Financial statements of

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
O/A AWCCU FINANCIAL

December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of
AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

We have audited the accompanying financial statements of Auto Workers Community Credit Union Limited ("the Credit Union"), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Credit Union but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

LLP

Licensed Public Accountants

TORONTO, Ontario
January 31, 2019

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED

Statement of Financial Position

As at December 31	2018	2017 (note 25)
Assets		
Cash and cash equivalents (note 7)	**$ 13,214,273**	$ 12,248,304
Investments (note 8)	**28,212,473**	29,980,486
Income taxes receivable	**8,562**	124,972
Loans and advances to members (note 10 and note 23)	**352,013,798**	366,186,949
Pension asset (note 12)	**881,800**	259,000
Deferred income tax asset (note 20)	**1,805,182**	1,805,182
Other assets	**2,109,621**	1,890,851
Capital assets (note 11)	**3,547,419**	3,969,577
	$ 401,793,128	$ 416,465,321
Liabilities, Member Entitlements and Members' Equity		
Liabilities		
Accounts payable and other liabilities	**$ 2,717,178**	$ 3,137,509
Obligation for post-employment benefits other than pensions (note 13)	**5,276,100**	5,165,300
Mortgage securitization liabilities (note 15)	**44,114,662**	51,855,032
	52,107,940	60,157,841
Member entitlements		
Members' accounts and deposits (note 14)	**324,720,406**	333,440,606
Members' share capital (note 16)	**2,898,768**	2,983,228
Accrued member interest, dividends and patronage return	**1,976,428**	1,888,997
	329,595,602	338,312,831
Members' equity		
Members' share capital (note 16)	**7,463,508**	7,311,354
Retained earnings	**17,107,965**	15,172,882
Accumulated other comprehensive loss	**(4,481,887)**	(4,489,587)
	20,089,586	17,994,649
	$ 401,793,128	$ 416,465,321

Commitments (note 18)

See accompanying notes to financial statements.

On behalf of the Board:

John MacDonald Director

Director

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
Statement of Comprehensive Income

Year ended December 31		2018		2017 (note 25)
Interest income				
Loan interest	$	**13,201,953**	$	12,163,870
Investment interest and dividends		**650,024**		401,152
		13,851,977		12,565,022
Interest on members' accounts and deposits (note 14)		**4,096,104**		4,365,413
Interest expense - other		**1,235,847**		538,428
		5,331,951		4,903,841
Financial margin		**8,520,026**		7,661,181
Other income (note 21)		**1,634,081**		2,685,264
		10,154,107		10,346,445
Expenses				
Administration		**508,311**		439,453
Currency costs and bank charges		**136,468**		144,537
Data processing and networking		**688,121**		683,522
Depreciation		**422,158**		509,221
Insurance		**361,568**		412,979
Marketing and development		**101,243**		55,890
Member services		**329,030**		235,275
Occupancy costs		**492,430**		523,772
Provision for impairment losses on member loans		**150,000**		150,000
Salaries, employee benefits and personnel		**4,440,869**		4,144,578
		7,630,198		7,299,227
Net income before member distributions and provision for income taxes		**2,523,909**		3,047,218
Deduct: Dividends and patronage return (note 16)		**30,983**		30,983
Net income before provision for income taxes		**2,492,926**		3,016,235
Provision for current income taxes		**370,852**		372,114
Provision for deferred income taxes		**-**		119,937
Net income for the year	**$**	**2,122,074**	$	2,524,184
Other comprehensive income (loss), net of tax				
Actuarial gains (losses) on employee future benefits	**$**	**7,700**	$	(594,519)
Reclassification of realized gains on available-for-sale investments (net)		**-**		(586,910)
Total other comprehensive loss		**7,700**		(1,181,429)
Net comprehensive income for the year	**$**	**2,129,774**	$	1,342,755

See accompanying notes to financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
Statement of Members' Equity

	Available for-sale investments	Employee future benefits	Accumulated other comprehensive income (loss)	Members' shares	Retained earnings	Total
Balance on December 31, 2016	$ 608,346	$ (3,916,504)	$ (3,308,158)	$ 7,230,855	$ 12,796,438	$ 16,719,135
Net income for the year	-	-	-	-	2,524,184	2,524,184
Distributions to members	-	-	-	-	(147,740)	(147,740)
Net change in members' shares	-	-	-	80,499	-	80,499
Change in unrealized gains on available-for-sale investments	(586,910)	-	(586,910)	-	-	(586,910)
Net loss from employee future benefits		(594,519)	(594,519)	-	-	(594,519)
Balance on December 31, 2017	$ 21,436	$ (4,511,023)	$ (4,489,587)	$ 7,311,354	$ 15,172,882	$ 17,994,649

	FVOCI	Employee future benefits	Accumulated other comprehensive income (loss)	Members' shares	Retained earnings	Total
Balance on December 31, 2017	$ 21,436	$ (4,511,023)	$ (4,489,587)	$ 7,311,354	$ 15,172,882	$ 17,994,649
Net income for the year	-	-	-	-	2,122,074	2,122,074
Distributions to members	-	-	-	-	(186,991)	(186,991)
Net change in members' shares	-	-	-	152,154	-	152,154
Net gain from employee future benefits		7,700	7,700	-	-	7,700
Balance on December 31, 2018	$ 21,436	$ (4,503,323)	$ (4,481,887)	$ 7,463,508	$ 17,107,965	$ 20,089,586

See accompanying notes to financial statements.

AUTO WORKERS COMMUNITY CREDIT UNION LIMITED
Statement of Cash Flows

Year ended December 31		2018		2017 (note 25)
Cash provided (used) by operating activities				
Interest received on loans	$	**13,178,697**	$	12,157,027
Interest received on investments		**629,420**		362,866
Interest paid on member deposits		**(4,064,162)**		(4,341,685)
Other income received		**1,634,081**		2,685,264
Recoveries on loans previously written off		**20,252**		21,469
Payments to employees and suppliers		**(7,522,861)**		(7,860,478)
Income taxes paid		**(220,142)**		(608,462)
Net cash provided by operating activities		**3,655,285**		2,416,001
Cash used by investing activities				
Change in members' loans and advances (net)		**13,469,836**		(33,943,462)
Purchase of investments (net)		**1,768,013**		(2,295,863)
Net cash provided (used) by investing activities		**15,237,849**		(36,239,325)
Cash provided (used) by financing activities				
Change in member deposits (net)		**(9,316,158)**		(5,322,200)
Change in member share capital (net)		**67,694**		(102,128)
Dividends and interest rebates paid on member deposits & capital accounts		**(196,785)**		(196,481)
Central 1 demand loan		**-**		(5,000,000)
Interest paid on external borrowings		**(1,235,847)**		(538,428)
Proceeds from mortgage securitizations		**-**		55,681,122
Principal repayments on mortgage securitizations		**(7,246,069)**		(3,612,795)
Net cash provided (used) by financing activities		**(17,927,165)**		40,909,090
Net increase in cash and cash equivalents		**965,969**		7,085,766
Cash and cash equivalents, January 1		**12,248,304**		5,162,538
Cash and cash equivalents, December 31	$	**13,214,273**	$	12,248,304

See accompanying notes to financial statements.

1 Nature of business

Auto Workers Community Credit Union (the "Credit Union") is a multi-branch financial institution incorporated under the Credit Unions and Caisses Populaires Act, 1994 (the "Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit cards, Internet banking and telephone banking. The Credit Union head office is located at 322 King Street West, Oshawa, Ontario.

2 Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

The Credit Union's functional and presentation currency is the Canadian dollar.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in the financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Details of the Credit Union's accounting policies, including changes during the year, are included in notes 5 and 6. As explained in note 6 the Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018.

These financial statements have been authorized for issue by the Board of Directors on January 31, 2019.

3 Critical accounting estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

Classification of financial assets

Effective January 1, 2018 the Credit Union assesses the business model within which the assets are held and whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, as described in note 5.

3 Critical accounting estimates and judgments (continued)

Fair value of financial instruments

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

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

Impairment of financial instruments

Effective January 1, 2018 the Credit Union assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates forward-looking information in the measurement of expected credit loss (ECL), as described in note 23.

Prior to January 1, 2018 in determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union made judgments on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

Pension plan and post-employment future benefits

The accrued pension obligation and obligation for post-employment future benefit plan costs, assets and obligations depend on factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, the rate of return on plan assets, wage escalation, inflation rates, health care costs and demographic factors such as retirement age, mortality and employee turnover. Any change in these assumptions will have an impact on the costs, assets and/or obligations relating to these plans, but the discount rate and the return on assets have the greatest impact and are subject to greater volatility. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further information regarding employee future benefits is presented in notes 12 and 13.

The Credit Union establishes the discount rate as at each reporting date. This rate is used to determine the present value of future cash flows related to the defined benefit obligation. To determine this rate, the Credit Union uses the interest rate of corporate bonds with a maturity similar to that of the benefit obligation and market conditions.

A decrease of 1% in the discount rate as at the end of the period would have an impact of a $1,860,400 (2017 - $2,291,800) increase on the present value of the defined benefit obligation and a $862,500 (2017 - $921,800) increase in the present value of the obligation for post-employment benefits (other than pensions).

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters. Any differences will be accounted for in the year of settlement.

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

4 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for the following items.

Items	Measurement basis
Financial instruments at fair value through profit and loss (FVTPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair value
Available-for-sale financial assets (applicable before January 1, 2018)	Fair value
Net defined benefit (asset) liability	Fair value of plan assets less the present value of the defined benefit obligation

5 Significant accounting policies

Except for the changes explained in note 6, the Credit Union has consistently applied the following accounting policies to all periods presented in these financial statements.

Revenue recognition

(i) Interest

Policy applicable after January 1, 2018

Effective interest rate

Interest income and expense are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

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

Calculation of interest income and expense

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

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

5 Significant accounting policies (continued)

Revenue recognition (continued)

(i) Interest (continued)

Policy applicable after January 1, 2018 (continued)

Effective interest rate (continued)

Calculation of interest income and expense (continued)

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

Presentation

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

Policy applicable before January 1, 2018

Effective interest rate

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Credit Union estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income and expense presented in the statement of comprehensive income included:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on available-for-sale investments calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Credit Union's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(ii) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognized using the effective interest method are included with loan balances on the balance sheet.

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

5 Significant accounting policies (continued)

Revenue recognition (continued)

(iii) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and from January 1, 2018, also non-trading assets that are mandatory to be measured at FVTPL. This includes fair value changes, interest, dividends and foreign exchange differences.

(iv) Dividend income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net income for the year.

Financial assets and financial liabilities

(i) Recognition and initial measurement

The Credit Union initially recognizes loans and advances, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

Financial assets - policy applicable after January 1, 2018

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

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

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

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

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

The Credit Union does not have any debt instruments measured at FVOCI.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets - policy applicable after January 1, 2018 (continued)

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or 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
- 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's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets - policy applicable after January 1, 2018 (continued)

Reclassifications

Financial assets are not reclassified subsequent to initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to the Credit Union's business model during the current or prior year.

Financial assets – Policy applicable before January 1, 2018

The Credit Union classified its financial assets into one of the following categories:

- loans and receivables;
- available-for-sale; and
- at FVTPL, as held for trading.

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

(iii) Derecognition

Financial assets

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

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

From January 1, 2018 any cumulative gain/loss recognized in OCI in respect of equity investments designated as FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

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

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

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage Housing Corporation that issue bonds to third party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program. Through the program, the Credit Union issues securities backed by residential mortgages that are insured against borrower's default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union's securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received.

Before January 1, 2018, retained interests were classified as other liabilities and carried at amortized cost.

Financial liabilities

The Credit Union derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

Policy applicable after January 1, 2018

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

Policy applicable before January 1, 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in net income for the year.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 Credit Union of similar transactions.

(vi) Impairment

Policy applicable after January 1, 2018

The Credit Union recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

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

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

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

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

Measurement of ECL

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

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

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Policy applicable after January 1, 2018 (continued)

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

In making an assessment of whether an investment in debt securities is credit-impaired, the Credit Union considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Policy applicable after January 1, 2018 (continued)

Presentation of allowance for ECL on the balance sheet

Loss allowances for ECL are presented on the balance sheet as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment 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.

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.

Policy applicable before January 1, 2018

Objective evidence of impairment

At each reporting date, the Credit Union assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

Objective evidence of impairment (continued)

The Credit Union considered evidence of impairment for loans and advances and held-to-maturity investments at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investments were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Loans and advances and held-to-maturity investments that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investments with similar credit risk characteristics.

In making an assessment of whether an investment in debt security was impaired, the Credit Union considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through debt forgiveness.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows for each impaired asset, management made judgments about a debtor's financial situation and the net realizable value of any underlying collateral.

The collective allowance for groups of homogeneous loans was established using statistical analysis of historical data on delinquency to estimate the amount of loss.

Management applied judgment to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortized cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available- for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

For assets measured at amortized cost: If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

Presentation

Impairment losses were recognized in net income for the year and reflected in an allowance account against loans and receivables. Interest on the impaired assets continued to be recognized.

Write-off

The Credit Union wrote off a loan, either partially or in full, and any related allowance for impairment losses, when the Credit Union determined that there was no realistic prospect of recovery.

Derivatives held for risk management purposes and hedge accounting

The Credit Union has not designated any derivatives held for risk management as hedging instruments.

Non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognized immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment is carried out on the asset's cash generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has one cash-generating unit, the land and building, for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash is classified as FVTPL and is carried at fair value.

Investments

Policy applicable after January 1, 2018

Investments include:

- Central 1 liquidity deposits initially measured at fair value plus incremental direct transaction costs, and subsequently at amortized cost using the effective interest method; and
- equity securities designated as at FVOCI.

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

5 Significant accounting policies (continued)

Investments (continued)

Policy applicable after January 1, 2018 (continued)

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

Policy applicable before January 1, 2018

Investments were initially measured at fair value plus, in the case of investments not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on the classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Credit Union from classifying investment as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Credit Union becomes entitled to the dividend. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

Fair value through profit or loss

The Credit Union has not designated any investments as FVTPL.

5 Significant accounting policies (continued)

Loans and advances to members

Policy applicable after January 1, 2018

Loans and advances are initially measured at fair value, net of loan origination fees and inclusion of transaction costs incurred. Loans and advances are subsequently measured at amortized cost, using the effective interest rate method.

Policy applicable before January 1, 2018

All loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans and advances are initially measured at fair value, net of loan origination fees and inclusion of transaction costs incurred. Loans and advances were subsequently measured at amortized cost, using the effective interest rate method.

Pension plan

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

The defined benefit pension plan has been frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015. An integration of payment structure was established for employee to employer payments, initially at 2% for staff and 8% for the employer.

Capital assets

Capital assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of assets as follows:

Building	5 to 30 years
Equipment	2 to 10 years
Parking area	20 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Post-employment future benefits

The Credit Union sponsors a defined benefit pension plan and other post-employment benefits to retired employees and their spouses. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The benefits include medical services, life insurance and extended health care benefits. The benefit plans are further described in notes 12 and 13. This non-pension post-employment benefit plan is not funded.

The Credit Union accrues its obligations under a defined benefit employee pension plan and the related costs, net of plan assets. The cost of the defined benefit pension and the other post-employment benefits that relate to employees' current service is charged to income annually. The cost is computed at each reporting date by an independent actuary using the projected unit credit cost method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, the assets are valued at fair market value.

The discount rate used to measure the interest cost on the accrued future employee benefit obligation is set with reference to market interest rates on high-quality debt instruments.

5 Significant accounting policies (continued)

Recognition of securitization arrangements

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

Further details of securitization arrangements are disclosed in note 15.

Deposits and members' share capital

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, as described in note 16. The Credit Union's Class A patronage shares and membership shares are classified as liabilities and the Class C investment shares are classified as equity.

Borrowings and deposits and members' share capital that are classified as liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and subsequently measured at amortized cost using the effective interest method.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the assets / liabilities are settled.

Members' dividends

Dividends to members are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

5 Significant accounting policies (continued)

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the re-translation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net comprehensive income.

New standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Credit Unions future financial statements are as follows. The Credit Union intends to adopt these standards when they become effective.

Standards, amendments and interpretations not yet effective

New standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Credit Unions future financial statements are as follows. The Credit Union intends to adopt these standards when they become effective.

- IFRS 16, *Leases*, was issued in January 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. The new standard replaces the previous leases standard, IAS 17, *Leases*. Changes are primarily to lessee accounting. The new standard calls for all leases with a duration of more than 12 months to be reflected 'on-balance sheet'. A financial liability will be recognized for the lease obligation. A corresponding non-financial asset will be recognized for the 'right-of-use' asset. The obligation covers the full lease term which includes the non-cancelable lease period plus any optional periods where there is a significant economic incentive for the lessee to exercise.

  For lessees, all lease liabilities will be recorded at fair value and lease payments will be split between interest expense and principal reductions. The right-of-use asset will be amortized straight-line over the shorter of the useful life of the asset or the term of the lease. In effect, this will result in higher expense in the early years of the lease as interest expense will decrease over time.

  The new standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the impact of IFRS 16 but does not anticipate a material impact as the number of leases held by the Credit Union is minimal.

- A Conceptual Framework for Financial Reporting (Revised Conceptual Framework), was issued in March 2018, which provides a set of concepts to assist the IASB in developing standards and to help preparers consistently apply accounting policies where specific accounting standards do not exist. The framework is not an accounting standard and does not override the requirements that exist in other IFRS standards. The Revised Conceptual Framework describes that financial information must be relevant and faithfully represented to be useful, provides revised definitions and recognition criteria for assets and liabilities, and confirms that different measurement bases are useful and permitted. The Revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020, which will be November 1, 2020 for the Credit Union, with early adoption permitted. The Credit Union is currently assessing the impact of adopting the revised framework.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

6 Change in accounting policies

Except for the changes below, the Credit Union has consistently applied the accounting policies set out in note 5 to all periods presented in these financial statements.

IFRS 9, Financial Instruments

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

The key changes to the Credit Union's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Credit Union classifies financial assets under IFRS 9, see note 5.

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

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Credit Union classifies financial liabilities under IFRS 9, see note 5 and note 22.

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

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Credit Union applies the impairment requirements of IFRS 9, see note 5.

Transition

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

- Comparative periods have not been restated. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 requiring recognition in retained earnings as at January 1, 2018.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Credit Union has assumed that credit risk on the asset had not increased significantly since its initial recognition to the date of initial application.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 22.

7 Cash

Cash consists of cash on hand and cash in current accounts held with Central 1. The average yield on cash as at December 31, 2018 was 1.76% (2017 - 1.25%).

8 Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

As at December 31,	2018	2017
Investments measured at amortized cost - deposit instruments	$ 25,489,660	$ 26,872,578
Investments measured at FVOCI - equity securities	2,722,813	-
Available-for-sale investment securities	-	3,107,908
	$ 28,212,473	$ 29,980,486

The following tables summarizes the composition of investments by classification category:

As at December 31,	2018	2017
Investments measured at amortized cost - deposit instruments		
Central 1 discount deposit liquidity reserve	$ 7,007,170	$ 11,524,788
Central 1 floating rate liquidity deposit	17,118,290	14,093,290
Central 1 term deposit - USD	1,364,200	1,254,500
	25,489,660	26,872,578
Investments measured at FVOCI - equity securities		
Central 1 Credit Union shares - Class A	162,609	
Central 1 Credit Union shares - Class E	985,400	
Central 1 Credit Union shares - Class F	1,336,652	
CUCO Co-op Class B investment shares	21,436	
Other equity securities	216,716	
	2,722,813	
Available-for-sale investment securities		
Central 1 Credit Union shares - Class A		1,366,758
Central 1 Credit Union shares - Class E		1,313,000
CUCO Co-op Class B investment shares		21,436
Other equity securities		406,714
		3,107,908
	$ 28,212,473	$ 29,980,486

8 Investments (continued)

Significant terms and average annual yields on Central 1 investments and other investments are as follows:

As at December 31	2018	2017
Investments measured at amortized cost - deposit instruments		
Discount deposit liquidity reserve		
Yield	**1.47%**	1.04%
Interest	**1.32% to 1.76%**	0.69% to 1.32%
Maturity dates from	**Jan 31, 2019**	Jan 12, 2018
to	**May 19, 2022**	May 19, 2022
Floating rate liquidity deposit		
Yield	**2.21%**	1.47%
Interest	**2.09% to 2.36%**	1.42% to 1.59%
Maturity dates from	**Jun 30, 2022**	Jun 30, 2022
to	**Dec 15, 2022**	Oct 11, 2022
USD discount deposit		
Yield	**2.40%**	1.88%
Interest	**1.75% to 2.89%**	1.53% to 2.37%
Maturity dates from	**May 23, 2019**	May 23, 2018
to	**May 24, 2022**	May 24, 2022

Central 1 deposits - liquidity reserve

The Credit Union is required to maintain a liquidity reserve deposit with Central 1 equal to 6% of the Credit Union's total assets. The minimum required liquidity reserve deposit is adjusted monthly based on the total assets of the Credit Union. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central 1. At maturity, these deposits are reinvested at market rates for various terms. The carrying value of the liquidity reserve in Central 1 approximates its fair value.

Central 1 Credit Union shares

At January 1, 2018, the Credit Union designated its investment in Central 1 equity securities as at FVOCI. In 2017, these investments were classified as available-for-sale and measured at cost. The FVOCI designation was made because the shares in Central 1 are required as a condition of membership in Central 1. There is no active market for these shares as they are issued only by virtue of membership in Central 1. The shares are redeemable upon withdrawal of membership or at the discretion of the Board of directors of Central 1. In addition, the member credit unions are subject to additional capital calls as determined by the Central 1 Board of Directors.

Dividends are at the discretion of Central 1. Dividends received on these shares in 2018 amounted to $59,612 (2017 - $61,350).

During the year, Central 1 received all regulatory and Board approvals to complete a Class F Share Restructuring, which was required to rebalance inequity within the Mandatory Liquidity Pool. The Class F Share Restructuring involved the issuance of Class F shares, and partial redemption of Class A shares and Class E shares. The transaction was processed on March 29, 2018.

The Central 1 Class A and Class F shares are subject to periodic rebalancing and the redemption value is equal to par value. Accordingly, the fair value is considered to be equivalent to par value or redemption value.

The Central 1 Class E shares are not subject to rebalancing and the redemption value is not equal to par value.

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

8 Investments (continued)

CUCO Co-op Class B investment shares

The Credit Union has an investment in the CUCO Cooperative Association ("the CUCO Co-op"), which is owned collectively by Ontario credit unions. The CUCO Co-op was formed on September 2, 2011, through the restructuring of Credit Union Central of Ontario and ABCP (2008) Limited Partnership ("the Partnership"), at which time the Credit Union received 500,471,006 CUCO Co-op Class B investment shares in exchange for its proportionate interest in the Partnership. The CUCO Co-op Class B investment shares are redeemable for an amount equal to the fair market value at the time of redemption only upon approval of the board of CUCO Co-op. The shares are transferable only upon approval of the board of CUCO Co-op. The shares are non-voting, non-par value, non-retractable and non-convertible. The shares have a discretionary dividend entitlement but no fixed dividend rights.

During the prior year, the final third party asset-backed commercial paper investment held by the CUCO Co-op matured, and as at December 31, 2018, the assets of the CUCO Co-op consist primarily of cash resources.

At a special general meeting of the shareholders on September 27, 2017, the shareholders of the CUCO Co-op voted to dissolve the company, which is expected to be finalized in 2019. Since the date of the last financial statements, the assets of the CUCO Co-op have been placed into escrow as the CUCO Co-op awaits final clearance from the Canada Revenue Agency prior to distribution to the members.

During the year the Credit Union did not receive any distributions from the CUCO Co-op.

9 Derivatives

(a) Equity index-linked deposits

The Credit Union has outstanding $5,378,228 (2017 - $1,453,166) in index-linked products to its members. The index-linked products are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The Credit Union has purchased index-linked options agreements with Central 1 to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from Central 1 payments equal to the amount that will be paid to depositors based on the performance of the underlying indices. The fair value of these index-linked option contracts is $109,280 (2017 - $112,882).

(b) Interest rate swaps

As part of its interest rate risk management process, the Credit Union utilizes interest rate contracts in the form of interest rate swaps to maintain its interest rate exposure with preset limits established by management. The notional amount relating to these contracts as at December 31, 2018 is $25,000,000 (2017 - $nil).

Interest rate swap agreements are valued by netting the credit adjustment, discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates in the agreements. These notional cash flows are discounted using the relevant points on the zero interest rate curve as derived from the month-end CDOR and swap rates. As at December 31, 2018, the fixed rates on the Credit Union's interest rate swap is 2.29% (2017 - NA).

10 Loans and advances to members

Loans and advances to members at amortized cost

As at December 31, 2018	Gross carrying amount	ECL allowance	Transaction costs	Carrying amount
Residential mortgage loans	$317,604,281	$ (612,590)	$ 986,022	$317,977,713
Personal loans	5,314,643	(160,423)	-	5,154,220
Commercial loans and syndicated	29,627,427	(745,562)	-	28,881,865
	$352,546,351	$ (1,518,575)	$ 986,022	$352,013,798

As at December 31, 2017	Gross carrying amount	Impairment allowance	Transaction costs	Carrying amount
Residential mortgage loans	$334,626,141	$ (101,649)	$ 1,519,081	$336,043,573
Personal loans	6,106,132	(354,816)	-	5,751,316
Commercial loans and syndicated	25,300,104	(908,044)	-	24,392,060
	$366,032,377	$ (1,364,509)	$ 1,519,081	$366,186,949

Transaction costs represent the unamortized portion of fees paid to mortgage brokers. These costs are amortized to income over the term of the residential mortgage loans through reducing the effective yield.

Interest income on member loans receivable are summarized as follows:

For the year ended December 31	2018	2017
Residential mortgage loan interest	$ 11,671,078	$ 10,529,770
Personal loan interest	425,972	495,260
Commercial loan interest	1,104,903	1,138,840
	$ 13,201,953	$ 12,163,870

Terms and conditions

Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years. Residential and commercial mortgage loans bear interest at fixed (not in advance) and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years based on a maximum amortization of thirty years. Line of credit loans bear interest at variable rates and are repayable at a minimum of interest only, not in advance, subject to annual review.

10 Member loans receivable (continued)

Terms and conditions (continued)

Commercial and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest installments over a maximum of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments.

All loans are open and, at the option of the borrower, may be repaid at any time without notice or penalty, with the exception of commercial and residential loans and mortgages with a term exceeding one year.

Average yields to maturity

Member loans bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2018	**Principal**	**Yield**
Variable rate	**$ 77,569,130**	**4.91%**
Fixed rate due less than one year	**46,078,178**	**3.78%**
Fixed rate due between one and five years	**228,899,043**	**3.62%**
	$ 352,546,351	

2017		
Variable rate	$ 89,343,698	4.07%
Fixed rate due less than one year	48,816,458	3.53%
Fixed rate due between one and five years	227,872,221	3.55%
	$ 366,032,377	

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

As at December 31	**2018**	2017
Unsecured loans	**$ 5,277,657**	$ 6,013,121
Residential mortgages insured - other	**46,343,372**	52,682,181
Residential mortgages insured by government	**32,478,528**	40,909,732

Fair value

The fair value of member loans at December 31, 2018 was $344,780,000 (2017 - $360,875,000).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis.

The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

11 Capital assets

	Land	Building	Equipment and leaseholds	Parking area	Total
Cost					
Balance at January 1, 2017	$ 266,132	$ 7,523,334	$ 1,500,850	$ 197,157	$ 9,487,473
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance on December 31, 2017	266,132	7,523,334	1,500,850	197,157	9,487,473
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance on December 31, 2018	$ 266,132	$ 7,523,334	$ 1,500,850	$ 197,157	$ 9,487,473
Accumulated depreciation					
Balance at January 1, 2017	$ -	$ 3,782,699	$ 1,219,248	$ 6,728	$ 5,008,675
Depreciation expense	-	344,236	143,700	21,285	509,221
Disposals	-	-	-	-	-
Balance on December 31, 2017	-	4,126,935	1,362,948	28,013	5,517,896
Depreciation expense	-	330,244	70,315	21,599	422,158
Disposals	-	-	-	-	-
Balance on December 31, 2018	$ -	$ 4,457,179	$ 1,433,263	$ 49,612	$ 5,940,054
Net book value					
December 31, 2017	$ 266,132	$ 3,396,399	$ 137,902	$ 169,144	$ 3,969,577
December 31, 2018	$ 266,132	$ 3,066,155	$ 67,587	$ 147,545	$ 3,547,419

12 Employee pension plan

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union, as the legal administrator of the Plan and has retained the services of CUMIS as a third party administrator.

Assets of the pension fund are held by CUMIS and invested in a Deposit Administration Fund, operated by CUMIS, and in a balanced fund, operated by McLean Budden and Philips Hagar North.

The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

As outlined in note 5, the defined benefit plan was frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015. Contributions by the Credit Union to the defined contribution plan during the year were $147,206 (2017 - $183,835).

An actuarial valuation was performed as at December 31, 2017. The changes in the defined benefit plan during the year are as follows:

(a) Elements of the defined benefit pension expense recognized in the year:

	2018	2017
Expected return on assets	$ (508,800)	$ (561,900)
Interest cost on accrued pension obligations	490,700	549,900
Settlement loss	140,000	279,100
	$ 121,900	$ 267,100

(b) Plan assets:

	2018	2017
Fair value, beginning of the year	$15,044,400	$ 14,734,600
Employer contributions	660,700	1,076,300
Benefits paid	(1,673,300)	(1,728,600)
Expected return on assets	508,800	561,900
Actuarial gain / (loss)	(678,600)	400,200
Fair value, end of the year	$13,862,000	$ 15,044,400

The fair value of plan assets as at December 31 is categorized by type of asset as follows:

	2018	2017
Equities	42%	42%
Fixed term	55%	55%
Short term	3%	3%

12 Employee pension plan (continued)

(c) Accrued pension obligations:

	2018	2017
Obligation, beginning of year	$ 14,785,400	$ 14,824,200
Settlement loss	140,000	279,100
Interest cost on plan obligation	490,700	549,900
Benefits paid	(1,673,300)	(1,728,600)
Actuarial (gain) loss	(762,600)	860,800
Obligation, end of year	$ 12,980,200	$ 14,785,400

(d) Reconciliation of funded status to the amount recorded in the statement of financial position:

	2018	2017
Fair value of plan assets	$ 13,862,000	$ 15,044,400
Accrued pension obligation	(12,980,200)	(14,785,400)
Plan surplus	$ 881,800	$ 259,000

(e) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2018	2017
Discount rate	3.90%	3.50%
Expected return on plan assets	3.90%	3.50%
Expected rate of compensation increases	NA%	2.00%

13 Post-employment benefits - non-pension

The changes in the defined benefit plan during the year are as follows:

(a) Elements of the post-retirement non-pension expense recognized in the year:

	2018	2017
Current service cost	$ 61,900	$ 56,500
Interest cost on accrued obligations	179,300	184,000
	$ 241,200	$ 240,500

13 Post-employment benefits - non-pension (continued)

(b) Accrued benefit obligations:

	2018	2017
Obligation, beginning of year	$ 5,165,300	$ 4,751,700
Current service cost	61,900	56,500
Retiree premiums	38,700	38,300
Interest cost on plan obligation	179,300	184,000
Benefits paid	(245,400)	(219,700)
Actuarial (gain) loss	76,300	354,500
Obligation, end of year	$ 5,276,100	$ 5,165,300

(c) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2018	2017
Discount rate	3.90%	3.50%

14 Members' accounts and deposits

As at December 31	2018	2017
Demand deposits	$ 119,231,425	$ 117,179,180
Term deposits	98,255,698	110,787,622
Registered savings plans	41,486,791	44,546,040
Registered income funds	23,378,360	23,850,336
Tax free savings accounts	42,502,071	37,260,870
	324,854,345	333,624,048
Less: Transaction costs	(133,939)	(183,442)
	$ 324,720,406	$ 333,440,606

Transaction costs represent the unamortized portion of fees paid to deposit brokers. These costs are amortized to expense over the term of the deposit through increasing the effective rate paid on the deposit.

Interest expense on members' accounts and deposits are summarized as follows:

For the year ending December 31	2018	2017
Demand deposits	$ 271,911	$ 250,665
Term deposits	2,205,221	2,572,732
Registered savings plans	588,088	610,737
Registered income funds	354,902	352,206
Tax free savings accounts	675,982	579,073
	$ 4,096,104	$ 4,365,413

14 Members' accounts and deposits (continued)

Terms and conditions

Chequing accounts and demand savings accounts are due on demand and bear interest at variable rates which depend upon the type of account and the balance maintained.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity.

Registered plans and tax free savings accounts consist of fixed rated deposits and variable rate deposits.

Average yields to maturity

Members' accounts and deposits bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2018	**Principal**	**Yield**
Variable rate	**$ 161,874,888**	**0.53%**
Fixed rate due less than one year	**88,566,111**	**1.85%**
Fixed rate due between one and five years	**74,413,346**	**2.06%**
	$ 324,854,345	

2017		
Variable rate	$ 159,043,257	0.51%
Fixed rate due less than one year	112,039,487	1.59%
Fixed rate due between one and five years	62,541,304	2.18%
	$ 333,624,048	

Fair value

The fair value of member deposits at December 31, 2018 was $326,574,000 (2017 - $335,672,000).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

15 Mortgage securitization liability

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. These arrangements allow the Credit Union to transfer fully insured residential mortgages to unrelated third parties, generally through the transfer of these assets to multi-seller conduits which issue securities to investors.

These transactions are derecognized from the statement of financial position when the transaction meets the derecognition criteria described in note 5. In instances where the Credit Union's mortgage securitizations do not result in a transfer of contractual cash flows of the mortgages or the assumption of an obligation to pay the cash flows of the mortgages to a transferee, the Credit Union has not derecognized the transferred asset and has instead recorded a secured borrowing with respect to any consideration received.

During the year, the Credit Union had outstanding mortgage securitization liabilities pertaining to the use of a securitization vehicle to access liquidity. Under the securitization vehicle, the Credit Union packages insured mortgage loan receivables into National Housing Act mortgage backed securities ("MBS") and in turn sells the MBS to Canada Housing Trust ("CHT") and Central 1 directly through the Canada Mortgage Bond Program ("CMB Program"). CHT is financing through the issuance of government guarantee mortgage bonds, which are sold to third party investors. Proceeds of the issuances are used by CHT to purchase the government guaranteed MBS from approved issuers.

As all mortgages securitized by the Credit Union are required to be fully insured prior to sale, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. As the Credit Union remains exposed to interest rate risk, timely payment and prepayment risks associated with the underlying assets, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for a secured financing transactions in the Credit Union's statement of financial position and statement of comprehensive income.

Costs incurred in the establishment of a securitization issue are amortized over the life of the issue as part of mortgage securitization cost of funds included within interest expense - other.

The following summarizes the carrying value of assets of the Credit Union that have been securitized and sold by the Credit Union to third parties as well as the carrying value of the corresponding mortgage securitization liability:

Year-ended December 31	2018	2017
Securitized mortgages transferred via CMB Program (included in member loans)	$ 52,068,327	$ 55,681,122
Less: principal repayments	(7,246,069)	(3,612,795)
Total designated assets	$ 44,822,258	$ 52,068,327
Amount held in trust for CMHC	(546,455)	-
Less: Transaction costs	(161,141)	(213,295)
Net amount	$ 44,114,662	$ 51,855,032

The fair value of the securitized mortgages and the mortgage securitization liabilities as at December 31, 2018 was $42,036,972 and $43,965,878 (2017 - $49,103,929 and $51,681,649), respectively.

16 Members' share capital

The authorized share capital of the Credit Union consists of the following:

(i) an unlimited number of Class A Patronage Shares;
(ii) an unlimited number of Class B special shares, issuable in series ("Class B Life Shares");
(iii) an unlimited number of Class C special shares, issuable in series ("Class C Investment Shares");
(iv) an unlimited number of Class D special shares, issuable in series ("Class D Foundation Shares"); and
(v) an unlimited number of Membership Shares.

For payment of dividend or in the event of the liquidation, dissolution or winding up of the Credit Union the shares rank in terms of priority as follows:

Class D Foundation Shares
Class C Investment Shares
Class B Life Shares
Class A Patronage Shares
Membership Shares

The issued share capital consists of the following:

As at December 31	2018		2017	
	Equity	**Liability**	Equity	Liability
Class A Patronage shares	$ -	$ 2,787,227	$ -	$ 2,863,125
Class C Investment shares	7,463,508	-	7,311,354	-
Membership shares	-	111,541	-	120,103
	$ 7,463,508	$ 2,898,768	$ 7,311,354	$ 2,983,228

Terms and conditions

(a) Class A Patronage Shares

Class A Patronage Shares result from patronage rebates or dividends. The holders of Class A Patronage Shares are entitled to non-cumulative dividends, to be declared by the Board at a rate determined by the Credit Union's dividend policy from time to time.

Class A Patronage Shares are redeemable upon termination of membership in the Credit Union, or at any time after the death of a shareholder.

The Credit Unions and Caisses Populaires Act, 1994 permits the redemption of patronage shares of the Credit Union if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption. Redemptions in any fiscal year may not exceed 10% of the total Class A Patronage Shares outstanding at the beginning of that fiscal year.

(b) Class C Special Shares

The holders of Class C Special Shares are entitled to receive dividends, when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act, which are described in note 17.

The Series 96 Class C Special Shares are redeemable after five years from the date of issuance or at any time after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Series 96 Class C Special Shares outstanding at the beginning of that fiscal year.

The Credit Union has the option to purchase for cancellation all or any part of the outstanding Series 96 Class C Special Shares at any time after the expiry of five years from the issue date.

16 Members' share capital (continued)

(c) Membership Shares

Each member is required as a condition of membership to hold 2 (2017 - 2) Membership Shares, which are issued at $5 per share.

The Credit Unions' and Caisses Populaires Act, 1994 permits the redemption of Membership Shares if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption.

Distributions to members for each class of shares is as follows:

	2018		2017	
	Net income	Equity	Net income	Equity
Class A Patronage Shares	$ 30,983	$ -	$ 30,983	$ -
Class C Investment Shares	-	221,291	-	174,840
Less: related income taxes	-	(34,300)	-	(27,100)
	$ 30,983	$ 186,991	$ 30,983	$ 147,740

17 Capital and liquidity management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union considers its capital to include membership shares (member shares, patronage shares, investment shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to each asset class, operational and interest rate risk criteria. The prescribed risk weightings are dependant on the degree of inherent risk in the asset.

As at December 31, 2018, the Credit Union met the capital requirements of the Act which require a calculated members' capital ratio of 4% and a risk weighted asset ratio of 8%.

Regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2018	2017
Tier 1 Capital		
Class A Patronage shares	$ 2,787,227	$ 2,863,125
Class B Investment shares	7,463,508	7,311,354
Less: Redeemable Class B Investment shares	(746,351)	(731,135)
Membership shares	111,541	120,103
Retained earnings	17,107,965	15,172,882
less: Pension asset	(881,800)	(259,000)
	25,842,090	24,477,329
Tier 2 Capital		
Redeemable portion of Class B Investment shares	746,351	731,135
General provisions	1,390,411	1,336,513
Accumulated other comprehensive income	(4,481,887)	(4,489,587)
	(2,345,125)	(2,421,939)
Total Regulatory Capital	$ 23,496,965	$ 22,055,390
% of total assets	5.86%	5.30%
% of total risk weighted capital	15.68%	15.03%

The Act also requires that the Credit Union maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs. Assets qualifying for liquidity comprise:

	2018	2017
Cash	$ 13,214,273	$ 12,248,304
Central 1 discount deposit liquidity reserve	7,007,170	11,524,788
Central 1 floating rate liquidity deposit	17,118,290	14,093,290
Central 1 USD discount deposit	1,364,200	1,254,500
	$ 38,703,933	$ 39,120,882
% of member deposits	11.92%	11.73%

18 Commitments

(a) Credit facilities

The Credit Union maintains clearing facilities totaling $1,000,000 CDN (2017 - $1,000,000 CDN) which bears various interest rates based on a percentage of the Credit Union's assets and $200,000 US (2017 - $200,000 US) which bears interest at the U.S. Base Rate, currently 6% (2017 - 4.25%). The Credit Union also has available a demand loan facility for $16,000,000 CDN (2017 - $16,000,000), and a capital markets line totaling $1,200,000 (2017 - $nil CDN) for total facilities of $18,400,000 (2017 - $17,200,000) at Central 1.

If the balance outstanding on the line of credit and overdraft facility is less than 0.5% of the Credit Union's total assets, interest is calculated at the Bank of Canada's overnight bank rate plus 75 basis points. The overnight bank rate as at December 31, 2018 was 1.75% (2017 - 1.00%). For outstanding balances greater than 0.5% of the Credit Union's total assets, interest is calculated at the Bank of Canada prime rate of 3.95% (2017 - 2.95%).

If the balance outstanding on the CDN and USD line of credit and overdraft facility exceeds the authorized limit, interest on the CDN facility is calculated at the Central 1 prime rate plus 2.00% and interest on the U.S. facility is calculated at U.S. Base Rate plus 4.00%.

The facilities are renewable annually and are secured by an assignment of book debts and a General Security Agreement and is renewable annually.

As at December 31, 2018 the Credit Union has not drawn on these facilities.

(b) Operating lease

The Credit Union has extended the operating lease for the rental of premises for the Bowmanville branch until June 30, 2020, with an option to renew for a further five years. The minimum required lease payments excluding HST and TMI are as follows:

2019	$	64,468
2020		65,839
2021		67,211
2022		68,583
2023		69,954

(c) Loans and advances to members

The Credit Union has the following commitments to its members as at December 31, 2018 on account of unadvanced loans, unused lines of credit, and unadvanced letters of credit:

	2018	2017
Unadvanced commercial mortgages	$ **3,589,369**	$ 1,832,331
Unadvanced residential mortgages	**2,318,486**	2,692,845
Unadvanced personal loans	**69,000**	-
Unused lines of credit	**55,587,387**	54,324,358
Letters of credit	**113,682**	97,819
	$ **61,677,924**	$ 58,947,353

When the loans are advanced, they are subject to the same terms and conditions as described in note 10.

19 Related party transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority or responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

		2018		2017
Compensation:				
Salaries and other short-term employee benefits	$	396,393	$	337,796
Director remuneration		35,170		42,555
	$	431,563	$	380,351

Under the Credit Union's policy for lending, loans to staff and directors are eligible for a lending discount of 2.00% from the rates that apply to members for a mortgage up to $400,000. For amounts greater than $400,000, a rate reduction of 1.00% applies which is blended with the lower rate on the first $400,000. The minimum floor rate is 2.50%.

Prior to January 1, 2018 the Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions which apply to members for each class of loan. All loans conform to the Credit Union's policies with respect to term, interest rates and limits and have been approved by the Board of Directors. None of the loans to restricted parties were impaired as at December 31, 2018 and accordingly, there is no allowance for impaired loans required.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

		2018		2017
Loans to key management personnel:				
Aggregate value of loans advanced	$	1,381,037	$	1,607,668
Interest received on loans advanced		36,508		37,470
Total value of lines of credit advanced		202,551		4,142
Interest received on lines of credit advanced		6,151		1,111
Unused value of lines of credit		320,078		186,500
Deposits from key management personnel:				
Aggregate value of term and savings deposits	$	316,713	$	274,806
Total interest paid on term and savings deposits		2,392		247

Remuneration of officers and employees

The Act requires credit unions to disclose remuneration paid during the year to the officers and employees of the Credit Union whose total remuneration for the year exceeds $150,000. The summary below provides this information for the current year:

	Salary	Bonus	Benefits	Total
Chris Inniss (Chief Executive Officer)	$153,385	$13,989	$16,294	$183,666

20 Income taxes

The provision for income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2018	2017
Net income before income taxes	$ 2,492,926	$ 3,016,235
Statutory income tax rate	26.50%	26.50%
Expected income tax provision	660,625	799,302
Decrease in taxes resulting from:		
Small business and credit union deduction	(206,304)	(184,428)
Other	(83,469)	(122,823)
Provision for income taxes	$ 370,852	$ 492,051
Comprised of:		
Current provision	$ 370,852	$ 372,114
Deferred provision	-	119,937
	$ 370,852	$ 492,051

The movement in 2018 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2018	Recognize in net income	Recognize in OCI	Closing Balance at December 31, 2018
2018				
Deferred tax assets				
Property, plant and equipment	$ 140,138	$ 117,183	$ -	$ 257,321
Expected credit losses	341,525	22,138	-	363,663
Step deposits	38,691	(11,110)	-	27,581
Employee future benefits	1,284,828	(128,211)	-	1,156,617
Deferred tax asset	$ 1,805,182	$ -	$ -	$ 1,805,182
Deferred tax liabilities				
Unrealized gain on CUCO Co-op Class B investment shares	$ -	$ -	$ -	$ -
2018 net deferred tax asset	$ 1,805,182	$ -	$ -	$ 1,805,182

20 Income taxes (continued)

The movement in 2017 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2017	Recognize in Net Income	Recognize in OCI	Closing Balance at December 31, 2017
2017				
Deferred tax assets				
Property, plant and equipment	$ 90,434	$ 49,704	$ -	$ 140,138
Allowance for impaired loans	269,705	71,820	-	341,525
Step deposits	43,046	(4,355)	-	38,691
Employee future benefits	1,318,442	(237,106)	203,492	1,284,828
Deferred tax asset	$ 1,721,627	$ (119,937)	$ 203,492	$ 1,805,182
Deferred tax liabilities				
Unrealized gain on CUCO Co-op Class B investments shares	$ 100,855	$ -	$ (100,855)	$ -
2017 net deferred tax asset	$ 1,620,772	$ (119,937)	$ 102,637	$ 1,805,182

21 Other income

	2018	2017
Commissions and fees	**$ 1,361,109**	$ 1,418,948
Dividend on CUCO Class B investment shares	**-**	685,975
Mortgage discharge penalties	**226,602**	501,757
Foreign exchange gains	**28,051**	58,424
Safety deposit box rental	**18,319**	20,160
	$ 1,634,081	$ 2,685,264

22 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between the line items on the balance sheet and categories of the carrying amount by classification.

December 31, 2018	**Mandatory at FVTPL**	**Designated as at FVTPL**	**FVOCI - debt instruments**	**FVOCI - equity instruments**	**Amortized cost**	**Total carrying amount**
Cash and cash equivalents	$ -	$ 13,214,273	$ -	$ -	$ -	$ 13,214,273
Investments	-	-	-	2,722,813	25,489,660	28,212,473
Accrued interest receivable	-	-	-	-	542,572	542,572
Loans and advances to members	-	-	-	-	353,532,373	353,641,653
Derivative financial instruments	109,280	-	-	-	-	109,280
Total financial assets	$ 109,280	$ 13,214,273	$ -	$ 2,722,813	$ 379,564,605	$ 395,720,251
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ -	$ 2,717,178	$ 2,717,178
Accrued member interest, dividends and patronage return	-	-	-	-	1,976,428	1,976,428
Mortgage securitization liabilities	-	-	-	-	44,114,662	44,114,662
Members' accounts and deposits	-	-	-	-	324,720,406	324,720,406
Member's share capital	-	-	-	-	10,362,276	10,362,276
Total financial liabilities	$ -	$ -	$ -	$ -	$ 383,890,950	$ 383,890,950

December 31, 2017	Held for trading	Designated as at FVTPL	Held to maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount
Cash and cash equivalents	$ 12,248,304	$ -	$ -	$ -	$ -	$ -	$ 12,248,304
Investments	-	-	-	26,872,578	3,107,908	-	29,980,486
Accrued interest receivable	-	-	-	498,712	-	-	498,712
Loans and advances to members	-	-	-	366,186,949	-	-	366,299,831
Derivative financial instruments	112,882	-	-	-	-	-	112,882
Total financial assets	$ 12,361,186	$ -	$ -	$ 393,558,239	$ 3,107,908	$ -	$ 409,140,215
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ -	$ -	$ 3,137,509	$ 3,137,509
Accrued member interest, dividends and patronage return	-	-	-	-	-	1,888,997	1,888,997
Mortgage securitization liabilities	-	-	-	-	-	51,855,032	51,855,032
Members' accounts and deposits	-	-	-	-	-	333,440,606	333,440,606
Member's share capital	-	-	-	-	-	10,294,582	10,294,582
Total financial liabilities	$ -	$ -	$ -	$ -	$ -	$ 400,616,726	$ 400,616,726

22 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and equivalents	Held for trading	FVTPL	$ 12,248,304	$ 12,248,304
Investments - deposit instruments	Amortized cost	Amortized cost	26,872,578	26,872,578
Investments - equity securities	Available-for-sale	FVOCI	3,107,908	3,107,908
Accrued interest receivable	Loans and receivables	Amortized cost	498,712	498,712
Loans and advances to members	Loans and receivables	Amortized cost	366,186,949	366,186,949
Derivative financial instrument	FVTPL	FVTPL	112,882	112,882
Total financial assets			$409,027,333	$409,027,333
Financial liabilities				
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	$ 3,137,509	$ 3,137,509
Members' accounts and deposits	Amortized cost	Amortized cost	333,440,606	333,440,606
Accrued members' interest, dividends and patronage return	Amortized cost	Amortized cost	1,888,997	1,888,997
Mortgage securitization liabilities	Amortized cost	Amortized cost	51,855,032	51,855,032
Member's share capital	Amortized cost	Amortized cost	10,294,582	10,294,582
Total financial liabilities			$400,616,726	$400,616,726

The Credit Union's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 5. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- Certain debt securities are held by the Credit Union in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Credit Union considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortized cost under IFRS 9.
- Certain debt securities are held by the Credit Union in separate portfolios to meet everyday liquidity needs. The Credit Union seeks to minimize the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Credit Union considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The Credit Union's equity investment in Central 1 has been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because fair value was not considered to be reliably measurable. IFRS 9 has removed this cost exception.

These reclassifications did not impact the carrying amount of the financial assets and financial liabilities at January 1, 2018.

22 Financial assets and financial liabilities (continued)

Fair value hierarchy

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and liabilities approximate carrying value. These include cash and cash equivalents, accrued interest receivable, accounts payable and accrued liabilities and accrued interest, dividends and patronage return payable. The fair values disclosed do not include the value of assets that are not considered financial instruments.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

	Level 1	Level 2	Level 3
December 31, 2018			
Investments measured at FVOCI - equity securities	$ -	$ 2,722,813	$ -
Financial assets for which fair value is disclosed			
Loans and advances to members	$ -	$ -	$344,780,000
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	$ -	$ -	$326,574,000

	Level 1	Level 2	Level 3
December 31, 2017			
Available-for-sale investment instruments	$ -	$ 3,107,908	$ -
Financial assets for which fair value is disclosed			
Loans and advances to members	$ -	$ -	$360,875,000
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	$ -	$ -	$335,672,000

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and December 31, 2018.

23 Financial risk review

This note presents information about the Credit Union's exposure to financial risks and the Credit Union's management of capital.

For information on the Credit Union's financial risk management framework, see note 23.

Credit risk

(i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 24.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2018 Total	2017 Total
Loans and advances to members at amortized cost:					
Low - fair risk	$338,193,869	$ -	$ -	$338,193,869	$365,969,877
Doubtful	-	12,571,457	-	12,571,457	-
Loss	-	-	1,781,025	1,781,025	62,500
	338,193,869	12,571,457	1,781,025	352,546,351	366,032,377
Expected credit loss	(1,296,078)	(94,333)	(128,164)	(1,518,575)	(1,364,513)
Carrying amount	$336,897,791	$ 12,477,124	$ 1,652,861	$351,027,776	$364,667,864

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Credit Union are generally not collateralized. The Credit Union has credit risk, which arises from the possibility that its counterparty to a derivative contract could default on their obligation to the Credit Union.

Notional amounts are used as a basis for calculating cash flows to be exchanged under derivative contracts and are generally not actually exchanged between the Credit Union and its counterparties. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure. The credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose the Credit Union to credit loss where there is a favourable change in market rates from the Credit Union's perspective and the counterparty fails to perform. The Credit Union only enters into derivative contracts with a counterparty that the Credit Union has determined to have high creditworthiness.

23 Financial risk review (continued)

(i) Credit quality analysis (continued)

As at December 31		2018		2017
	Notional amount	**Fair value**	Notional amount	Fair value
Equity index-linked deposits				
Derivative assets	**$ 5,727,130**	**$ 109,280**	$ 1,475,593	$ 112,882
Derivative liabilities	**5,378,228**	**(109,280)**	1,453,166	(112,882)
Interest rate swaps				
Derivative assets	**$ 25,000,000**	**$ (5,580)**	NA	NA
Derivative liabilities	**25,000,000**	**5,580**	NA	NA

Cash and cash equivalents

Cash and cash equivalents are held with Central 1 which is rated at A- based on Standard & Poor's.

(ii) Collateral held and other credit enhancements

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral values at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

As at December 31,	2018	2017
LTV ratio:		
Less than 40%	**$ 58,363,046**	$ 53,671,234
40 - 60%	**62,119,910**	58,694,175
60 - 80%	**151,644,600**	165,066,090
80 - 95%	**42,643,915**	50,058,062
More than 95%	**2,832,810**	6,838,095
Total	**$ 317,604,281**	$ 334,327,656

Commitments to advance residential mortgage loans

As at December 31,	2018	2017
LTV ratio:		
Less than 40%	**$ 440,379**	$ 342,345
41 - 60%	**910,107**	731,500
61 - 80%	**968,000**	1,619,000
81 - 95%	**-**	-
More than 95%	**-**	-
Total	**$ 2,318,486**	$ 2,692,845

23 Financial risk review (continued)

(ii) Collateral held and other credit enhancements (continued)

Loans and advances to commercial customers

As at December 31,	2018	2017
LTV ratio:		
Less than 40%	$ 3,099,121	$ 2,563,920
40 - 60%	7,837,157	6,321,214
60 - 80%	17,649,430	14,296,981
80 - 95%	368,591	1,569,087
More than 95%	-	548,902
Total	$ 28,954,299	$ 25,300,104

The general creditworthiness of a commercial customer tends to be the most relevant indicator of credit quality of a loan (see note 24). However, collateral provides additional security and the Credit Union generally requests that corporate borrowers provide it. The Credit Union may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Credit Union's focus on commercial customers' creditworthiness, the Credit Union does not routinely update the valuation of collateral held against all loans to commercial customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Credit Union obtains appraisals of collateral because it provides input into determining the management credit risk actions.

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in note 5.

Significant increase in credit risk

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

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Generating the term structure of PD

The Credit Union collects performance and default information about its credit risk exposures analyzed by region and by type of product and borrower.

The Credit Union employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

23 Financial risk review (continued)

(iii) Amounts arising from ECL (continued)

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Credit Union considers the following factors when determining if there is an increase in credit risk:

- non-sufficient funds activity, loss of employment, gambling activity, late payments, unsustainable lifestyle, potential victimization, escalating unsecured debt, minimal estate value, uninsurable, marital breakdown, illness, declining credit score, title issues and covenant breaches

Using its expert credit judgement and, where possible, relevant historical experience, the Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise by fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Credit Union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Credit Union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in note 5.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

23 Financial risk review (continued)

(iii) Amounts arising from ECL (continued)

Definition of default

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

- 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 material credit obligation to the Credit Union. Overdrafts are considered as being past due once the customer has breached an advanced limit or been advised of a limit smaller than the current amount outstanding;
- 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;
- the Credit Union has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the Credit Union considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Credit Union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and the significance of the inputs may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Credit Union for regulatory capital purposes.

Incorporation of forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a base case of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a 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. Periodically, the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2018 included the following ranges of Canadian key indicators for the years ended December 31, 2018.

23 Financial risk review (continued)

(iii) Amounts arising from ECL (continued)

Incorporation of forward-looking information (continued)

	2018
Unemployment rates	Base 6.1% Range between 5.5% and 6.3%
Interest rates	Base 2.2% Range between 0.5% and 8.1%
GDP growth	Base 2.0% Range between -4.9% and 2.8%
House prices	Base 11.9% growth Range between reduction of 1.0% and increase of 27.0%

During the year General Motors announced closure of its manufacturing facility in Oshawa. Management has considered the impact of this closure in establishing ECL.

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large commercial counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

23 Financial risk review (continued)

(iii) Amounts arising from ECL (continued)

Measurement of ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Credit Union measures ECL considering the risk of default over the maximum collateral period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Credit Union considers a longer period. The maximum contractual period extends to the date at which the Credit Union has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts that include both a loan an an undrawn commitment component, the Credit Union measures ECL over a period longer than the maximum contractual period when the Credit Union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Credit Union can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Credit Union becomes aware of an increase in credit risk management actions that the Credit Union expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Allowance for impairment

The following table reconciles the opening to the closing balance of the allowance for impairment by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

Year ended December 31,				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Loans and advances to members at amortized cost - retail customers				
Balance at January 1 per IAS 39				$ 1,364,513
Adjustment on initial application of IFRS 9				-
Balance at January 1 per IFRS 9	$ 1,331,628	$ 4,885	$ 28,000	1,364,513
Transfer to 12-month ECL	(96,102)	-	96,102	-
Transfer to lifetime ECL not credit-impaired	(89,448)	89,448	-	-
Provision for impairment losses on member loans	150,000	-	-	150,000
Write-offs	-	-	(16,190)	(16,190)
Recoveries of amounts previously written off	-	-	20,252	20,252
Balance at December 31	$ 1,296,078	$ 94,333	$ 128,164	$ 1,518,575

23 Financial risk review (continued)

(iii) Amounts arising from ECL (continued)

Allowance for impairment (continued)

Year ended December 31,			2017
	Individual	Collective	Total
Loans and advances to members at amortized cost - retail customers			
Balance as at January 1 per IAS 39	$ 254,555	$ 992,297	$ 1,246,852
Provision for impairment losses on member loans	(194,216)	344,216	150,000
Write-offs	(53,808)	-	(53,808)
Recoveries of amounts previously written off	21,469	-	21,469
Balance as at December 31	$ 28,000	$ 1,336,513	$ 1,364,513

(iv) Impaired financial assets - Comparative information under IAS 39

Year ended December 31,	Loans and advances to members 2017
Neither past due nor impaired:	
Low-fair risk	$354,916,531
Watch list	-
	$354,916,531
Past due but not impaired:	
30 - 60 days	$ 5,882,089
61 - 90 days	569,989
	$ 6,452,078
Individually impaired:	
Substandard	$ 4,615,128
Loss	48,640
	$ 4,663,768
Allowance for impairment:	
Individual	$ (28,000)
Collective	(1,336,513)
Total allowance for impairment	$ (1,364,513)

23 Financial risk review (continued)

(iv) Impaired financial assets - Comparative information under IAS 39 (continued)

Loans that are past due but not impaired

Loans that are "past due but not impaired" are those for which contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Credit Union. The amounts disclosed exclude assets measured at FVTPL.

(v) Concentrations of credit risk

The Credit Union monitors concentrations of credit risk by sector. An analysis of concentration of credit risk from loans and advances to members is shown below.

As at December 31	2018	2017
Concentration by sector		
Commercial:		
Real estate	$ 23,675,841	$ 18,464,091
Accommodation	3,500,000	2,153,060
Wholesale	1,278,567	1,465,234
Other	1,173,019	3,217,719
	$ 29,627,427	$ 25,300,104
Retail:		
Mortgages and home equity lines of credit	$317,604,281	$334,626,141
Unsecured lending	5,314,643	6,106,132
	$322,918,924	$340,732,273

Concentration by location for loans and advances, loan commitments and financial guarantees, is based on the customers residential address.

24 Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the members' character, ability to pay, and value of collateral available to secure the loan.

Objectives, policies and procedures

The Credit Union's risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Processes for measuring ECL, including initial approval, regular validation and back-testing of the models used and incorporation of forward-looking information; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful accounts quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken. Additional security is taken in the form of mortgage insurance from the government and Genworth as disclosed in note 10.

There have been no significant changes from the previous year in the exposure to risk relating to policies, procedures and methods used to measure the risk.

24 Financial instrument risk management (continued)

Liquidity risk (continued)

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of The Credit Unions and Caisses Populaires Act, 1994 require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

24 Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset / liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Insurance Corporation of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of Ontario as required by Credit Union Regulations. For the year-ended December 31, 2018, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

(Thousands)	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	$ 101,448	4.37	$ 191,118	0.68	$ (89,670)
4 - 12 months	38,566	3.68	59,322	2.01	(20,756)
1 - 2 years	30,092	3.79	23,340	2.21	6,752
2 - 5 years	221,193	3.43	51,130	2.00	170,063
Interest sensitive	$ 391,299		$ 324,910		$ 66,389
Non-interest sensitive					
0 - 3 months	$ 4,197	-	$ 14,861	-	$ (10,664)
4 - 12 months	-	-	-	-	-
1 - 2 years	-	-	-	-	-
2 - 5 years	-	-	-	-	-
Non-interest sensitive	$ 4,197		$ 14,861		$ (10,664)

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $456,000 (2017 - increase of $587,000) while a decrease in interest rates of 1% could result in an decrease to net income of $356,000 (2017 - increase of $335,000).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

24 Financial instrument risk management (continued)

Market risk (continued)

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $500,000 in U.S. funds.

The Credit Union has the following balances denominated in U.S. dollars:

As at December 31		**2018**		2017
Cash on hand and on deposit	**$**	**204,977**	$	502,137
USD discount deposit		**1,000,000**		1,000,000
Member accounts and deposits		**(1,275,937)**		(1,473,335)
Net exposure	**$**	**(70,960)**	$	28,802

For the year-ended December 31, 2018 the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Union's portfolio does not include significant equity holdings and is therefore not subject to significant equity risk.

25 Comparative figures

Certain comparative figures have been recast to conform with the financial statement presentation adopted in the current year.