Talka Credit Union Limited
Financial Statements
For the year ended December 31, 2019

Talka Credit Union Limited
Table of Contents
For the year ended December 31, 2019

Management's Responsibility

To the Members of Talka Credit Union Limited:

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

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting policies and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 10, 2020

CEO

Independent Auditor’s Report

To the Members of Talka Credit Union Limited:

Opinion
We have audited the accompanying financial statements of Talka Credit Union Limited (the “Credit Union”), which comprise the statement of financial position as at December 31, 2019, the statements of comprehensive income, changes in 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 financial statements present fairly in all material respects, the financial position of Credit Union as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial statements section of our 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

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

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

MNP LLP

Mississauga, Ontario | Chartered Professional Accountants

March 10, 2020 | Licensed Public Accountants

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

In $	***2019***	*2018*
Assets		
Cash	**2,890,975**	3,215,545
Investments *(Note 8)*	**24,193,411**	21,337,049
Member loans *(Note 9)*	**126,661,943**	118,871,164
Other assets *(Note 10)*	**811,222**	716,349
Property and equipment *(Note 11)*	**115,025**	100,867
	154,672,576	144,240,974
Liabilities		
Member deposits *(Note 13)*	**142,084,014**	132,425,413
Other liabilities *(Note 14)*	**1,726,825**	1,579,577
Member shares *(Note 16)*	**423,799**	437,079
	144,234,638	134,442,069
Members' Equity		
Retained earnings	**10,437,938**	9,798,905
	154,672,576	144,240,974

Approved on behalf of the Board

Director

Director

The accompanying notes form part of the financial statements

Talka Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2019

In $	***2019***	*2018*
Revenue		
Interest income on loans	**4,897,879**	4,620,930
Investment income	**795,198**	693,688
	5,693,077	5,314,618
Interest expense		
Interest expense	**2,976,156**	2,849,100
Distribution to members *(Note 16)*	**516,853**	475,263
	3,493,009	3,324,363
Net financial income	**2,200,068**	1,990,255
Provision for loan losses *(Note 9)*	**45,000**	60,039
Net financial income after provision for loan losses	**2,155,068**	1,930,216
Other income	**81,142**	108,407
Net financial and other income	**2,236,210**	2,038,623
Operating expenses		
Salaries and benefits	**676,066**	620,714
Depreciation and amortization	**42,903**	20,466
Other administrative expenses *(Schedule)*	**754,120**	729,671
	1,473,089	1,370,851
Income before income taxes	**763,121**	667,772
Income taxes *(Note 15)*		
Current	**144,088**	85,079
Deferred	**(20,000)**	-
	124,088	85,079
Net income and comprehensive income	**639,033**	582,693

The accompanying notes form part of the financial statements

Talka Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2019

In $	Retained earnings	Total
Balance, December 31, 2017	9,140,318	9,140,318
IFRS 9 transitional adjustment	75,894	75,894
Balance, January 1, 2018	9,216,212	9,216,212
Net income for the year	582,693	582,693
Balance, December 31, 2018	**9,798,905**	**9,798,905**
Net income for the year	**639,033**	**639,033**
Balance, December 31, 2019	**10,437,938**	**10,437,938**

The accompanying notes form part of the financial statements

Talka Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2019

In $	***2019***	*2018*
Cash provided by (used for) the following activities		
Operating activities		
Net income for the year	**639,033**	582,693
Adjustment on transition to IFRS 9	**-**	7,706
Adjustments for:		
Interest revenue	**(5,693,077)**	(5,314,618)
Interest expense	**3,493,009**	3,324,363
Depreciation and amortization	**42,903**	20,466
Provision for loan losses	**45,000**	60,039
Provision for income taxes	**124,088**	85,079
Interest received on member loans	**4,822,594**	4,626,023
Interest received on investments	**812,618**	486,343
Interest paid on member deposits	**(3,448,010)**	(3,233,973)
Income taxes paid	**(151,413)**	6,429
Net change in member deposits	**9,658,601**	2,233,152
Net change in member loans	**(7,835,779)**	(5,401,986)
Net change in other assets	**(26,673)**	35,316
Net change in other liabilities	**106,217**	(128,521)
	2,589,111	(2,611,489)
Investing activities		
Purchase of equipment and computer software	**(44,039)**	(101,266)
Net change in investments	**(2,856,362)**	(6,052,901)
	(2,900,401)	(6,154,167)
Financing activities		
Net change in member shares	**(13,280)**	(18,060)
Net change in cash during the year	**(324,570)**	(8,783,716)
Cash - beginning of year	**3,215,545**	11,999,261
Cash - end of year	**2,890,975**	3,215,545

The accompanying notes form part of the financial statements

1. Reporting entity information

Talka Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Financial Services Regulatory Authority of Ontario (formerly the Deposit Insurance Corporation of Ontario ("DICO")). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 830 Main Street East, Hamilton, Ontario.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board and interpretations adopted by the International Accounting Standards Board (“IASB”). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2019.

3. Basic of preparation

These financial statements for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on March 10, 2020.

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 6.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

4. Changes in accounting policies

Standards and interpretations effective in the current period

The Credit Union adopted the following new standards, effective January 1, 2019.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Adoption of the new standard did not impact the financial statements.

IFRS 9 Financial instruments

Amendments to IFRS 9, issued in October 2017, address the classification of certain pre-payable financial assets. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met.

The amendments are effective for annual periods beginning on or after January 1, 2019. These amendments have not had a material impact on these financial statements.

4. Changes in accounting policies (continued)

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 was issued in June 2017 to specify how to reflect the effects of uncertainty in accounting for income taxes. The interpretation aims to reduce the diversity in how entities recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. The interpretation has not had a material impact on the Credit Union's financial statements.

5. Significant accounting judgements, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Allowance for loan losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrower's ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates (Canada)
- Unemployment rates (Ontario)
- Real gross domestic product growth (Canada)
- Housing starts (Provincial)
- Price of oil (Canada)

5. Significant accounting judgements, estimates and assumptions (continued)

Allowance for loan losses (continued)

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation that incorporate estimates and assumptions that are based on management’s judgement. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

6. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

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. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

6. Significant accounting policies (continued)

Financial assets (continued)

Classification and subsequent measurement *(continued)*

Debt instruments are classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.
- Fair value through other comprehensive income – Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.
- Mandatorily at fair value through profit or loss – Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss except where the entity has irrevocably elected initial recognition to present in other comprehensive income the fair value gains and losses of an equity investment that is neither held for trading nor contingent consideration acquired in a business combination. In such cases, the cumulative gains and losses recognized in other comprehensive income are not reclassified to profit or loss on derecognition of the investment.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, '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, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

6. Significant accounting policies (continued)

Financial assets (continued)

Classification and subsequent measurement *(continued)*

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as financial guarantee contracts and loan commitments not measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For loans and mortgages the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period ("Stage 1"), unless there has been a significant increase in credit risk since initial recognition ("Stage 2"). For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date ("Stage 3"). Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For facilities with both a drawn and undraw component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision:
- For debt instruments measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the statement of financial position.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 19 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

6. Significant accounting policies (continued)

Financial assets (continued)

Classification and subsequent measurement *(continued)*

Derecognition of financial assets (continued)

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or:
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, it evaluates whether it has retained control of the financial asset.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes financial liabilities when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss. Financial liabilities include member deposits, demand loans payable and other liabilities.

Derecognition of financial liabilities

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

Derivative financial instruments

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income with the exception of derivative instruments designated as effective cash flow hedges, which are recorded in other comprehensive income.

6. Significant accounting policies (continued)

Financial Liabilities (continued)

Interest

Interest Income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Investments

Each investment is classified into one of the categories described under financial assets and liabilities. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central 1 liquidity reserve deposit, and other fixed income securities are measured at amortized cost.

Central 1 shares and other equity securities are measured at fair value, with adjustments to fair value recognized in profit or loss.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Depreciation is provided using the following methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Building	declining balance	5% - 8%
Furniture and fixtures	declining balance	20%
Computer equipment	declining balance	30%

The residual value, useful life, and depreciation method applied to each class of assets are reassessed at each reporting date. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

6. Significant accounting policies (continued)

Computer software

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software is amortized to the income statement on a declining basis of 30%. The expected useful life of computer software is reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in current period income.

Impairment of non-financial assets

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

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in current period income.

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

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Revenue recognition

Revenue is recognized to the extent that it has been earned and it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income is recognized in profit or loss for all financial assets measured at amortized cost using the effective interest rate method.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Other income is recognized when services are provided and collection is reasonably assured.

6. Significant accounting policies (continued)

Income taxes

Current and deferred taxes are recognized in net income except to the extent that the tax is recognized either in other comprehensive income, or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities where the Credit Union operates and generates income. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities generally arise where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 no longer probable that the related tax benefit will be realized.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

7. Standards and interpretations issued but not yet effective

The Credit Union has not yet applied the following new standard, interpretations and amendments to standards that have been issued as at December 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Credit Union does not expect the amendments to have a material impact on its financial statements.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standads and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union does not expect these amendments to have a material impact on its financial statements.

7. Standards and interpretations issued but not yet effective (continued)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union does not expect these amendments to have a material impact on its financial statements.

8. Investments

In $	***2019***	*2018*
Amortized Cost		
Central 1 liquidity reserve deposit	**8,696,493**	8,125,813
Fixed income securities	**14,736,980**	12,461,417
	23,433,473	20,587,230
Fair value through profit or loss		
Central 1 Class A shares	**51,993**	55,185
Central 1 Class E shares	**217,700**	217,700
Central 1 Class F shares	**469,574**	456,263
Concentra Trust - shares	**20,671**	20,671
	759,938	749,819
	24,193,411	21,337,049

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the Credit Union's total assets updated at each month end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

9. Member loans

In $	***2019***	*2018*
Residential mortgages	**87,925,246**	81,542,996
Personal loans	**3,063,434**	2,422,351
Commercial mortgages	**24,921,075**	23,008,712
Syndicated mortgages	**11,549,188**	12,649,105
	127,458,943	119,623,164
Allowance for loan losses	**(797,000)**	(752,000)
	126,661,943	118,871,164

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

9. Member loans (continued)

Residential and commercial mortgage loans are repayable in blended principal and interest instalments, over a maximum term of five years based on a maximum amortization period of thirty years for residential loans and twenty-five years for commercial loans. These loans are open at any monthly payment date and, at the option of the borrower, may be paid off only after paying a penalty.

Personal and business loans are repayable in blended principal and interest instalments, over a maximum amortization period of five years. Personal loans are open and may be repaid at any time without notice. Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments. Personal loans are open and may be repaid at any time.

Reconciliation of the loss allowance

Loans with an acceptable credit risk consistent with that upon origination of the loan are considered to be Stage 1. The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The increase in credit risk designates the loans to be Stage 2.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Loans greater than 90 days past due are considered credit impaired. Credit impaired loans are classified as Stage 3.

The following tables show a reconciliation of the opening to the closing balance of the loss allowance based on expected credit losses ("ECL") by class of financial instrument.

	Stage 1 (12-month ECL)	**Stage 2** (Lifetime ECL, not Credit Impaired)	**Stage 3** (Lifetime ECL, Credit Impaired)	**Total**
Balance at January 1, 2018	556,583	2,890	132,527	692,000
Transfer to Stage 2	(40,862)	40,862	-	-
Transfer to Stage 3	(38,743)	-	38,743	-
Provision for loan losses	60,039	-	-	60,039
Loans written-off	(39)	-	-	(39)
Balance at December 31, 2018	536,978	43,752	171,270	752,000
Balance at January 1, 2019	**536,978**	**43,752**	**171,270**	**752,000**
Transfer from Stage 2	**43,452**	**(43,452)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Provision for loan losses	**19,170**	**-**	**25,830**	**45,000**
Balance at December 31, 2019	**599,600**	**300**	**197,100**	**797,000**

9. Member loans (continued)

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at year-end that are past due but not classified as impaired (Stage 3) because they are less than 90 days past due and collection efforts are reasonable expected to result in repayment.

In $	1-30 days	31-60 days	61-90 days	***2019***
Residential mortgages	**2,805,305**	**1,406,900**	**342,171**	**4,554,376**
Personal	**298**	**-**	**-**	**298**
Commercial	**3,470,171**	**-**	**-**	**3,470,171**
Syndicated	**-**	**-**	**-**	**-**
	6,275,774	**1,406,900**	**342,171**	**8,024,845**

In $	1-30 days	31-60 days	61-90 days	*2018*
Residential mortgages	649,416	1,052,255	135,665	1,837,336
Personal	69,827	43,821	-	113,648
Commercial	219,715	-	-	219,715
Syndicated	-	2,727,400	-	2,727,400
	938,958	3,823,476	135,665	4,898,099

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. In some cases, the Credit Union's claim to security may subordinate to another creditor. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

10. Other assets

In $	***2019***	*2018*
Prepaid expenses	**33,627**	6,954
Accrued interest	**580,938**	523,073
Deferred taxes *(Note 15)*	**107,536**	87,536
Income taxes recoverable	**3,357**	-
Computer software *(Note 12)*	**85,764**	98,786
	811,222	716,349

11. Property and equipment

In $	Land	Buildings	Furniture and fixtures	Computer equipment	**2019 Total**
Cost					
Opening balance	**14,583**	**245,178**	**141,180**	**147,486**	**548,427**
Additions	**-**	**-**	**8,823**	**22,085**	**30,908**
	14,583	**245,178**	**150,003**	**169,571**	**579,335**
Accumulated depreciation					
Opening balance	**-**	**(201,471)**	**(131,752)**	**(114,337)**	**(447,560)**
Depreciation	**-**	**(2,138)**	**(2,762)**	**(11,850)**	**(16,750)**
	-	**(203,609)**	**(134,514)**	**(126,187)**	**(464,310)**
Net book value	**14,583**	**41,569**	**15,489**	**43,384**	**115,025**

In $	Land	Buildings	Furniture and fixtures	Computer equipment	2018 Total
Cost					
Opening balance	14,583	245,178	138,643	132,268	530,672
Additions	-	-	2,537	15,218	17,755
	14,583	245,178	141,180	147,486	548,427
Accumulated depreciation					
Opening balance	-	(199,224)	(130,186)	(103,248)	(432,658)
Depreciation	-	(2,247)	(1,566)	(11,089)	(14,902)
	-	(201,471)	(131,752)	(114,337)	(447,560)
Net book value	14,583	43,707	9,428	33,149	100,867

12. Computer software

In $	***2019***	*2018*
Cost		
Opening balance	**160,910**	77,399
Additions	**13,131**	83,511
	174,041	160,910
Accumulated amortization		
Opening balance	**(62,124)**	(56,560)
Amortization	**(26,153)**	(5,564)
	(88,277)	(62,124)
Net book value	**85,764**	98,786

13. Member deposits

In $	***2019***	*2018*
Chequing	**11,091,338**	12,071,831
Savings	**15,713,939**	9,047,198
Term deposits	**76,824,542**	74,169,670
Registered savings plans	**26,102,953**	25,379,426
Registered income funds	**12,351,242**	11,757,288
	142,084,014	132,425,413

Registered plans

Concentra Trust and Central 1 Trust Company act as trustees of various registered plans offered to the members. Under the agreements with the trust companies, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates by the Credit Union on behalf of the trustee.

14. Other liabilities

In $	***2019***	*2018*
Accounts payable and accrued liabilities	**267,330**	161,113
Accrued interest	**1,459,495**	1,414,496
Taxes payable	**-**	3,968
	1,726,825	1,579,577

15. Income tax

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2019	2018
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Small business deduction and rate reduction for credit unions	**-13.0%**	-13.0%
Other	**5.4%**	-0.7%
	18.9%	12.8%

The tax effects of temporary differences which give rise to the deferred tax asset is from differences between amounts deducted for accounting and income tax purposes. The net deferred income tax asset is comprised of the following:

In $	**2019**	2018
Allowance for impaired loans	**134,600**	97,955
Property and equipment	**(21,900)**	(10,419)
Other	**(5,164)**	-
	107,536	87,536

16. Member shares

In $	**2019**	2018
Membership shares	**40,320**	39,940
Patronage shares	**383,479**	397,139
	423,799	437,079

There are an unlimited number of member and patronage shares authorized.

Share capital is comprised of permanent shares and patronage shares. Permanent shares represent the amount of shares that members are required to maintain as a condition of membership. Each member must hold a minimum of four shares at an issue price of $5 per share.

Patronage shares are non-voting shares and represent patronage dividends paid to members. Shares are redeemable on withdrawal from membership and are subject to the Credit Union meeting certain capital adequacy requirements.

Dividends on membership shares may be declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory capital requirements of the Act as described in Note 17 to the financial statements.

Distributions to members

In $	**2019**	2018
Loan rebates	**181,470**	159,996
Bonus interest on member deposits	**335,383**	315,267
	516,853	475,263

17. Capital management

The Credit Union is subject to the capital requirements set out in the Act. The Act prescribes capital adequacy measures and minimum capital requirements. The Credit Union must comply with a leverage ratio of eligible capital to total assets. The Act also requires a risk weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk adjusted capital and risk weighted assets, including off balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk weighted assets is calculated and compared to the standard outlined by the Act.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings and membership shares. Tier 2 capital of the credit union includes the collective allowance for credit losses to a maximum of 1.25% of risk weighted assets. For eligible capital purposes, Tier 2 capital cannot exceed Tier 1 capital.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the regulatory standards to the Credit Union's policy:

	Regulatory standards	**Policy standards**
Total eligible capital to total assets	4%	6.5%
Total eligible capital to risk weighted assets	8%	9.5%

As at December 31, 2019, the Credit Union is in compliance with the minimum statutory requirements for eligible capital.

In $	***2019***	*2018*
Tier 1 capital		
Member shares	**423,799**	437,079
Retained earnings	**10,417,938**	9,798,905
	10,841,737	10,235,984
Tier 2 capital		
Stages 1 and 2 loan loss provisions	**599,900**	580,730
Total eligible capital	**11,441,637**	10,816,714
Capital tests		
Total eligible capital to total assets	**7.4%**	**7.5%**
Total eligible capital to risk weighted assets	**13.9%**	**14.7%**

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

i. Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
ii. Co-ordinate strategic risk management and capital management;
iii. Develop financial performance targets/budgets/goals;
iv. Administer a patronage program that is consistent with capital requirements;
v. Administer an employee incentive program that is consistent with capital requirements;
vi. Develop a planned growth strategy that is coordinated with capital growth; and
vii. Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

18. Related party transactions

Related parties include the key management personnel ("KMP"), which incorporates senior management and directors of the credit union as well as each of their spouses, their children and any entities they control.

Managements of the Credit Union are Chief Executive Officer, VP Credit & Compliance, Office Manager, Loan Officer, Financial Services Officer, and contract Commercial Lender.

Loans made to related parties are approved under the same lending criteria applicable to members. KMP and directors may receive concessional rates of interest on their loans and facilities. These benefits may be subject to tax with the total value of the benefit included in the compensation figures below. Otherwise, transactions with related parties occur under substantially the same terms and conditions as with other members.

There are no loans that are impaired in relation to loan balances with related parties.

The following tables reflect balances with related parties at year end and the value of interest income and expenses recorded in relation to them during the year.

18. Related party transactions (continued)

Member loans to related parties

In $	*2019*	*2018*
Loans to related parties	**4,780,789**	4,402,045
Approved but unadvanced lines of credit	**3,415,138**	1,074,301

Member deposits and share holdings by related parties:

In $	*2019*	*2018*
Chequing and savings deposits	**232,874**	178,538
Term deposits	**2,279,651**	511,324
Registered deposits	**1,129,141**	832,166
Membership shares	**300**	260
Patronage shares	**3,200**	3,200
	3,645,166	1,525,488

Interest income and expense recorded with related parties:

In $	*2019*	*2018*
Interest and other revenue earned on loans	**89,224**	87,433
Interest paid on deposits	**29,967**	30,177

Aggregate compensation of KMP during the year:

In $	*2019*	*2018*
Salaries	**361,995**	331,179
Post employment benefits	**18,100**	16,559
Medical and insurance benefits	**37,789**	40,285
	417,884	388,023

One employee of the Credit Union requires disclosure under sub-section 140(5) of the Act: Chief Executive Officer, Ron Smith, with a salary of $148,315; bonus of $9,327; and benefits of $22,023.

Honoraria paid to directors during the year amounted to $48,775 (2018 - $48,200). Board and sub-committee expenses during the year totalled $13,905 (2018 - $20,914) for the year.

19. Financial instrument risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

19. Financial instrument risk management (continued)

The Credit Union's risk management policies and procedures include the following:

i. Ensure all activities are consistent with the mission, vision and values of the Credit Union;
ii. Balance risk and return;
iii. Manage credit, market and liquidity risk through preventative and detective controls;
iv. Ensure credit quality is maintained;
v. Ensure credit, market, and liquidity risk is maintained at acceptable levels;
vi. Diversify risk in transactions, member relationships and loan portfolios;
vii. Price according to risk taken; and
viii. Using consistent credit risk exposure tools.

In addition to the Board of Directors, the Audit Committee is involved in financial instrument risk management oversight. There have been no significant changes from the previous year in the exposure to financial instrument risks nor the Credit Union’s policies, procedures and methods used to measure and manage those risks.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from the Credit Union's lending activities.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors is responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual;
- Limits on concentration of credit risk by loan type, industry and economic sector;
- Limits on the types of credit facilities and services offered;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

19. Financial instrument risk management (continued)

Credit risk (continued)

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. The Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort in making this assessment. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans) and geographic region of the borrower. Otherwise, expected credit losses are measured on an individual basis.

Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

19. Financial instrument risk management (continued)

Credit risk (continued)

Inputs, assumptions and techniques

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about of the loans classified by stage based on the credit quality of financial assets assessed for impairment under IFRS 9 Financial instruments.

				2019
In $	**Stage 1** (12-month ECL)	**Stage 2** (Lifetime ECL)	**Stage 3** (Lifetime ECL)	**Total**
Personal loans	**2,925,405**	**-**	**138,029**	**3,063,434**
Less: loss allowance	**20,100**	**-**	**47,600**	**67,700**
Total carrying amount	**2,905,305**	**-**	**90,429**	**2,995,734**
Residential mortgages	**86,618,638**	**342,171**	**964,436**	**87,925,245**
Less: loss allowance	**228,800**	**300**	**39,300**	**268,400**
Total carrying amount	**86,389,838**	**341,871**	**925,136**	**87,656,845**
Commercial loans	**24,758,984**	**-**	**162,092**	**24,921,076**
Less: loss allowance	**239,147**	**-**	**110,200**	**349,347**
Total carrying amount	**24,519,837**	**-**	**51,892**	**24,571,729**
Syndicated mortgages	**11,549,188**	**-**	**-**	**11,549,188**
Less: loss allowance	**111,553**	**-**	**-**	**111,553**
Total carrying amount	**11,437,635**	**-**	**-**	**11,437,635**

19. Financial instrument risk management (continued)

Credit risk (continued)

Exposure to credit risk (continued)

2018

In $	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Personal loans	2,308,703	113,648	-	2,422,351
Less: loss allowance	3,540	356	-	3,896
Total carrying amount	2,305,163	113,292	-	2,418,455
Residential mortgages	75,976,925	1,837,335	3,728,736	81,542,996
Less: loss allowance	43,758	7,603	90,707	142,068
Total carrying amount	75,933,167	1,829,732	3,638,029	81,400,928
Commercial loans	19,933,053	2,947,115	128,544	23,008,712
Less: loss allowance	340,566	2,668	80,563	423,797
Total carrying amount	19,592,487	2,944,447	47,981	22,584,915
Syndicated mortgages	9,921,705	2,727,400	-	12,649,105
Less: loss allowance	149,114	33,125	-	182,239
Total carrying amount	9,772,591	2,694,275	-	12,466,866

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being the greater Hamilton area.

Additionally, the Credit Union’s investment holdings as significantly concentrated in, deposits in and share holdings of, Central 1.

19. Financial instrument risk management (continued)

Credit risk (continued)

Exposure to credit risk (continued)

Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of Central 1 and other cooperative organizations' shares best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements on these balances.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

As at year-end, the Credit Union had the following outstanding commitments subject to credit risk:

In $	***2019***	*2018*
Unadvanced lines of credit	**15,508,106**	15,582,248
Commitments to extend credit	**10,291,248**	5,381,494

The amounts shown on the table do not necessarily represent future cash requirements since commitments may expire or terminate without being funded. There are $Nil (2018 - $Nil) expected credit losses included in the loan loss allowance at year end in respect of credit commitments.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rate, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

The Credit Union's market risk management policy defines and establishes limits for the types and concentrations of market exposures which the Credit Union is authorized to assume. The policy also establishes criteria for the identification, measurement and the regular reporting to the Board of Directors of impairments and fluctuations in market values, and defines prudent levels of decision making authorities.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits, investments and member deposits. The Credit Union does not hedge its fair value risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest-bearing financial instruments.

19. Financial instrument risk management (continued)

Contractual re-pricing and maturity

All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date. The schedule does not identify management's expectation of future events where re-pricing and maturity dates differ from contractual dates.

The table below summarizes amounts by maturity dates and effective interest rates for the following significant financial instruments:

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2019*	Effective yield
Assets						
Cash	**2,730,668**	**-**	**-**	**160,307**	**2,890,975**	**1.79%**
Investments	**766,072**	**6,464,226**	**16,963,113**	**-**	**24,193,411**	**2.68%**
Member loans	**46,900,944**	**30,037,000**	**49,723,999**	**-**	**126,661,943**	**4.00%**
Other assets	**-**	**-**	**-**	**580,938**	**580,938**	**-%**
Total	**50,397,684**	**36,501,226**	**66,687,112**	**741,245**	**154,327,267**	
Liabilities						
Member deposits	**27,123,014**	**52,862,000**	**62,099,000**	**-**	**142,084,014**	**2.27%**
Other liabilities	**-**	**-**	**-**	**1,726,825**	**1,726,825**	**-%**
Member shares	**-**	**-**	**-**	**423,799**	**423,799**	**-%**
Total	**27,123,014**	**52,862,000**	**62,099,000**	**2,150,624**	**144,234,638**	
Net	**23,274,670**	**(16,360,774)**	**4,588,112**	**(1,409,379)**	**10,092,629**	

In $	Variable rate	Less than one year	One to five years	Not interest sensitive	*2018*	Effective yield
Assets						
Cash	3,002,120	-	-	213,425	3,215,545	1.82%
Investments	749,819	9,173,713	11,413,517	-	21,337,049	3.06%
Member Loans	41,194,164	38,835,000	38,842,000	-	118,871,164	4.00%
Other assets	-	-	-	523,073	523,073	-%
	44,946,103	48,008,713	50,255,517	736,498	143,946,831	
Liabilities						
Member deposits	21,461,413	49,763,000	61,201,000	-	132,425,413	2.11%
Other liabilities	-	-	-	1,579,577	1,579,577	-%
Member shares	-	-	-	437,079	437,079	-%
Total	21,461,413	49,763,000	61,201,000	2,016,656	134,442,069	
Net	23,484,690	(1,754,287)	(10,945,483)	(1,280,158)	9,504,762	

19. Financial instrument risk management (continued)

Interest rate re-price (continued)

Based on management's estimates, a 0.25% increase in the prime interest rate would increase net interest income by approximately $117,000 and a 0.50% decrease in the prime interest rate would decrease net interest income by approximately $172,000.

Liquidity risk

Liquidity risk is the risk that the Credit Union will be unable to meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. The Credit Union's liquidity management policy defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; mandatory lines of credit with Central 1; and regular reporting of actual liquidity levels against policy minimums to the Board of Directors.

The Credit Union has available a credit facility with Central 1 of CAD 4,950,000 and USD 50,000. The facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2019, the credit facility was unutilized.

At December 31, 2019, liquid assets amount to 10.1% (2018 – 10.7%) of deposits and borrowings and consist of the following:

In $	***2019***	*2018*
Cash and current accounts with Central 1	**5,617,400**	6,040,638
Deposits with other financial institutions	**7,036**	7,130
Liquidity reserve deposits	**8,696,493**	8,125,813
	14,320,929	14,173,581

20. Fair value of financial instruments

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is assessed to be significant to that fair value measurement. This assessment requires the use of judgment in considering factors specific to an asset or a liability and may affect the placement of the fair value measurement within the hierarchy.

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

20. Fair value of financial instruments (continued)

Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

				2019
In $	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash	**2,890,975**	**2,890,975**	**-**	**-**
Investments	**759,938**	**-**	**-**	**759,938**
Total financial assets	**3,650,913**	**2,890,975**	**-**	**759,938**

				2018
In $	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Cash	3,215,545	3,215,545	-	-
Investments	749,819	-	-	749,819
Total financial assets	3,965,364	3,215,545	-	749,819

There are no financial liabilities carried at fair value in the current and prior year.

Financial instruments not measured at fair value

The estimated fair value, and categorization into the fair value hierarchy, of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

				2019
In $	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Member loans	**126,706,917**	**-**	**126,706,917**	**-**
Investment	**23,476,199**	**-**	**23,476,199**	**-**
Other assets	**580,938**	**-**	**580,938**	**-**
Total financial assets	**150,764,054**	**-**	**150,764,054**	**-**
Financial liabilities				
Member deposits	**142,187,055**	**-**	**142,187,055**	**-**
Other liabilities	**1,459,495**	**-**	**1,459,495**	**-**
Membership shares	**423,799**	**-**	**-**	**423,799**
Total financial liabilities	**144,070,349**	**-**	**143,646,550**	**423,799**

21. Fair value of financial instruments (continued)

				2018
In $	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Investment	118,965,428	-	118,965,428	-
Member loans	20,587,230	-	20,587,230	-
Other assets	523,073	-	523,073	-
Total financial assets	140,075,731	-	140,075,731	-
Financial liabilities				
Member deposits	132,866,646	-	132,866,646	-
Other liabilities	1,414,496	-	1,414,496	-
Membership shares	437,079	-	-	437,079
Total financial liabilities	134,718,221	-	134,281,142	437,079

Level 2 and Level 3 fair value measurements for financial instruments

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

Line item	Valuation technique	Inputs
Member loans	Discounted cashflows	Observable market interest rates for like instruments
Investments - amortized cost	Discounted cashflows	Observable market interest rates for like instruments
Investments - FVTPL	Redemption value	Instrument terms and observable transactions
Other assets	Discounted cashflows	Observable market interest rates for like instruments
Member deposits	Discounted cashflows	Observable market interest rates for like instruments
Other liabilities	Discounted cashflows	Observable market interest rates for like instruments
Member shares	Redemption value	Instrument terms and observable transactions

Talka Credit Union Limited
Schedule of Other Administrative Expenses
For the year ended December 31, 2019

In $	***2019***	*2018*
Other administrative expenses		
Advertising	**58,065**	54,174
Board and committee honoraria	**48,775**	48,200
Insurance	**11,004**	11,759
Member security	**224,169**	156,017
Office and general	**62,243**	79,798
Postage	**20,409**	9,998
Professional fees	**138,326**	168,255
Property taxes	**9,432**	9,107
Registered plan fees	**7,896**	6,458
Repairs and maintenance	**109,541**	113,002
Service charges	**42,149**	51,442
Telephone	**9,339**	7,543
Utilities	**12,772**	13,918
	754,120	729,671