	11	56	-
Transfer in (out) Stage 2	5	(6)	3	2
Transfer in (out) Stage 3	-	-	-	-
New originations	134	-	-	134
Derecognition and maturities	(11)	-	-	(11)
Balance as at December 31, 2018	**464**	**11**	**148**	**623**

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance as at January 1, 2019	4,507	1,442	6,327	12,276
Transfer in (out) Stage 1	(1,101)	1,089	12	-
Transfer in (out) Stage 2	-	(517)	517	-
Transfer in (out) Stage 3	-	(811)	811	-
New originations	6	-	-	6
Derecognition and maturities	(33)	(19)	(6)	(58)
Remeasurement due to/on transfers	-	(1,052)	4,490	3,438
Remeasurement due to changes in risk, parameters & models	(1,803)	277	(853)	(2,379)
Balance as at December 31, 2019	**1,576**	**409**	**11,298**	**13,283**

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance as at January 1, 2018	4,656	19	7,872	12,547
Transfer in (out) Stage 1	(1,183)	1,183	-	-
Transfer in (out) Stage 2	12	(12)	-	-
Transfer in (out) Stage 3	-	1,189	(1,189)	-
New originations	1,104	-	-	1,104
Derecognition and maturities	(82)	(937)	(356)	(1,375)
Balance as at December 31, 2018	**4,507**	**1,442**	**6,327**	**12,276**

	Stage 1	Stage 2	Stage 3	Total
Personal Loans	1,004	66	1,647	2,717
Residential mortgages	366	79	114	559
Commercial Loans	1,576	409	11,298	13,283
Total Balance as at December 31, 2019	**2,946**	**554**	**13,059**	**16,559**

	Stage 1	Stage 2	Stage 3	Total
Personal Loans	493	213	783	1,489
Residential mortgages	465	11	148	624
Commercial Loans	4,507	1,443	6,326	12,276
Total Balance as at December 31, 2018	**5,465**	**1,667**	**7,257**	**14,389**

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

Forward looking macroeconomic variables

The PD, LGD, and EAD inputs used to estimate Stage 1, 2 and 3 credit loss allowances are modelled based on macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for the forecast period. Depending on their usage in the models, macroeconomic variables are projected at a country, province or more granular level.

The ECL allowances are calculated through three probability weighted forward looking macroeconomic scenarios: base case, best case and worst case. Management reviews the weighting of the three scenarios periodically and are updated as necessary.

The following table provides the key forward looking macroeconomic inputs used in each of the scenarios over the next twelve months.

	As at Dec 31, 2019			As at Dec 31, 2018		
	Base case	**Best case**	**Worst case**	**Base case**	**Best case**	**Worst case**
Three months government of Canada bond rate	1.70%	2.14%	0.58%	1.74%	2.15%	0.54%
Ontario unemployment rate	5.55%	5.05%	6.56%	5.73%	4.66%	7.06%
National house price index growth rate	1.47%	3.50%	-7.33%	0.45%	3.24%	-8.98%
Real GDP growth rate	1.80%	2.60%	-2.60%	1.74%	3.40%	-4.10%

The allowance for credit losses is sensitive to the inputs used in the model, including macroeconomic variables in the forward-looking scenarios and their respective probability weightings, among other factors. Changes in any of these variables could have a material impact on the assessment of significant increase in credit risk and the measurement of allowance for ECL.

The following compares the probability weighted ECL (used as the reported allowance for credit losses) against the base case ECL to illustrate the impact of applying probability weights to each of the scenarios in the determination of allowance for credit losses. The difference is isolated to the measurement of ECL without considering the impact of transfer among stages.

	2019	**2018**
Probability-weighted ECL (reported allowance for credit losses)	$ 16,559	$ 14,389
Base case ECL	16,552	14,384

(Thousands of Canadian dollars unless otherwise stated)

10. Allowance for credit losses (continued)

The following presents the allowance for credit losses as at December 31, for all performing loans (total of Stage 1 and Stage 2 allowance for credit losses) compared to the allowance for credit losses that would result if all performing loans were measured as Stage 1 loans using 12-month ECL. The difference reflects the estimated impact of Stage 2 loans being measured using a lifetime ECL instead of a 12-month ECL, holding all risk profiles constant.

	2019	**2018**
Allowance for credit losses for performing loans (reported Stage 1 and Stage 2 ECL)	$ 3,500	$ 7,132
Allowance for credit losses for performing loans if all measured as 12-month ECL	3,432	7,043

11 Property and equipment

The Credit Union's carrying value of the property and equipment for the fiscal year ended December 31 is as follows:

							2019
	Land	**Buildings**	**Computer Equip-ment**	**Furniture and equip-ment**	**Lease-hold improve-ments**	**Right-of-use assets**	**Total**
Cost							
Balance – Beginning of year	1,870	13,109	2,767	2,726	632	4,282	25,386
Adjustments	-	-	202	-	413	-	615
Additions	4	4,898	282	126	27	1,269	6,606
Disposals	-	-	-	(640)	-	(1,156)	(1,796)
Balance – End of year	1,874	18,007	3,251	2,212	1,072	4,395	30,811
Accumulated depreciation							
Balance – Beginning of year	-	2,762	1,122	1,502	288	-	5,674
Adjustments	-	-	202	-	413	-	615
Depreciation	-	521	520	190	123	633	1,987
Disposals	-	-	-	(200)	-	(152)	(352)
Balance – End of year	-	3,283	1,844	1,492	824	481	7,924
Net book value – 2019	**1,874**	**14,724**	**1,407**	**720**	**248**	**3,914**	**22,887**
Net book value – 2018	1,870	10,347	1,645	1,224	344	-	15,430

(Thousands of Canadian dollars unless otherwise stated)

12 Intangible assets

The Credit Union's carrying value of the intangible assets for the fiscal year ended December 31 is as follows:

					2019
	Computer software	**Core deposits**	**Customer relation-ships**	**License***	**Total**
Cost					
Balance – Beginning of year	3,314	4,358	873	585	9,130
Adjustments	180	-	-	-	180
Additions	25	-	-	-	25
Disposals	-	-	-	-	-
Balance – End of year	3,519	4,358	873	585	9,335
Accumulated depreciation					
Balance – Beginning of year	2,179	3,747	453	-	6,379
Adjustments	180	-	-	-	180
Amortization expense	181	200	22	-	403
Disposals	-	-	-	-	-
Balance – End of year	2,540	3,947	475	-	6,962
Net book value – 2019	**979**	**411**	**398**	**585**	**2,373**
Net book value – 2018	1,135	611	420	585	2,751

* Intangible asset has indefinite life, therefore not amortized.

13 Investment properties

The Credit Union's carrying value of the investment properties for the fiscal year ended December 31 is as follows:

	2019	**2018**
Cost		
Balance – Beginning of year	$ 4,164	$ 4,952
Transfer (out) in	-	(138)
Disposals and adjustments	174	(650)
Balance – End of year	**4,338**	**4,164**
Rental income from investment properties	168	168

Rental income is collected on a monthly basis for any properties leased.

(Thousands of Canadian dollars unless otherwise stated)

14 Other assets

The following table provides information on the other assets held by the Credit Union and its subsidiaries as at December 31.

	2019	2018
Accounts receivable	$ 17,947	$ 7,741
Prepaid expenses	3,126	1,344
Funds held in trust	7,727	7,265
Property acquired by foreclosure and held for resale	7,821	9,564
	36,621	**25,914**

Property acquired by foreclosure and held for resale

As at December 31, 2019 the Credit Union was in possession of two commercial properties with a carrying value of $7,821 (2018 – three commercial properties with a carrying value of $9,564). Subsequent to the fiscal year end, one of commercial property was sold.

15 Deposits from members

The following table provides information on the deposits from members held by the Credit Union and its subsidiaries as at December 31.

	2019	2018
Chequing accounts	$ 193,212	$ 202,103
Savings accounts	197,671	206,767
Term deposits	432,318	441,668
Registered retirement savings accounts	140,068	137,509
Tax free savings accounts	74,380	65,026
	1,037,649	1,053,073
Add: accrued interest on deposits from members	15,127	13,255
	1,052,776	**1,066,328**

Term deposits

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Credit Union to impose a waiting period.

(Thousands of Canadian dollars unless otherwise stated)

15. Deposits from members (continued)

Registered retirement plans

Concentra Trust is the trustee for the registered retirement plans offered to members. Under an agreement with the Concentra Trust, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union on trust. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by the Credit Union.

16 Other liabilities

The following table provides information on the other liabilities held by the Credit Union and its subsidiaries as at December 31.

	2019	2018
Accounts payable and accrued liabilities	$ 11,391	$ 11,308
Employment benefits	2,092	3,320
Preference shares	15,153	17,194
Margin accounts for investment purposes	18,492	29,584
Lease liabilities	4,149	-
Due to investment carrying broker	3,043	6,898
	54,320	**68,304**

Preference shares

As at December 31, 2019, 3,271,036 (2018 – 3,271,036) redeemable cumulative preference shares with gross proceeds of $16,355 (2018 - $16,355), and a coupon rate of 5% per annum were outstanding. The shares are redeemable and retractable, non-voting, unsecured, term preference shares and are unsecured borrowings of PACE Financial Limited. These redeemable cumulative preference shares do not contain any equity component and are classified as financial liabilities in their entirety. Paid dividends of $639 (2018 - $1,159) on redeemable cumulative preference shares are included in comprehensive income.

Margin accounts for investment purposes

The margin accounts are with Laurentian Bank Securities Inc. ("LBS"), where PACE Financial Limited utilizes the credit facilities of LBS when it transacts security trading through LBS as its carrying broker.

Lease liabilities

For the year ended December 31, 2019, a $40 lease expense on applied exempt short-term and low value leases and $593 on variable lease components not included in lease liabilities are included under non-interest expenses in the consolidated statements of income and comprehensive income. Cash payments of $536 on the principal portion of the lease liability and $199 on the interest portion of the lease liability are included in financing activities and interest paid under operating activities, respectively, on the consolidated statements of cash flows.

(Thousands of Canadian dollars unless otherwise stated)

17 Income taxes

The following are major components of the income tax expense:

	2019	2018
Current income taxes	$ 1	$ 836
Deferred income taxes	497	45
	498	**881**

The provision for income taxes reported for the fiscal year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2019	2018
Income before taxes	$ 1,453	$ 4,938
Income tax expense based on statutory rate of 19.5% (2018 – 19.5%)	283	962
Effect of non-deductible expenses	7	17
Change in unrecorded tax benefit of losses and temporary differences	21	(24)
Effect of permanent differences	206	(45)
Income tax rate changes in deferred taxes, return to provision and other	(19)	(29)
	498	**881**

Temporary differences which give rise to the following deferred income tax asset/(liability) as at December 31 are as follows:

	2019	2018
Deferred income tax asset/(liability)		
Loans to members	39	47
Allowance for impaired loans	1,208	1,390
Property and equipment	(389)	(284)
Intangibles	(463)	(536)
Members deposits	90	110
Employment benefit and other liabilities	258	657
Lease assets	(424)	-
Lease liabilities	427	-
Investment properties	71	-
Unused tax losses	70	-
Deferred income tax asset	**887**	**1,384**

(Thousands of Canadian dollars unless otherwise stated)

18 Members' shares

Members' shares as at December 31 are as follows:

		Outstanding Amount	
	Authorized amount	**2019**	**2018**
Membership shares	unlimited	$ 7,916	$7,745
Class A profit shares	unlimited	5,262	4,790
Class B investment shares, Series 3	unlimited	7,143	7,094
Class B investment shares, Series 4	unlimited	2,556	2,462
Class B investment shares, Series 5	unlimited	664	636
Class B investment shares, Series 1	unlimited	1,299	1,299
Class B investment shares, Series 2	unlimited	634	612
		25,474	**24,638**

As at the end of December 31, 2018 and 2019, all member shares are classified as equities. There are no shares classified as liabilities as there are no outstanding unsubscribed shares from the redemption of Class A profit or Class B investment shares approved by the Board.

a) Authorized share capital and classification

Membership shares rank junior to Class A Profit Shares and to Class B Investment Shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class A Profit Shares rank junior to the Class B Investment Shares. All classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

Membership shares

The Credit Union is authorized to issue an unlimited number of membership shares, with an issuance price of $5 each. As a condition of membership, each member under eighteen years of age must hold at least two shares, while all other members must hold 35 shares.

As at December 31, 2019, there were 39,226 members (2018 – 39,170 members) and 1,583,257 (2018 – 1,548,983) membership shares outstanding. Shares may be withdrawn subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors, who may require notice.

18. Members' shares (continued)

Class A profit shares

The Credit Union is authorized to issue an unlimited number of Class A non-cumulative, non-voting, non-participating special shares (Class A Profit Shares) with an issue price of $1 each. The Class A Profit Shares are redeemable at the issuance price at any time on or after the date on which the shareholder reaches the age of 65 years, or upon termination of membership, or after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Class A Profit Shares outstanding at the beginning of that fiscal year. As at December 31, 2019, the number of outstanding shares is 5,262,135 (2018 – 4,789,712)

Class B investment shares, Series 03, Series 04 and Series 05

The Credit Union is authorized to issue an unlimited number of Class B, Series 03, Series 04 and Series 05 non-cumulative, non-voting, non-participating special shares Class B investment shares), issuable in series, with an issuance price of $1 each. Class B Investment Shares, Series 03, Series 04 and Series 05 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B Investment Shares, Series 03, Series 04 or Series 05 outstanding at the end of the previous fiscal year, or after the death of the shareholder, or if expelled from membership. As at December 31, 2019, the number of outstanding shares is 12,296,389 (2018 – 12,103,420).

Class B investment shares, Series 01

The Credit Union is authorized to issue an unlimited number of Class B, Series 95 non-cumulative, non-voting, non-participating special shares (Class B Investment Shares, Series 95), issuable in series, with an issuance price of $1 each. Class B Investment Shares, Series 95 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B Investment Shares, Series 95 outstanding at the end of the previous fiscal year, or after the death of the shareholder.

Class B investment shares, Series 02

The Credit Union is authorized to issue an unlimited number of Class B, Series 97 non-cumulative, non-voting, non-participating special shares (Class B Investment Shares, Series 97), issuable in series, with an issuance price of $1 each. Class B Investment Shares, Series 97 may be redeemed in any fiscal year, to the extent of 10% of the total Class B Investment Shares, Series 97 outstanding at the end of the previous fiscal year.

b) Dividends

The holders of Class A profit shares and Class B investment shares are entitled to receive dividends when declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory requirements of the Act.

(Thousands of Canadian dollars unless otherwise stated)

19 Interest income

The following table provides information on the interest income for the fiscal year ended December 31.

	2019	2018
Residential mortgages	$ 15,225	$ 13,706
Personal	3,119	3,296
Commercial	23,178	25,254
Investments	4,013	2,563
	45,535	**44,819**

All interest income reported above is calculated using the effective interest method, and relates to financial assets carried at amortized cost.

20 Interest expense

The following table provides information on the interest expense for the fiscal year ended December 31.

	2019	2018
Chequing accounts	$ 15	$ 25
Savings accounts	2,409	2,654
Term deposits	13,175	10,478
Registered retirement savings accounts	3,179	2,754
Tax free savings accounts	1,565	1,170
Interest on borrowings	82	85
	20,425	**17,166**

Total interest expense reported above is calculated using the effective interest method, and relates to financial liabilities not carried at FVTPL.

(Thousands of Canadian dollars unless otherwise stated)

21 Other operating income

The following table provides information on the other operating income for the year ended December 31.

	2019	2018
Commissions and fees	$ 1,207	$ 1,326
Service charges	602	566
Rental income	463	126
Administration charges	442	544
Foreign exchange gains	309	281
Prepaid card program	870	962
Investment company revenue and trading income[1]	7,789	8,220
	11,682	**12,025**

Rental income includes $43 for variable lease receipts that do not depend on an index or rate.

Except for rental income and administration charges, all other operating income items detailed above relate to financial assets and liabilities that are not at FVTPL and do not include any amounts used in determining the effective interest rate.

22 Capital management

The Credit Union maintained a capital management policy and an annual business plan to manage its capital adequacy. The capital management policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain regulatory capital of at least 4% of total assets (denoted as leverage ratio) and 8% of risk-weighted assets ('risk weighted capital ratio'). The risk weighting of assets is specified in the Regulations to the Act. The Credit Union is in compliance with its policy and the Act regarding regulatory capital and as at December 31 had maintained a leverage ratio of 5.03% (2018 – 5.07%) and a risk weighted capital ratio of 9.18% (2018 – 8.32%).

[1] Investment company revenue include income from assets held by investment companies (subsidiaries of the Credit Union). The revenue includes interest income on investments, net realized and unrealized gain/ loss on investment and net change in unrealized depreciation/appreciation of investments. Other expenses are included within the non-interest expenses of the consolidated statements of income and comprehensive income.

(Thousands of Canadian dollars unless otherwise stated)

23 Related party transactions

Key management personnel, directors and their related parties have transacted with the Credit Union during the year as follows:

	2019		2018	
	Maximum balance	**Closing balance**	**Maximum balance**	**Closing balance**
Loans to members	$ 3,540	$ 3,139	$ 11,957	$ 9,569
Member deposits	n/a	9,802	n/a	15,445
Membership share	n/a	26	n/a	39
	3,540	**12,967**	**11,957**	**25,053**

The interest rates charged on balances outstanding from key management personnel, directors and their related parties are the same as those charged in an arm's length transaction. Loan and residential mortgages balances are secured as per the Credit Union lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2019 and 2018.

The key management personnel of the Executive Team and their related parties received compensation in the period, which comprised:

	2019	**2018**
Salaries and other short-term employee benefits	$2,274	$ 2,897
Post-retirement benefits	-	-
	2,274	**2,897**

Directors received the following amounts for serving the Credit Union:

	2019	**2018**
Director fees	$ -	$ 26
Expenses reimbursement	-	66

The entire Board of Directors resigned in December 2018. A new board was appointed in January, 2020. As such, no director fees nor related expense reimbursements were incurred in 2019.

(Thousands of Canadian dollars unless otherwise stated)

24 Deposit insurance premium and administration costs

As noted in note 1, on September 28, 2018 the Credit Union was placed under administration by DICO, and DICO, now FSRA, assumed control of the Credit Union. Deposit insurance premium of $1,118 paid to DICO in the year ended December 31, 2019 (2018 – $1,082).

The Credit Union incurred costs related to the FSRA Administration process, of $2,118, including costs related to legal, consulting and administration agent authorized by FSRA for the year ended December 31, 2019 (2018 – $2,449).

Other costs, incurred during the administration process, but not resulting from the credit union having been placed under Administration, were $543 (2018 - $275).

The Credit Union's subsidiary Pace Securities (the Company) has been designated Discretionary Early Warning Level One since October 3, 2018 due to the fact that the Credit Union has been placed under the administration of FSRA.

25 Remuneration of officers and employees

Pursuant to the requirements of the Act and accompanying regulations to disclose the remuneration of the specified officers and employees for the 12-month period ended December 31, 2019, information regarding the remuneration of the five most highly paid officers and employees is listed below. Subject to the note below, the remuneration listed as a dollar amount includes base salary, bonus and short term incentive, employment benefit and other short term compensations according to employment contracts directly with the Credit Union.

		Remuneration Paid	Monetary Value of Benefits Received	Total
Rubina Havlin, Interim CEO	(Procurement contract through LHH Knightsbridge Corp.)	$556		$556
Shirley Chen, Interim CFO	(Procurement contract through 5009079 Ontario Corp.)	286		286
Sandra Johnson, Former VP Finance		228	$20	248
Dan Coldwell, Former VP Business Development		205	25	230
Mary Benincasa, VP Project Management		199	29	228

(Thousands of Canadian dollars unless otherwise stated)

26 Commitments

The Credit Union is committed to the following minimum annual payments for its leased premises:

2020	$ 559
2021	545
2022	485
2023	427
2024	349
2025 and after	480

27 Contingencies

The Credit Union is indirectly involved in ongoing legal matters initiated by FSRA against former management of the Credit Union and others in relation to being placed under administration. At this time the Credit Union is unable to quantify the potential outcome of these legal matters.

During the normal course of business, there are various other claims and proceedings, which have been, or may be, instituted against the Credit Union. To Management's best knowledge, the disposition of these matters that are pending or asserted is not expected to have a material adverse effect on the financial position or the results of operations of the Credit Union.

28 Fair value of financial instruments

Fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Credit Union determines fair value by incorporating all factors that market participants would consider in setting a price, including commonly accepted valuation approaches.

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets that are not considered financial instruments, such as prepaid expenses, property and equipment, investments in joint ventures and associate, intangible assets, investment properties, other property held for resale, deferred income taxes and employment benefits.

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

(Thousands of Canadian dollars unless otherwise stated)

28. Fair value of financial instruments (continued)

Except as detailed in the following table, the Credit Union considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

		2019		2018
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Investments	271,076	274,162	$ 229,110	$ 229,110
Loans to members	744,847	743,762	876,699	859,256
Deposits				
Deposits from members	1,063,180	1,052,776	1,108,289	1,066,328

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

a. The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

b. The fair value of investments is based on quoted market values, amortized cost using the effective interest rate method, par value, redemption value or discounted expected future cash flows as appropriate to the nature and terms of the investment.

c. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

d. The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

Fair value hierarchy

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

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Thousands of Canadian dollars unless otherwise stated)

28. Fair value of financial instruments (continued)

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

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy as at December 31, 2019.

				2019
	Level 1	**Level 2**	**Level 3**	**Assets at fair value**
Assets				
Cash and cash equivalents	$41,341	$ -	$ -	41,341
Debt securities	-	259,054	-	259,054
Equity securities	-	47	12,022	12,069
Loans to members	-	-	744,847	744,847
	41,341	**259,101**	**756,869**	**1,057,311**
Liability				
Deposits from members	**-**	**1,063,180**	**-**	**1,063,180**

				2018
	Level 1	**Level 2**	**Level 3**	**Assets at fair value**
Assets				
Cash and cash equivalents	$18,345	$ -	$ -	$18,345
Debt securities	-	217,742	152	217,894
Equity securities	-	47	11,216	11,263
Loans to members	-	-	876,699	876,699
	18,345	**217,789**	**888,067**	**1,124,201**
Liability				
Deposits from members	**-**	**1,018,289**	**-**	**1,018,289**

29 Nature and extent of risks arising from financial instruments

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

The Credit Union manages risk on an enterprise-wide basis, which is articulated in the Enterprise-wide Risk Management Framework (ERM). The primary goals of which are to ensure that the outcomes of risk-taking activities are consistent with the Credit Union's strategies and risk appetite and that there is an appropriate balance between risk and reward in order to maximize the Credit Union's profitability. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the markets in which the Credit Union operates, including legislative and regulatory standards as well as industry best practices.

Credit risk

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

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes. FSRA assumed the responsibilities of the Board during the full year of 2019.

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

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

Liquidity risk

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

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

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum. FSRA assumed responsibilities of the Board during the full year of 2019.

(Thousands of Canadian dollars unless otherwise stated)

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

The table in the market risk section below sets out the period in which the Credit Union's non-derivative financial assets and financial liabilities will mature and be eligible for renegotiation or withdrawal. These cash flows are not discounted and include both the contractual cash flows pertaining to the Credit Union's consolidated statements of financial position assets and liabilities and the future contractual cash flows that they will generate. In the case of loans where material, the table reflects adjustments to the contractual cash flows for prepayment estimates, which reflect expected repayments on other than contractual maturity dates. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies, as set out in note 28 and 29.

Additional details are outlined in the Credit Union's internal policy manual.

The Act requires credit unions to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are outlined in the table below.

	2019	**2018**
Cash and cash equivalents	$ 41,341	$ 18,345
Investments – Central 1 term deposits	138,000	80,000
Investments – Central 1 liquidity reserve deposits	67,521	70,697
Investments – Other financial institutions	250	250
Total assets held for liquidity	**247,112**	**169,292**

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

Market risk

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

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

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented. FSRA assumed the responsibilities of the Board during the full year of 2019.

(Thousands of Canadian dollars unless otherwise stated)

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

- Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's net income when maturities of its financial liabilities are not matched with the maturities of its financial assets or which are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates and effective interest rates for the following financial instruments.

						2019		2018
	Variable rate/on demand	**Less than one year**	**One to five years**	**Non-rate sensitive**	**Total**	**Effective interest rate**	**Total**	**Effective interest rate**
Cash and cash equivalents	$ 37,486	$ -	$ -	$ 3,855	$ 41,341	0.69%	$ 18,345	1.77%
Investment	-	146,353	75,168	52,641	274,162	1.61%	229,110	2.11%
Loans to members	276,250	239,419	228,093	-	743,762	4.98%	872,108	4.37%
	313,736	385,772	303,261	56,496	1,059,265	3.94%	1,119,563	3.84%
Deposit from members	289,679	334,567	270,303	158,227	1,052,776	2.31%	1,066,328	1.72%
On-balance sheet gap	24,057	51,205	32,958	(101,731)	6,489		53,235	

An analysis of the Credit Union's risk due to changes in interest rates determined that a 100bp increase in interest rates, with all other variables held constant, would result in an increase in net income of $1,012 (2018 – $851) while a 100bp decrease in interest rates, with all other variables held constant, would result in a decrease in net income of $919 (2018 – $851).

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

- Foreign currency exchange risk

  Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's net income when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets.

  Net foreign exchange gains of $309 (2018 – $190) have been included in other operating income on the consolidated statements of income and comprehensive income for the year ended December 31, 2019.

30 Comparative information

Certain comparative information has been revised to conform to the presentation adopted in these current year consolidated financial statements and accompanying notes.

31 Subsequent events

Board of Directors

On January 27, 2020 a new Board of Directors was elected by the members of the Credit Union.

Continental Currency Exchange

Subsequent to the year end, the Credit Union received, through an Ontario Superior court order, the 45% ownership of CCE held by 2340938 Ontario Limited, and negotiated the purchase of the remaining 25% ownership in CCE. Upon closing of the purchase, the Credit Union will own 100% of CCE.

In the light of the health and safety considerations surrounding COVID-19, combined with the directive from the province of Ontario with respect to non-essential businesses, CCE suspended operations effective March 24, 2020 and only key skeleton staff remain.

Potential Insurance Recovery

PACE Credit Union has submitted a claim under its fidelity insurance bond to recover certain incurred costs and potential costs. The claim is currently being processed by the insurer. Coverage has not formally been confirmed by the insurer, however, additional information has been requested by the insurer which is in the process of being provided. Any amounts paid by the insurer would be to the benefit of the Credit Union offsetting previously booked incurred costs or losses.

Deposits from the former President

The Credit Union restricted the access of the former President to his deposits at the Credit Union due to the pending litigation. The deposit funds were reclassified from members' deposit to other liabilities in 2019. The former President has brought an application before the court to challenge the set off but the Credit Union has been advised that its legal position is strong. If the former President's application is not successful the funds would be recognized by the Credit Union, increasing its net income and capital.

Pace Securities

The preferred shares of First Hamilton Holdings Inc. ("FHH") and PACE Financial Limited ("PFL"), which were distributed by PACE Securities Corporation ("PSC"), are supported by portfolios of debt securities which are subject to a margin loan through the clearing brokerage, Laurentian Bank Securities ("LBS"). PSC also has a margin account through LBS and holds many of those debt securities in that account. During the month of March 2020, the bond index declined by 20% and then recovered to a 10% decline, on account of the COVID 19 pandemic. The debt securities held by PSC, as well as FHH and PFL, experienced a greater decline and this has resulted in a suspension of the dividends payable by FHH and PFL to investors. These events could impact the long-term solvency of PSC, as well as FHH and PFL if the market for debt securities continues to be adversely impacted by the financial consequences of the current pandemic.

COVID-19

While the precise impact of the recent novel coronavirus: COVID-19 outbreak remains unknown, it has introduced uncertainty and volatility in global markets and economies. The Credit Union is monitoring developments and is prepared for any impacts related to COVID-19. The Credit Union has a comprehensive business continuity plan that ensures its readiness to appropriately address and mitigate potential business risks and impacts to members and employees.

However, the Credit Union's businesses, including those owned, may be negatively impacted by the fear of exposure to or actual effects of the COVID-19 pandemic, including any recommendations or mandates from governmental authorities to large gatherings, self-quarantine or shut down of non-essential services. Despite the Credit Union's efforts to manage and remedy these impacts, the ultimate impact also depends on factors beyond its knowledge or control, including the duration and severity of such an outbreak as well as third-party actions taken on the pandemic. Management continues to monitor and actively manage the developing impacts from COVID-19 and will continue to assess any impact to the Credit Union's operations, liquidity and financial position.