Financial statements of

# Your Credit Union Limited

September 30, 2019

# Your Credit Union Limited
September 30, 2019

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# Independent Auditor's Report

To the members of
Your Credit Union Limited

## Opinion

We have audited the financial statements of Your Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at September 30, 2019, and the statements of comprehensive loss, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the Credit Union's financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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.

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 GAAS, 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

December 9, 2019

# Your Credit Union Limited

Statement of comprehensive loss
year ended September 30, 2019
(CDN dollars in thousands)

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Interest income (Note 4) | **11,319** | 10,518 |
| Investment income | **559** | 322 |
| | **11,878** | 10,840 |
| Interest expense (Note 5) | **4,967** | 3,948 |
| Net interest income | **6,911** | 6,892 |
| Provision for impaired loans (Note 10) | **1,114** | 1,212 |
| Net interest margin | **5,797** | 5,680 |
| Other operating income (Note 6) | **1,553** | 1,506 |
| Total operating income | **7,350** | 7,186 |
| Deposit insurance premium | **319** | 255 |
| Depreciation of property and equipment | **444** | 442 |
| Administrative and technology | **2,942** | 2,780 |
| Personnel expenses | **3,737** | 3,572 |
| Total operating expenses | **7,442** | 7,049 |
| Dividends on investment shares (Note 19) | **25** | 14 |
| (Loss) income before income tax | **(117)** | 123 |
| Income tax expense (Note 18) | **(64)** | (35) |
| Net (loss) income | **(53)** | 158 |
| Other comprehensive income for the year, net of income tax | **-** | - |
| **Total comprehensive (loss) income for the year, net of income tax** | **(53)** | 158 |

The accompanying notes to the financial statements are an integral part of this financial statement.

# Your Credit Union Limited
## Statement of changes in members' equity
## year ended September 30, 2019
(CDN dollars in thousands)

| | Membership shares | Investment shares | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| As at September 30, 2017 | 497 | 9,414 | 9,283 | - | 19,194 |
| Total comprehensive income | - | - | 158 | - | 158 |
| Dividends on investment shares (Note 19) | - | - | (389) | - | (389) |
| Reclassification of investment shares to liabilities | | (13) | | | (13) |
| Net increase (decrease) in shares | (21) | 370 | - | - | 349 |
| As at September 30, 2018 | 476 | 9,771 | 9,052 | - | 19,299 |
| Cumulative effect of adopting IFRS 9 (note 27) | - | - | (122) | - | (122) |
| Restated balance as at October 1, 2018 | 476 | 9,771 | 8,930 | - | 19,177 |
| Total comprehensive loss | - | - | (53) | - | (53) |
| Dividends on investment shares (Note 19) | - | - | (375) | - | (375) |
| Prior year dividend adjustment | | | 18 | | 18 |
| Reclassification of investment shares to liabilities | | (714) | | | (714) |
| Net increase (decrease) in shares | (43) | 784 | - | - | 741 |
| **As at September 30, 2019** | **433** | **9,841** | **8,520** | **-** | **18,794** |

The accompanying notes to the financial statements are an integral part of this financial statement.

# Your Credit Union Limited
## Statement of financial position
## as at September 30, 2019
(CDN dollars in thousands)

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Cash and cash equivalents (Note 7) | **11,472** | 13,472 |
| Investments (Note 8) | **21,289** | 21,291 |
| Income taxes receivable | **127** | 121 |
| Loans to members (Note 9) | **286,069** | 284,456 |
| Property and equipment (Note 12) | **4,986** | 5,373 |
| Deferred income tax asset (Note 18) | **-** | 17 |
| Other assets (Note 13) | **1,148** | 1,163 |
| | **325,091** | 325,893 |
| **Liabilities** | | |
| Securitized Borrowing (Note 9) | **13,546** | 16,243 |
| Deposits from members (Note 15) | **290,516** | 288,977 |
| Other (Note 16) | **1,157** | 1,024 |
| Deferred income tax liability (Note 18) | **14** | - |
| Investment shares (Note 19) | **1,064** | 350 |
| | **306,297** | 306,594 |
| **Members' equity** | | |
| Membership shares (Note 19) | **433** | 476 |
| Investment shares (Note 19) | **9,841** | 9,771 |
| Retained earnings | **8,520** | 9,052 |
| | **18,794** | 19,299 |
| | **325,091** | 325,893 |

On behalf of the Board

______________________ Director

______________________ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

# Your Credit Union Limited

Statement of cash flows
year ended September 30, 2018
(CDN dollars in thousands)

| | **2019** | 2,018 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net (loss) income | **(53)** | 158 |
| Adjustments for: | | |
| Interest income | **(11,319)** | (10,518) |
| Investment income | **(559)** | (322) |
| Interest expense | **4,967** | 3,948 |
| Provision for impaired loans | **1,114** | 1,212 |
| Depreciation of property and equipment | **444** | 442 |
| Dividends paid on Class B investment shares | **25** | 14 |
| Income tax expense | **(64)** | (35) |
| Changes in operating assets/liabilities: | | |
| Change in loans to members | **(3,035)** | (39,066) |
| Change in deposits from members | **1,859** | 37,386 |
| Change in other operating assets and liabilities | **148** | (389) |
| Changes in Class B investment shares | **402** | (33) |
| | **(6,071)** | (7,203) |
| Cash generated (used) from operating activities before interest and taxes: | | |
| Interest received | **12,034** | 10,718 |
| Interest paid | **(5,287)** | (3,320) |
| Income taxes received (paid) | **119** | (180) |
| | **795** | 15 |
| **Investing activities** | | |
| Proceeds of financial investments, net of purchases | **2** | (2,806) |
| Purchase of property and equipment | **(57)** | (116) |
| | **(55)** | (2,922) |
| **Financing activities** | | |
| Net Borrowing | **-** | (6,000) |
| Net Securitization | **(2,697)** | 16,243 |
| Net redemption of membership share capital | **(43)** | (21) |
| | **(2,740)** | 10,222 |
| Net change in cash and cash equivalents | **(2,000)** | 7,315 |
| Cash and cash equivalents, beginning of year | **13,472** | 6,157 |
| **Cash and cash equivalents, end of year** | **11,472** | 13,472 |

The accompanying notes to the financial statements are an integral part of this financial statement.

## 1. Reporting entity

Your Credit Union Limited (the “Credit Union”) is incorporated under the *Credit Unions and Caisses Populaires Act, 1994 (Ontario)*, (the “Act”) and is a member of the Deposit Insurance Corporation of Ontario (“DICO”) and of Central 1 Credit Union (“Central 1”).

The Credit Union provides financial services and products to its members through three branches in Ottawa and three in Cornwall. The Credit Union’s head office is located at 14 Chamberlain Avenue, Ottawa, Ontario.

## 2. Basis of preparation

*Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”).

These financial statements were authorized for issue by the Board of Directors on December 9, 2019.

The Credit Union has adopted IFRS 9, Financial Instruments (“IFRS 9”), issued in July 2014 with a date of initial application of October 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and impairment for financial assets. Details of these new requirements as well as their impact to the Credit Union are described in notes 3,10 and 27.

The Credit Union has also adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), with a date of initial application of October 1, 2018. Apart from providing more extensive disclosures on the Credit Union’s revenue transactions, the application of IFRS 15 has not had a significant impact on the Credit Union’s financial statements. Details of the IFRS 15 adoption, as well as its impact to the Credit Union are described in note 27.

*Basis of measurement*

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency, rounded to the nearest thousand except when otherwise indicated. They are prepared on the historical cost basis except for financial instruments at fair value through profit or loss (“FVTPL”), financial instruments at fair value through other comprehensive income (“FVOCI”– applicable from October 1, 2018) and available-for-sale investments (applicable before October 1, 2018), which have been measured at fair value, including all derivative contracts.

*Use of significant accounting judgments, estimates and assumptions*

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from estimates made in these financial statements. Management believes the estimates used in preparing these financial statements are reasonable.

The 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 and in any future periods affected.

## 2. Basis of preparation (continued)

Judgments made by management in the application of IFRS that have a significant effect on these financial statements and estimates with a significant risk of material adjustment in the next year are discussed below. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements such as:

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 25.

*Impairment losses on loans*

Effective October 1, 2018, upon the implementation of IFRS 9, impairment of financial instruments is assessed on whether credit risk on the loans to members has increased significantly since initial recognition and incorporates forward-looking information in the measurement of expected credit loss ("ECL").

Prior to October 1, 2018, under IAS 39, the Credit Union reviewed its individually significant loans at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors such as historical recovery rates, bankruptcy indicators and credit ratings.

Loans that had been assessed individually and found not to be impaired and all individually insignificant loans were then assessed collectively, in groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects were not yet evident. The collective assessment took into account data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of arrears, historical write off rates and the performance of different individual groups).

The impairment loss on loans is disclosed in more detail in Notes 3, 9 and 10.

*Impairment of available-for-sale investments*

Effective October 1, 2018, the available-for-sale classification was eliminated with the adoption of IFRS 9.

Prior to October 1, 2018, the Credit Union reviewed its securities classified as available-for-sale investments at each statement of financial position date to assess whether they were impaired. This required similar judgment as applied to the individual assessment of loans.

The Credit Union also recorded impairment charges on available-for-sale equity investments when there had been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' required judgment.

**2. Basis of preparation (continued)**

*New standards and interpretations not yet adopted*

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB, but are not yet effective for the year ended September 30, 2019, and have not been applied in preparing these financial statements:

<u>*Leases*</u>

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases*, as well as various other interpretations regarding leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16's approach to lessor's accounting is substantially unchanged from IAS 17, lessors continuing to classify leases as operating or finance. It will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the potential impact of this standard.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently by the Credit Union to all periods presented in these financial statements, except those policies related to IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers as described in note 27.

*Financial instruments*

The Credit Union initially recognizes financial assets and financial liabilities when the Credit Union becomes a party to the contractual provisions of the instrument, which is the date on which the financial instrument is acquired or issued. Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date on which the Credit Union commits to purchase or sell the asset.

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. For a financial asset or liability measured at FVTPL, transactions costs are recognized immediately in profit or loss.

(i) Classification and measurement (effective October 1, 2018):

<u>Financial assets</u>

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

<u>Business model assessment:</u>

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 business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, from the sale of financial assets, or both. 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;

## 3. Significant accounting policies (continued)

- how managers of the business are compensated. In particular 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 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.

The Credit Union has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria the financial asset is expected to be securitized as part of a portfolio that:

- qualifies for derecognition as detailed below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, the Credit Union has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

<u>Assessment whether contractual cash flows are solely payments of principal and interest:</u>

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. nonrecourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

<u>Debt instrument measured at amortized cost</u>

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

## 3. Significant accounting policies (continued)

Financial assets measured at amortized cost are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Debt instrument measured at FVOCI

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

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

Debt instrument designated at FVTPL

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 FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. For financial assets designated at FVTPL, changes in fair value are recognized in the separate statement of profit or loss. All other financial assets are classified as measured at FVTPL.

Equity instrument 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 at fair value in OCI. This election is made on an investment-by-investment basis.

Financial liabilities

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

Financial liabilities designated at FVTPL

The Credit Union may, at initial recognition, irrevocably designate a financial liability at FVTPL in either of the following circumstances:

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

**3. Significant accounting policies (continued)**

For liabilities at FVTPL, all changes in fair value are recognized in the consolidated statement of profit or loss, except for changes in fair value arising from changes in Credit Union's own credit risk, which are recognized in OCI. Changes in fair value of liabilities due to changes in Credit Union 's own credit risk, recognized in OCI, are not subsequently reclassified to profit or loss upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from accumulated OCI to retained earnings upon derecognition/extinguishment of the liabilities.

Financial liabilities measured at amortized cost

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

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current year.

Classification

The classification of financial assets and financial liabilities effective October 1, 2018 are noted below:

| *Financial asset/liability* | *Classification* |
|---|---|
| Cash and cash equivalents | Amortized Cost |
| Investments | |
| Liquidity reserve deposits | Amortized Cost |
| Central 1 Credit Union shares | FVTPL |
| Other investments | FVTPL |
| Loans to members | Amortized Cost |
| Derivative financial asset | FVTPL |
| Other assets - accounts receivable | Amortized Cost |
| Borrowings | Amortized Cost |
| Securitized Borrowings | Amortized Cost |
| Deposits from members | Amortized Cost |
| Other liabilities | Amortized Cost |
| Derivative financial liability | FVTPL |

(ii) Classification and measurement (prior to October 1, 2018):

Prior to October 1, 2018, the Credit Union classified all financial assets as either FVTPL, available-for-sale, held-to-maturity, or loans and receivables, and, financial liabilities were classified as either FVTPL or other liabilities. Under IAS 39, the standards required that all financial assets and financial liabilities, including all derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated and other liabilities.

**3. Significant accounting policies (continued)**

The classification of financial assets and financial liabilities prior to October 1, 2018 are noted as below:

| *Financial asset/liability* | *Classification* |
|---|---|
| Cash and cash equivalents | Loans and receivables |
| Investments | |
| Liquidity reserve deposits | Loans and receivables |
| Central 1 Credit Union shares | Available-for-sale (cost) |
| Other investments | Available-for-sale (cost) |
| Loans to members | Loans and receivables |
| Derivative financial asset | FVTPL |
| Other assets - accounts receivable | Loans and receivables |
| Borrowings | Other liabilities |
| Securitized Borrowings | Other liabilities |
| Deposits from members | Other liabilities |
| Other liabilities | Other liabilities |
| Derivative financial liability | FVTPL |

Fair value through profit or loss:

Prior to October 1, 2018, financial assets and financial liabilities were classified as at fair value through profit or loss when the financial asset or financial liability was either held for trading or it was designated as at fair value through profit or loss.

A financial asset or financial liability was classified as held for trading if:

- it was acquired principally for the purpose of selling it in the near term; or
- on initial recognition it was part of a portfolio of identified financial instruments that the Credit Union managed together and had a recent actual pattern of short-term profit-taking; or
- it was a derivative that was not designated and effective as a hedging instrument.

A financial asset and financial liability other than a financial asset or financial liability held for trading could be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset/liability formed part of a group of financial assets or financial liabilities or both, which was managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union’s documented risk management or investment strategy, and information about the grouping was provided internally on that basis; or
- it formed part of a contract containing one or more embedded derivatives, and IAS 39 permitted the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss were stated at fair value, with any gains or losses arising on remeasurement recognized in income. The net gain or loss recognized in income incorporated any dividend or interest earned/paid on the financial asset/liability and was included in the ‘investment income’ line item in the statement of comprehensive income.

**3. Significant accounting policies (continued)**

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividend income is recognized in net income when the Credit Union's right to receive the dividends is established. Interest income is recognized in income using the effective interest method.

Prior to October 1, 2018, Central Class A shares, Central Class E shares and other investments held by the Credit Union that were not traded in an active market were classified as available-for-sale. Available-for-sale equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost less any identified impairment losses at the end of each reporting period.

Subsequent to initial recognition, available-for-sale financial assets were measured at fair value, and the gains and losses on such assets were recorded in other comprehensive income (loss) until the investment was derecognized or until the investment was identified as being subject to impairment. Upon adoption of IFRS 9 on October 1, 2018, all financial assets previously classified as available for sale have been reclassified.

Loans and receivables:

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and which the Credit Union did not intend to sell immediately or in the near term. Loans and receivables were measured at amortized cost using the effective interest method, net of impairment losses. Upon adoption of IFRS 9 on October 1, 2018, all financial assets previously classified as loans and receivable have been reclassified.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

(iii) Effective interest method (prior to and effective October 1, 2018):

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

(iv) Impairment of financial assets (effective October 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 (loans to members);
- loan commitments issued.

No impairment loss is recognized on equity investments.

**3. Significant accounting policies (continued)**

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 investment securities 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 their initial recognition.

The Credit Union considers a debt security to have low credit risk when their 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.

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;

**3. Significant accounting policies (continued)**

- 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.

<u>Presentation of allowance for ECL in the statement of financial position:</u>

Loss allowances for ECL are presented in the statement of financial position 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;
- 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; and

<u>Write-offs:</u>

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.

(v) Impairment of financial assets (prior to October 1, 2018):

Financial assets, other than those at fair value through profit or loss, were assessed for indicators of impairment at each statement of financial position date. Financial assets were impaired where there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset had been affected.

For financial assets carried at amortized cost and available-for-sale debt securities, the amount of the impairment was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

## 3. Significant accounting policies (continued)

The carrying amount of the financial asset was reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount was reduced through the use of an allowance account. When a loan to a member was considered uncollectible, it was written off against the allowance for impaired loans. Subsequent recoveries of amounts previously written off were credited against the allowance for impaired loans. Changes in the carrying amount of the allowance for impaired loans were recognized in income.

The impairment loss on financial assets was based on a review of all outstanding amounts at period end. The Credit Union established percentages for the allowance for doubtful accounts, which were based on historical collection trends for each payer type and age of the receivables. Accounts that were considered uncollectible were reserved for in the allowance until they were written off or collected.

When an available-for-sale financial asset was considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income were reclassified to income in the period.

For financial assets other than available-for-sale equity securities, if, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed through income to the extent that the carrying amount of the investment at the date the impairment was reversed did not exceed what the amortized cost would have been had the impairment not been recognized.

(vi) Derecognition of financial assets (prior to and effective October 1, 2018):

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.

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.

**3. Significant accounting policies (continued)**

From October 1, 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such security. 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.

(vii) Derecognition of financial liabilities (prior to and effective October 1, 2018):

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

(viii) Transaction costs (prior to and effective October 1, 2018):

Transaction costs include fees and commissions paid to agents, advisors, broker and dealers, and levies by regulatory agencies. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative costs.

Prior to October 1, 2018, transaction costs related to financial assets and liabilities recorded at fair value through profit or loss were expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables and were netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method.

(ix) Derivative instruments (prior to and effective October 1, 2018):

The Credit Union enters into a variety of derivative financial instruments to manage its exposure to market risk, including interest rate, foreign currencies and equity indices related to their Index-Linked Term Deposit portfolio. Further details of derivative financial instruments are disclosed in Note 11.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income immediately unless the derivative is designated and effective as a cash flow hedging instrument, in which event the effective portion of the gain or loss is recognized in other comprehensive income while the ineffective portion is recognized in income.

A derivative with a positive fair value is recognized as a financial asset. A derivative with a negative fair value is recognized as a financial liability.

*Cash and cash equivalents*

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

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

## 3. Significant accounting policies (continued)

*Loans to members*

Loans to members in the statement of financial position include:

- loans to members measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- loans to members mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognized immediately in profit or loss.

Prior to October 1, 2018, loans to members including personal loans, residential mortgages and commercial loans and mortgages, were recognized when the cash is advanced to the borrower. All loans to members were initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

*Property acquired by foreclosure and held for resale*

Property acquired by foreclosure and held for resale represents assets which have been repossessed on delinquent member loans and mortgages or forfeited by the member to the Credit Union and are recorded at the lower of their prior carrying value and fair value less costs to sell. Such investments are intended to be sold as soon as practicable. Revenues and costs related to the properties are booked as an adjustment to the carrying value of the investment.

*Property and equipment*

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

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

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

*Depreciation*

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

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

| | |
|---|---|
| Buildings | 20-40 years |
| Furniture and equipment | 5-15 years |
| Computer equipment, software | 3-5 years |
| Automated Teller Machines (ATMs) | 10 years |
| Leasehold improvements | lesser of useful life and term of lease |

**3. Significant accounting policies (continued)**

*Leases*

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

*(a) The Credit Union as Lessor*

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

*(b) The Credit Union as Lessee*

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

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

*Impairment of tangible and intangible assets other than goodwill*

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

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

## 3. Significant accounting policies (continued)

*Mortgage Securitizations*

As part of its program to manage liquidity, capital and interest rate risk, the Credit Union enters into mortgage-securitized transactions under the National Housing Authority Mortgage Backed Securities (‘NHA MBS”). These transactions allow for the packaging of insured mortgage loan receivables into mortgage-backed securities (“MBS”) and for the subsequent sale of these MBS to unrelated third parties.

Securitized loans are derecognized from the statement of financial position only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. Judgment is required in making this determination. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction, the related loans are not derecognized and the related liability is initially recorded as securitized borrowings.

Securitized borrowings are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

*Whole loan sales*

The Credit Union periodically sells mortgages to other financial institutions to manage its overall portfolio diversification risk. In these circumstances, the contractual rights to receive the cash flows from these mortgages ceased to exist and/or substantially all of the risk and rewards of the mortgages have been transferred to the purchasing institution. As such, these mortgages are removed from the consolidated statement of financial position. The Credit Union continues to administer these mortgages. A minimal administration fee is paid to the Credit Union monthly, which is recorded in other operating income when received.

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

*Deposits from members*

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

*Provisions, contingent liabilities and contingent assets*

*(a)* *<u>Provisions</u>*

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

**3. Significant accounting policies (continued)**

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

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

*(b)* *Onerous contracts*

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Credit Union has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

*(c)* *Restructurings*

A restructuring provision is recognized when the Credit Union has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

*Employee benefits*

*(a)* *Short-term employee benefits*

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

*(b)* *Post-employment benefits*

The Credit Union operates a defined contribution pension plan for employees of the Cornwall branch and matches RRSP contributions for employees of the Ottawa area branches. The Credit Union's contributions are in proportion to the services rendered to the Credit Union by the employees and are recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

*(c)* *Termination benefits*

Termination benefits are recognized as an expense when the Credit Union is committed without realistic probability of withdrawal to a formal detailed plan either to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntarily redundancies are recognized if the Credit Union has made an offer of voluntarily redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably estimated. If benefits are payable more than 12 months after the reporting period, they are recorded at their discounted present value.

**3. Significant accounting policies (continued)**

*Members' shares*

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

| Type of shares | Classification |
|---|---|
| Membership shares | Equity |
| Investment shares | Liability/Equity |

The Credit Union's shares are presented in the statement of financial position as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. Payments of dividends on members' shares presented as a financial liability are recognized as a distribution of income. Payments of dividends on members' shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the Board of Directors.

*Revenue recognition*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

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

*Income taxes*

Current tax is based on the taxable income in the period. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the statement of financial position date.

Deferred tax is recognized on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

*(a)* Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income.

*(b)* In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**3. Significant accounting policies (continued)**

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except:

*(a)* Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income.

*(b)* In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

*Foreign currency translation*

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

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

Translation gains and losses are recognized immediately in income and are included in the ‘other operating income’ line item in the statement of comprehensive income.

(CDN dollars in thousands)

## 4. Interest income

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Personal loans | **790** | 951 |
| Residential mortgages | **6,703** | 5,682 |
| Commercial loans and mortgages | **3,826** | 3,885 |
| | **11,319** | 10,518 |

Total interest income reported above is calculated using the effective interest method, and relates to financial assets not carried at fair value through profit or loss.

## 5. Interest expense

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Chequing and savings accounts | **302** | 238 |
| Term deposits | **2,724** | 2,070 |
| Registered plans | **1,616** | 1,349 |
| Funds borrowed from Central 1 | **23** | 81 |
| Securitized funds from NHS MBS | **302** | 210 |
| | **4,967** | 3,948 |

Total interest expense reported above is calculated using the effective interest method, and relates to financial liabilities not carried at fair value through profit or loss.

## 6. Other operating income

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Commissions and fees | **542** | 605 |
| Administration charges | **151** | 119 |
| Rental income and other | **860** | 782 |
| | **1,553** | 1,506 |

All other operating income items detailed above relate to financial assets and liabilities that are not at fair value through profit or loss and do not include any amounts used in determining the effective interest rate.

## 7. Cash and cash equivalents

The Credit Union’s current accounts are held with Central 1. The Canadian current account earns interest at 1.90% on the first $10 million on deposit and 1.70% on additional balances (1.65% and 1.45% in 2018). The USD current account earns interest at 1.90% (1.70% in 2018).

The average yield on the above accounts at September 30, 2019 is 1.90% (1.66% at September 30, 2018).

(CDN dollars in thousands)

## 8. Investments

The following tables provide information on the investments held by the Credit Union.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| *Debt securities - Amortized Cost* | | |
| Central 1 Credit Union - liquidity reserve deposits | **19,354** | 19,449 |
| Accrued interest on investments | **119** | 97 |
| | **19,473** | 19,546 |
| *Equity instruments - FVTPL* | | |
| Central 1 Credit Union - Class A shares | **117** | 108 |
| Central 1 Credit Union - Class E shares | **669** | 669 |
| Central 1 Credit Union - Class F shares | **1,028** | 961 |
| Other investments | **2** | 7 |
| | **1,816** | 1,745 |
| Carrying value | **21,289** | 21,291 |
| Market value | **21,289** | 21,291 |

*Central 1 Credit Union - liquidity reserve deposits*

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

*Shares in Central 1 Credit Union*

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

Central 1 Class A and Class F shares are carried at fair value. These shares are subject to rebalanced at least annually and their redemption value is equal to par value. Accordingly, fair value is considered to be equivalent to par value or redemption value.

Central 1 Class E shares are carried at fair value. This class of shares is not subject to annual rebalancing and the redemption value is not equal to par value.

*Other investments*

The Credit Union holds an insignificant number of shares in other entities. The carrying value of these shares is considered to be a reasonable approximation of fair value.

(CDN dollars in thousands)

## 9. Loans to members

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Residential mortgages | **199,713** | 188,678 |
| Commercial loans and mortgages | **76,608** | 83,643 |
| Personal loans | **9,796** | 13,080 |
| | **286,117** | 285,401 |
| Less: allowance for impaired loans (Note 10) | **(501)** | (1,554) |
| | **285,616** | 283,847 |
| Accrued interest receivable | **453** | 609 |
| **Net loans to members** | **286,069** | 284,456 |

The loan classifications set out above are as defined in the Regulations to the Act. Member loans can have either a variable or fixed rate of interest and they mature within six years.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments and personal guarantees.

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

*Property acquired by foreclosure and held for resale*

As at September 30, 2019 the Credit Union was not in possession of property acquired by foreclosure and held for resale (Nil in 2018).

*Credit quality of loans*

A breakdown of the security held on a portfolio basis is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Unsecured loans | **9,796** | 13,080 |
| Residential mortgages - uninsured | **164,609** | 150,645 |
| Residential mortgages - insured through CMHC | **32,389** | 33,103 |
| Residential mortgages - insured through Genworth | **2,715** | 4,930 |
| Commercial loans secured by commercial properties | **76,608** | 83,643 |
| | **286,117** | 285,401 |

(CDN dollars in thousands)

## 9. Loans to members (continued)

*Concentration of risk*

The Credit Union has an exposure to groupings of individual loans or related groups of member loans which exceed 10% of regulatory capital. There are ten loan connections with loans greater than 10% of regulatory capital, ranging from $2,061 to $3,945 (ten loan connections, ranging from $2,294 to $4,258 in 2018).

The Credit Union's credit risk management policy limits commercial loans to a maximum individual amount of $2,800.

*Loan commitments*

The Credit Union has authorized additional credit loans, which are unutilized at September 30, 2019, for a sum of $44,481 ($45,006 in 2018). See Note 26 for additional disclosures related to management's policies and procedures to manage its credit risk.

As at September 30, 2019, the Credit Union was committed to the issuance of new personal loans, residential mortgages and commercial loans and mortgages to members of $17,835 ($22,753 in 2018).

*Securitized Borrowings*

All mortgages securitized by the Credit Union by participating in the NHA MBS program are required to be fully insured prior to sale and therefore give rise to minimal credit risk. However, the Credit Union is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages. The Credit Union therefore remains exposed to interest rate risk, timely payment and prepayment risk associated with the underlying assets. Accordingly, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's statement of financial position and statement of comprehensive income.

The following is the Credit Union's net positions on its securitized assets and liabilities:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Securitized Mortgages sold as NHA MBS | **13,525** | 16,095 |
| Principal and interest payments received to be applied (included in cash and cash equivalents) | **43** | 154 |
| Total designated assets | **13,568** | 16,249 |
| Securitized Borrowings | **13,546** | 16,243 |
| Net amount | **22** | 6 |

*Whole loan sales*

At September 30, 2019, the Credit Union was administering, for a fee, on behalf of Central 1, members' mortgage loans aggregating $6,968 (Nil in 2018). In the current year, $8,650 (Nil in 2018) of mortgage loans were transferred to Central 1. As these mortgage loans do not belong to the Credit Union, they are not included in these consolidated financial statements.

(CDN dollars in thousands)

## 10. Allowance for impaired loans

The information in the following tables was established in accordance with IFRS 9 as for the year ended September 30, 2019 and under IAS 39 for the year ended September 30, 2018. Please refer to Notes 2, 3 and 27 for additional information.

(i) Allowance for impaired loans under IFRS 9:

The activity in the allowance for impaired loans is summarized as follows:

| | 12-month ECL (Stage 1) | Lifetime non-credit impaired (Stage 2) | Lifetime credit impaired (Stage 3) | 2019 Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance, beginning of year, IAS 39 | | | | 1,554 |
| Transition adjustment, IFRS 9 (note 27) | | | | 152 |
| Balance at October 1 per IFRS 9 | 355 | 362 | 989 | 1,706 |
| Transfer to (from): | | | | |
| Stage 1 | (15) | 14 | 1 | - |
| Stage 2 | 147 | (150) | 3 | - |
| Stage 3 | (1) | - | 1 | - |
| Re-measurement | (74) | 26 | 1,295 | 1,247 |
| Originations | 50 | 21 | 3 | 74 |
| Discharges | (69) | (132) | (6) | (207) |
| Realized losses | (118) | - | (2,201) | (2,319) |
| Balance, end of year | 275 | 141 | 85 | 501 |

| | Gross Amount | Stage1 | Stage 2 | Stage 3 | Total | Net Amount |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Residential mortgage loans | 199,993 | 52 | 40 | 2 | 94 | 199,899 |
| Personal loans | 9,816 | 73 | 68 | 83 | 224 | 9,592 |
| Commercial loans | 76,761 | 150 | 33 | - | 183 | 76,578 |
| Balance, end of year | 286,570 | 275 | 141 | 85 | 501 | 286,069 |

The following table sets out information about the credit quality of financial assets measured at amortized cost.

| | Stage 1 | Stage 2 | Stage 3 | 2019 Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Grade 1-2: Undoubted | 98,167 | 9 | 21 | 98,197 |
| Grade 3-4: Low | 45,863 | 20 | - | 45,883 |
| Grade 5-6: Moderate | 104,825 | 395 | 14 | 105,234 |
| Grade 7-8: Cautionary | 23,952 | 9,371 | 206 | 33,529 |
| Grade 9: Unsatisfactory | 442 | 1,527 | 23 | 1,992 |
| Grade 10: Unacceptable | 192 | 1,537 | 6 | 1,735 |
| | 273,441 | 12,859 | 270 | 286,570 |
| Allowance for Impairment | 275 | 141 | 85 | 501 |
| | 273,166 | 12,718 | 185 | 286,069 |

## 10. Allowance for impaired loans (continued)

Measurement of ECL

The ECL impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

- Stage 1: Where there has not been a significant increase in credit risk (“SICR”) since initial recognition of a financial instrument, an amount equal to twelve months ECL is recorded. The ECL is computed using a probability of default (“PD”) occurring over the next twelve months.
.
- Stage 2: When a financial instrument experiences a SICR subsequent to initial recognition but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the PD over the remaining estimated life of the financial instrument.

- Stage 3: Financial instruments that are considered to be in default are included in this stage.

The PD, exposure at default (“EAD”), and loss given default (“LGD”) are inputs used to estimate the ECL, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios, and are probability-weighted using three scenarios.

Details of these statistical parameters/inputs are as follows:

- PD is an estimate of the likelihood of default over a given time horizon, and is expressed as a percentage.

- EAD is the expected exposure in the event of default at a future default date, and is expressed as an amount.

- LGD is an estimate of the loss arising in case where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Credit Union would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

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 value 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. 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. The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $586 as at September 30, 2019 (2018 - $363). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that it is held against

Forward-looking information (“FLI”)

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 estimation and application of FLI requires significant judgment. The Credit Union relies on a broad range of FLIs, such as expected GDP growth, unemployment rates, interest rates, and house price indices.

(CDN dollars in thousands)

## 10. Allowance for impaired loans (continued)

The economic scenarios used as at September 30, 2019 included the following ranges of Canadian key indicators for the year ended September 30, 2019.

| | 2019 |
|---|---|
| Unemployment rates: | |
| Base | 6.10% |
| Range | 4.40% To 7.40% |
| Interest rates: | |
| Base | 1.52% |
| Range | 0.54% To 2.81% |
| GDP growth: | |
| Base | 1.51% |
| Range | (2.38%) To 2.90% |
| House prices: | |
| Base | 1.90% |
| Range | (1.61%) To 2.56% |

Assessment of significant increase in credit risk (“SICR”)

The determination of whether the ECL on a financial instrument is calculated on a twelve month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition.

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 costs or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union’s historical experience and expert credit rebuttable presumption that the risk of default of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue. The monitoring typically involves use of the following data:

Commercial mortgages and loans:
- Information obtained during periodic review of customer files
- Data from credit reference agencies, changes in external credit ratings
- Actual and expected significant changes to business activities and/or environment

Personal loans and residential mortgages:
- External data from credit reference agencies including industry standard credit scores
- Affordability metrics

All loans:
- Payment history including overdue status
- Utilization of the granted limit
- Requests for and granting of forbearances
- Existing and forecasted changes in business, financial and economic conditions

(CDN dollars in thousands)

## 10. Allowance for impaired loans (continued)

(ii) Allowance for impaired loans under IAS 39:

| | Personal | Mortgages | Commercial | Total 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance, beginning of year | 346 | 41 | 232 | 619 |
| Collection of loans previously written-off | 19 | - | - | 19 |
| Loans written-off as uncollectible | (296) | - | - | (296) |
| Provision for impaired loans | 252 | (11) | 971 | 1,212 |
| Balance, end of year | 321 | 30 | 1,203 | 1,554 |
| Aggregate impaired loans, end of year | 173 | - | 2,547 | 2,720 |

Credit quality of member loans is summarized as follows:

| | Personal | Mortgages | Commercial | Total 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Neither past due [1] nor impaired | 12,591 | 185,739 | 78,890 | 277,220 |
| Past due but not impaired | 316 | 2,939 | 2,206 | 5,461 |
| Impaired | 173 | - | 2,547 | 2,720 |
| | 13,080 | 188,678 | 83,643 | 285,401 |
| Less: specific allowances | 173 | - | 930 | 1,103 |
| | 12,907 | 188,678 | 82,713 | 284,298 |
| Less: collective allowance | 148 | 30 | 273 | 451 |
| | 12,759 | 188,648 | 82,440 | 283,847 |

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

Member loans past due but not impaired:

| | Personal | Mortgages | Commercial | Total 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Past due but not impaired | | | | |
| Under 30 days | 219 | 2,358 | 2,206 | 4,783 |
| 30 to 89 days | 97 | 581 | - | 678 |
| Total | 316 | 2,939 | 2,206 | 5,461 |

Note: Includes fully secured loans for which, in the opinion of management, there is no reasonable doubt as to ultimate collectability of the principal or interest.

(CDN dollars in thousands)

## 11. Derivative financial instruments

*Indexed linked term deposits*

At September 30, 2019, the Credit Union has issued $1,079 ($1,212 in 2018) of index-linked term deposits (registered and non-registered deposits) to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term, based on the performance of various Toronto Stock Exchange ("TSX") indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of $128 ($124 in 2018).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with these products. The Credit Union pays Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, the Credit Union receives payments from Central 1 equal to the amount required to be paid to the depositors based on the performance of the specified TSX indices. As at September 30, 2019, the Credit Union entered into such contracts on indexed linked term deposits for a total of $1,079 ($1,212 in 2018).

## 12. Property and equipment

| | Land | Buildings | Furniture and equipment | Computer equipment and ATMs | Leasehold improvements | Total 2019 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | |
| Balance, beginning of year | **431** | **5,951** | **1,155** | **1,572** | **1,076** | **10,185** |
| Additions | **-** | **-** | **7** | **39** | **11** | **57** |
| Balance, end of year | **431** | **5,951** | **1,162** | **1,611** | **1,087** | **10,242** |
| **Accumulated depreciation** | | | | | | |
| Balance, beginning of year | **-** | **2,187** | **915** | **1,346** | **364** | **4,812** |
| Depreciation expense | **-** | **147** | **51** | **116** | **130** | **444** |
| Balance, end of year | **-** | **2,334** | **966** | **1,462** | **494** | **5,256** |
| **Net book value, September 30, 2019** | **431** | **3,617** | **196** | **149** | **593** | **4,986** |
| Net book value, September 30, 2018 | 431 | 3,764 | 240 | 226 | 712 | 5,373 |

## 13. Other assets

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Accounts receivable | **148** | 200 |
| Derivative financial instrument assets (Note 11) | **128** | 124 |
| Prepaid expenses | **872** | 839 |
| | **1,148** | 1,163 |

## 14. Borrowings

The Credit Union has available credit facilities with Central 1 in the amount of $12,000 ($12,000 in 2018) to cover shortfalls in cash resources. As at September 30, 2019 these facilities are unused (not in use in 2018). These credit facilities are secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union

The Board of Directors has set an overall borrowing limit of $12,000 ($12,000 in 2018).

(CDN dollars in thousands)

## 15. Deposits from members

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| Savings and chequing accounts | **117,224** | 106,785 |
| Term deposits | **100,596** | 111,317 |
| Registered plans | **70,451** | 68,310 |
| | **288,271** | 286,412 |
| Accrued interest | **2,245** | 2,565 |
| | **290,516** | 288,977 |

*Term deposits*

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty.

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

*Registered retirement plans*

Concentra Trust Company of Canada acts as trustee in connection with Registered Plans. 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 the parties designated by them, by the Credit Union.

## 16. Other liabilities

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| Accounts payable and accrued liabilities | **1,029** | 900 |
| Derivative financial instrument liabilities (Note 11) | **128** | 124 |
| | **1,157** | 1,024 |

## 17. Pension plan

The Credit Union maintains a defined contribution pension plan for employees of the Cornwall branch and matches RRSP contributions for employees of the Ottawa area branches and corporate departments. The total expense recognized in the statement of comprehensive income for the defined contribution plan and RRSP matching program is $148 ($136 in 2018), which represents the total cash amount paid or payable by the Credit Union during the year.

(CDN dollars in thousands)

## 18. Income taxes

The following are major components of the income tax expense:

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| Current tax | | |
| Current tax recovered in respect of the current year | **(125)** | (34) |
| Deferred tax | | |
| Deferred tax expense (recovered) in the current year | **61** | (1) |
| Income tax recovered | **(64)** | (35) |

The provision for income taxes reported for the year ended September 30 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| (Loss) income before income taxes | **(117)** | 123 |
| Dividend deductible as interest | **(375)** | (389) |
| | **(492)** | (266) |
| Income tax expense based on statutory rate of 18.75% (18.75% in 2018) | **(92)** | (50) |
| Adjustments recognized in the period for current taxes of prior periods | **1** | 15 |
| Effect of non-deductible and non-taxable expenses | **27** | - |
| Income tax recovered | **(64)** | (35) |

Temporary differences which give rise to the following deferred income tax liability as at September 30 are as follows:

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| Deferred income tax assets (liabilities) | | |
| Allowance for impaired loans | **89** | 103 |
| Property and equipment | **(103)** | (86) |
| Deferred income tax (liability) asset | **(14)** | 17 |

(CDN dollars in thousands)

**19. Members' shares**

| | | | **2019** | | 2018 |
|---|---|---|---|---|---|
| | Authorized | **Liability** | **Equity** | Liability | Equity |
| | | **$** | **$** | $ | $ |
| Membership shares | unlimited | **-** | **433** | - | 476 |
| Investment shares (series 1) | unlimited | **363** | **3,402** | 350 | 3,148 |
| Investment shares (series 2) | unlimited | **701** | **6,439** | - | 6,623 |
| | | **1,064** | **10,274** | 350 | 10,247 |

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

(i) An unlimited number of Class B non-cumulative, non-voting, non-participating, special shares ("Class B investment shares").

(ii) In addition to these shares, the Credit Union is authorized to issue an unlimited number of membership shares, subject to its by-laws, which prescribe a minimum of one membership share to be owned by each member. Membership shares rank junior to Class B shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding up of the Credit Union. All classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

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

*Membership shares*

Membership shares along with retained earnings represent the members' residual interest in the Credit Union's net assets and are included in regulatory capital. The shares are redeemable at their paid-up amount when the member withdraws from membership in the Credit Union. As a condition of membership, each member is required under the by-laws to maintain a minimum of one share of the Credit Union, at a value of $5 per share. Members under the age of 18 are not required to purchase membership shares. Dividends are at the discretion of the Board of Directors. As at September 30, 2019, there were 11,797 (12,354 in 2018) members of the Credit Union.

*Class B investment shares*

The holders of the Class B investment shares are entitled to receive non-cumulative dividends, which will be declared by the Board of Directors and paid annually provided the Credit Union complies with all capital adequacy and liquidity requirements.

## 19. Members' shares (continued)

*Class B investment shares - series 1*

Series 1 Class B investment shares were not redeemable for five years after their issuance on September 30, 2000. Since September 30, 2005, holders of these shares could request redemption of some or all of their shares and the Credit Union could redeem the shares to a maximum of 10% of the Series 1 Class B investment shares outstanding at the previous year-end. Effective September 30, 2005, the Credit Union has the option of redeeming all or any portion of these shares, subject to the capital and liquidity requirements of the Act. During the fiscal year 2019 and 2018, no redemption has been approved by the Board of Directors.

For the first four years after issuance, 100% of these shares were classified as equity on the statement of financial position since they have all the features and meet all of the conditions set out in the applicable paragraphs of IAS 32 regarding liquidation and redemption. Since that time, up to 10% of the total Series 1 Class B investment shares outstanding at the end of the previous fiscal year can be redeemed within the next 12 months at the shareholder's request. As a result, that same 10% of these shares were reclassified to liabilities since they no longer meet the redemption features of IAS 32 and IFRIC 2 for classification as equity.

For the year ended September 30, 2019, the Board of Directors has defined an appropriate dividend rate to be 3.75% and it has also indicated that its intention is to pay these dividends in the form of additional Class B investment shares. As at September 30, 2019, $136 ($131 in 2018) of dividends declared on Class B investment shares are presented separately in the statements of comprehensive income and changes in members' equity.

*Class B investment shares - series 2*

The Series 2 Class B investment share sales period closed February 28, 2014. The 5,937,936 shares subscribed for were allotted and issued, effective as of April 1, 2014.

Series 2 Class B investment shares were not redeemable for five years after their issuance on April 1, 2014. Since April 1, 2019, holders of these shares could request redemption of some or all of their shares and the Credit Union could redeem the shares to a maximum of 10% of the Series 2 Class B investment shares outstanding at the previous year-end. Effective April 1, 2019, the Credit Union has the option of redeeming all or any portion of these shares, subject to the capital and liquidity requirements of the Act. During 2019, no redemption has been approved by the Board of Directors.

For the first four years after issuance, 100% of these shares were classified as equity on the statement of financial position since they have all the features and meet all of the conditions set out in the applicable paragraphs of IAS 32 regarding liquidation and redemption. Since that time, up to 10% of the total Series 1 Class B investment shares outstanding at the end of the previous fiscal year can be redeemed within the next 12 months at the shareholder's request. As a result, that same 10% of these shares were reclassified to liabilities since they no longer meet the redemption features of IAS 32 and IFRIC 2 for classification as equity.

For the year ended September 30, 2019, the Board of Directors has defined an appropriate dividend rate to be 3.75% and it has also indicated that its intention is to pay these dividends in the form of additional Class B investment shares. As at September 30, 2019, $264 ($253 in 2018) of dividends declared on Class B investment shares are presented separately in the statements of comprehensive income and changes in members' equity.

(CDN dollars in thousands)

## 20. Capital adequacy

*Capital management*

The Board approves annually the capital management policy and the annual business plan. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain regulatory capital of at least 4% of total assets and 8% of risk-weighted assets. The risk weighting of assets is specified in the Regulations to the Act. The Credit Union is in compliance with its policies and the Act regarding regulatory capital as at September 30 as outlined in the table below.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Tier 1 capital | | |
| Retained earnings | **8,520** | 9,052 |
| Membership shares | **433** | 476 |
| Investment shares, not redeemable within 1 year | **9,841** | 9,771 |
| Total Tier 1 capital | **18,794** | 19,299 |
| Tier 2 capital | | |
| Investment shares, redeemable within 1 year | **1,064** | 350 |
| Collective loan provision | **416** | 451 |
| Total Tier 2 capital | **1,480** | 801 |
| Total capital | **20,274** | 20,100 |
| | **%** | % |
| Leverage ratio | **6.24** | 6.17 |
| Risk weighted assets ratio | **10.87** | 10.64 |

## 21. Related party transactions

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

| | | **2019** | | 2018 |
|---|---|---|---|---|
| | **Maximum balance** | **Closing balance** | Maximum balance | Closing balance |
| | **$** | **$** | $ | $ |
| Loans to members | **1,595** | **1,229** | 1,575 | 1,297 |
| Member deposits | **n/a** | **1,147** | n/a | 892 |
| Membership and investment shares | **n/a** | **254** | n/a | 245 |
| | **1,595** | **2,630** | 1,575 | 2,434 |

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

There was no allowance for impaired loans required in respect of these loans as at September 30, 2019, (no allowance in 2018).

(CDN dollars in thousands)

## 21. Related party transactions (continued)

Key management personnel and their related parties received compensation in the year, which comprised of:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Salaries and other short-term employee benefits | **789** | 643 |
| Other long-term benefits | **51** | 42 |
| | **840** | 685 |

In addition to key management personnel's salaries, these employees participate in the Credit Union's RRSP matching plan. See Note 17 for further details on the Credit Union's pension plan.

Directors received the following amounts for serving the Credit Union:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Directors' expenses | **10** | 33 |
| Directors' remuneration * | **48** | 59 |
| | **58** | 92 |

* Remuneration in the amount of $48 was accrued during the year ended September 30, 2019 ($59 in 2018). Payment to the Directors occurred in the subsequent fiscal period.

## 22. Remuneration of officers and employees

In accordance with the requirements of the Act and accompanying Regulations, the remuneration of the specified officers and employees for the year ended September 30, 2019 is set out below:

| | | Salary and variable compensation | Benefits and pension contributions | Total |
|---|---|---|---|---|
| | | $ | $ | $ |
| Joel Lalonde | President & CEO | 221 | 16 | 237 |

## 23. Commitments

*Lease commitments*

The minimum annual payments under an operating lease amount to $105 per year to February 28, 2021.

*Service agreements*

The Credit Union is committed to the use of an outside data processing service until fiscal 2022. Charges for these services are based on usage.

The Credit Union is committed to the use of outside consultants for Member Wealth Management and Segmentation until the end of fiscal 2020. The contractual annual cost for services is $88.

*Letters of credit*

Outstanding letters of credit at September 30, 2019 amounted to $1,306 ($424 in 2018).

(CDN dollars in thousands)

## 24. Contingencies

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

## 25. Fair value of financial instruments

*Fair value*

The amounts set out below represent the fair values of the Credit Union’s financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets that are not considered financial instruments, such as prepaids, capital assets, investments in associates, intangible assets, future income taxes payable and accrued employment contract benefits.

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

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

| | | | **2019** | 2018 |
|---|---|---|---|---|
| | **Fair value** | **Carrying value** | **Fair value over (under) carrying value** | Fair value over (under) carrying value |
| | **$** | **$** | **$** | $ |
| Assets | | | | |
| Cash and cash equivalents | **11,472** | **11,472** | **-** | - |
| Investments | **21,289** | **21,289** | **-** | - |
| Loans to members | **286,871** | **286,069** | **802** | (224) |
| Other assets | **276** | **276** | **-** | - |
| Liabilities | | | | |
| Securitized Borrowing | **13,546** | **13,546** | **-** | - |
| Deposits from members | **292,400** | **290,516** | **(1,884)** | 55 |
| Other liabilities | **1,157** | **1,157** | **-** | - |
| Investment shares | **1,064** | **1,064** | **-** | - |

**25. Fair value of financial instruments (continued)**

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

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

*(b)* The fair value of investments is based on quoted market values where available (see Note 8). Where no quoted market price is available, the following assumption was used to determine the fair value, which was completed as at the statement of financial position date:

*(i)* Derivative financial instruments - fair value is calculated using a discounted cash flow approach, with the discount rate being the estimated receive and pay rates over the term of the swap.

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

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

*Fair value hierarchy*

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

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

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

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

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

(CDN dollars in thousands)

## 25. Fair value of financial instruments (continued)

The table below analyzes financial instruments carried at fair value, by valuation method. Balances for 2019 are presented according to their classification under IFRS 9. Balances for 2018 are presented according to their classification under IAS 39.

| | | | | **2019** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **$** | **$** | **$** | **$** |
| Financial assets | | | | |
| Central 1 Credit Union shares | **-** | **-** | **1,814** | **1,814** |
| Other investments | **-** | **-** | **2** | **2** |
| Derivative financial instruments | **-** | **128** | **-** | **128** |
| | **-** | **128** | **1,816** | **1,944** |
| Financial liabilities | | | | |
| Derivative financial instruments | **-** | **128** | **-** | **128** |
| | **-** | **128** | **-** | **128** |

| | | | | 2018 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Derivative financial instruments | - | 124 | - | 124 |
| | - | 124 | - | 124 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 124 | - | 124 |
| | - | 124 | - | 124 |

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ending September 30, 2019 and 2018.

## 26. Nature and extent of risks arising from financial instruments

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

*Credit risk*

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

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

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

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

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

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

*Liquidity risk*

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

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

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

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

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Cash and cash equivalents | **11,472** | 13,472 |
| Liquidity reserve deposit | **19,473** | 19,546 |
| Total assets held for liquidity | **30,945** | 33,018 |

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

*Market risk*

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

(CDN dollars in thousands)

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

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

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

(i) Interest rate risk:

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

The Credit Union manages its interest rate risk through measurement and monitoring of basis risk, mismatch risk, yield curve risk and options risk, and by maintaining a statement of financial position structure and appropriate diversification of products and maturities of assets and deposits to assist in minimizing the risks.

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

| | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|
| | On Demand | Less than 3 months | 3 months to one year | One to five years | Non-rate sensitive | Total | Effective interest rate |
| | $ | $ | $ | $ | $ | $ | % |
| Cash and cash equivalents | 6,489 | - | - | - | 4,983 | 11,472 | 1.90 |
| Investments | - | 3,572 | 9,039 | 6,743 | 1,935 | 21,289 | 1.76 |
| Loans to members | 41,827 | 10,889 | 27,003 | 206,398 | (48) | 286,069 | 4.03 |
| Other assets | - | - | - | - | 276 | 276 | - |
| | 48,316 | 14,461 | 36,042 | 213,141 | 7,146 | 319,106 | |
| Securitized Borrowing | - | - | - | 13,546 | - | 13,546 | 2.35 |
| Deposits from members | 124,650 | 22,185 | 58,411 | 85,270 | - | 290,516 | 1.53 |
| Other liabilities | - | - | - | - | 1,157 | 1,157 | - |
| Investment shares | 1,064 | - | - | - | - | 1,064 | 3.75 |
| | 125,714 | 22,185 | 58,411 | 98,816 | 1,157 | 306,283 | |
| On-balance sheet gap | (77,398) | (7,724) | (22,369) | 114,325 | 5,989 | 12,823 | |

(CDN dollars in thousands)

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

| | On Demand | Less than 3 months | 3 months to one year | One to five years | Non-rate sensitive | Total | 2018 Effective interest rate |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | % |
| Cash and cash equivalents | 9,096 | - | - | - | 4,376 | 13,472 | 1.66 |
| Investments | - | 2,395 | 2,281 | 14,773 | 1,842 | 21,291 | 1.37 |
| Loans to members | 35,405 | 10,395 | 15,358 | 223,342 | (44) | 284,456 | 3.87 |
| Other assets | - | - | - | - | 324 | 324 | - |
| | 44,501 | 12,790 | 17,639 | 238,115 | 6,498 | 319,543 | |
| Securitized Borrowing | - | - | 959 | 15,284 | - | 16,243 | 2.33 |
| Deposits from members | 114,679 | 28,742 | 35,154 | 110,402 | - | 288,977 | 1.59 |
| Other liabilities | - | - | - | - | 1,024 | 1,024 | - |
| Investment shares | 350 | - | - | - | - | 350 | 3.75 |
| | 115,029 | 28,742 | 36,113 | 125,686 | 1,024 | 306,594 | |
| On-balance sheet gap | (70,528) | (15,952) | (18,474) | 112,429 | 5,474 | 12,949 | |

An analysis of the Credit Union’s risk due to changes in interest rates determined that a 100bp increase in interest rates, with all other variables held constant, would result in an increase in net income of $252 while a 50bp decrease in interest rates, with all other variables held constant, would result in a decrease in net income of $47.

(ii) Foreign currency exchange risk:

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

Net foreign exchange gains of $8 (gains of $11 in 2018) have been included in other income on the statement of comprehensive income for the year ended September 30, 2019.

## 27. Change in accounting policies

*IFRS 15 Revenue contracts with customers*

There is no material impact on the Credit Union’s financial statements and its accounting policies from the adoption of IFRS 15 the majority of the Credit Union’s revenue includes interest income from financial instruments which do not fall within the scope of this standard.

*IFRS 9 Financial Instruments*

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

**27. Change in accounting policies (continued)**

As permitted in the transitional provisions of IFRS 9, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at October 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The adoption of IFRS 9 has resulted in changes to accounting policies for recognition, classification, measurement of financial assets and liabilities and impairment of financial assets. 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. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Set out below are disclosures relating to the impact of the adoption of IFRS 9. Further details of the specific IFRS 9 accounting policies applied in the curret period (as well as the previous period under IAS 39) are described in more details in notes 3 and 10.

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 and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability’s credit risk in OCI would create or enlarge and accounting mismatch in profit or loss.
- 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.

(CDN dollars in thousands)

### 27. Change in accounting policies (continued)

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

| | As at September 30, 2018 | | | As at October 1, 2018 | |
|---|---|---|---|---|---|
| | IAS 39 | | | IFRS 9 | |
| | Measurement Basis | Carrying Amount | Remeasurement/ Reclassification | Carrying Amount | Measurement Basis |
| | | $ | $ | $ | |
| Cash and cash equivalents | Loans and receivables | 13,472 | - | 13,472 | Amortized Cost |
| Investments | | | | | |
| Liquidity reserve deposits | Loans and receivables | 19,449 | - | 19,449 | Amortized Cost |
| Central 1 Credit Union Shares | Available for sale (cost) | 1,738 | - | 1,738 | FVTPL |
| Other investments | Available for sale (cost) | 7 | - | 7 | FVTPL |
| Loans to members | Loans and receivables | 284,456 | (152) | 284,304 | Amortized Cost |
| Derivative financial asset | FVTPL | 124 | - | 124 | FVTPL |
| Other assets - accounts receivable | Loans and receivables | 200 | - | 200 | Amortized Cost |
| Securitized Borrow ings | Other liabilities | 16,243 | - | 16,243 | Amortized Cost |
| Deposits from members | Other liabilities | 288,977 | - | 288,977 | Amortized Cost |
| Other liabilites | Other liabilities | 900 | - | 900 | Amortized Cost |
| Derivative financial liability | FVTPL | 124 | - | 124 | FVTPL |

The following table reconciles the closing allowance for credit losses in accordance with IAS 39 as at September 30, 2018 to the opening ECL allowance in accordance with IFRS 9 as at October 1, 2018:

| | As at September 30, 2018 | | | | As at October 1, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 | | | Transition | IFRS 9 | | | |
| | Specific | Collective | Total | adjustment | Total | Stage 1 | Stage 2 | Stage 3 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Mortgage loans | - | 30 | 30 | 178 | 208 | 100 | 108 | - |
| Personal loans | 173 | 148 | 321 | (13) | 308 | 102 | 117 | 89 |
| Comercial loans | 930 | 273 | 1,203 | (13) | 1,190 | 153 | 137 | 900 |
| | 1,103 | 451 | 1,554 | 152 | 1,706 | 355 | 362 | 989 |

The above transition adjustment increased the deferred tax balance (based on a tax rate of 20%) by $30 for a net adjustment to retained earnings of $122.