HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

FINANCIAL STATEMENTS

For the year ended December 31, 2019

Millards
Chartered Professional Accountants

HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

For the year ended December 31, 2019

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Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of Healthcare & Municipal Employees' Credit Union

Opinion
We have audited the financial statements of Healthcare & Municipal Employees' Credit Union (the 'Entity'), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Entity 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.

Other Information – Annual Report
Management is responsible for the annual report. The annual report comprises the report of the board of directors, report of the CEO, and other management reports, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the annual report identified above when it becomes available and, in doing so, consider whether the annual report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The annual report is expected to be made available to us after the date of our auditors' report. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.

Millard, Rouse & Rosebrugh LLP

February 18, 2020
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

STATEMENT OF FINANCIAL POSITION

As at December 31	2019	2018
ASSETS		
Cash and bank	5,509,687	3,696,824
Investments (Note 5)	18,744,019	16,082,204
Derivatives (Note 6)	252,119	161,784
Loans to members (Note 7)	197,372,932	196,396,895
Accounts receivable	83,247	32,833
Prepaid expenses	143,380	106,972
Income taxes recoverable	33,201	-
Property, plant and equipment (Note 9)	1,765,158	1,961,239
Intangible assets (Note 9)	134,654	188,961
Right of use for leased assets (Note 10)	406,957	-
Deferred income tax asset (Note 16)	14,340	2,690
	224,459,694	218,630,402
LIABILITIES		
Members' deposits (Note 11)	210,078,581	205,362,641
Accounts payable and accrued liabilities	1,417,019	1,218,854
Derivatives (Note 6)	353,564	165,263
Lease liabilities (Note 10)	398,898	-
Income taxes payable	-	136,224
Members' share capital (Note 12)	732,500	789,484
	212,980,562	207,672,466
MEMBERS' EQUITY		
Undivided Earnings	11,549,696	10,968,896
Accumulated Other Comprehensive Income	(70,564)	(10,960)
	11,479,132	10,957,936
	224,459,694	218,630,402

HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2019	2018
Interest Revenue (Note 14)	8,162,905	7,323,935
Interest Expense (Note 15)	2,794,897	2,149,622
Interest Margin	5,368,008	5,174,313
Other income	1,954,120	2,005,755
Income Before Operating Expenses	7,322,128	7,180,068
Operating Expenses		
Employee salaries and benefits	3,980,355	3,555,620
Occupancy	253,899	525,914
Administration	664,684	678,395
Data processing	829,814	903,660
Lending	149,165	125,496
Member deposit insurance	192,129	187,246
Board and committee expenses	54,774	68,465
Depreciation	520,152	342,055
	6,644,972	6,386,851
Income Before Income Taxes	677,156	793,217
Income taxes - current (Note 16)	98,704	164,001
- deferred (Note 16)	(2,348)	(9,707)
Net Income	580,800	638,923
Other Comprehensive Income (Loss)		
Change in unrealized gains / (losses) on derivative instruments designated as cash flow hedges	(68,906)	(12,671)
Tax effect of change in unrealized gains on cash flow hedges	9,302	1,711
Other Comprehensive Income for the Year	(59,604)	(10,960)
Comprehensive Income for the Year	521,196	627,963

HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Accumulated Other Comprehensive Income Cash Flow Hedges	Undivided Earnings	Total
Balance at January 1, 2018	-	10,329,973	10,329,973
Net Income		638,923	638,923
Change in unrealized gains / (losses) on cash flow hedges	(10,960)	-	(10,960)
Balance at December 31, 2018	(10,960)	10,968,896	10,957,936
Net Income (loss)	-	580,800	580,800
Change in unrealized gains / (losses) on cash flow hedges	(59,604)	-	(59,604)
Balance at December 31, 2019	(70,564)	11,549,696	11,479,132

HEALTHCARE & MUNICIPAL EMPLOYEES' CREDIT UNION

STATEMENT OF CASH FLOWS

For the year ended December 31	2019	2018
Cash Flows From Operating Activities		
Net Income	580,800	638,923
Adjustments for:		
Interest revenue	(8,162,905)	(7,323,935)
Interest expense	2,794,897	2,149,622
Interest received on member loans	7,724,482	6,951,279
Interest received on investments	401,598	291,582
Interest paid on member deposits	(2,729,522)	(1,865,096)
Depreciation	520,152	342,055
Deferred income taxes	(2,348)	(9,707)
Income taxes (paid) recovered	(268,129)	2,305
Net change in non-cash working capital balances related to operations	239,107	(158,151)
	1,098,132	1,018,877
Cash Flows From Financing Activities		
Term loans	-	(8,000,000)
Member deposits and share capital	4,593,581	23,639,292
Lease obligations	(260,575)	-
	4,333,006	15,639,292
Cash Flows From Investing Activities		
Purchase of property, plant and equipment and intangible assets	(17,248)	(85,024)
Loans and mortgages to members	(972,415)	(17,110,945)
Investments	(2,628,612)	(2,688,401)
	(3,618,275)	(19,884,370)
Net Increase in Cash and Cash Equivalents	1,812,863	(3,226,201)
Opening Cash and Cash Equivalents	3,696,824	6,923,025
Closing Cash and Cash Equivalents	5,509,687	3,696,824

See accompanying notes

1. NATURE OF OPERATIONS

Reporting Entity
Healthcare & Municipal Employees' Credit Union (the credit union) is a company incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario. The credit union offers retail banking services to its members. The head office is located at 209 Limeridge Road East, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets and derivative financial instruments measured at fair value.

The credit union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the credit union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Cash and Bank
Cash and bank includes cash on hand and deposits with banks. Cash and bank accounts are classified as measured at fair value through profit or loss.

Central 1 Deposits
Deposits with Central 1 are initially measured at fair value plus transaction costs, and are subsequently measured at amortized cost.

Equity Instruments
Equity instruments are classified as measured at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Hedges
The credit union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates. The credit union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the credit union determines, for each derivative, whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a cash flow hedge of a specifically identified group of assets or liabilities. The credit union formally assesses and documents whether these derivatives are effective in offsetting changes in cash flows of hedged assets or liabilities.

These derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Gains and losses resulting from changes in fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income. The ineffective portion is recognized immediately in income as other income.

Market Based Deposits
The credit union has various deposits from members whereby interest will be paid based on certain market indicators. To offset exposure to fluctuations in these indicators, the credit union has entered into derivative contracts with Central 1 whereby Central 1 will pay the interest on these deposits. In return, the credit union will pay a fixed rate of interest to Central 1 on these deposits. These derivative contracts are designated as fair value through profit or loss and are measured at fair value both initially and subsequently.

Loans to Members
All loans to members are financial assets with fixed or determinable payments that are not quoted in an active market and are classified as measured at amortized cost. Member loans are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any impairment. An allowance for doubtful loans is deducted from the total of the loans on the statement of financial position.

Property, Plant and Equipment and Depreciation
Property, plant and equipment assets are stated at cost. Depreciation is provided for in the accounts as follows:

Building	40 years straight line
Leasehold improvements	Remaining term of the lease
Furniture and fixtures	5 to 10 years straight line
Computer equipment	3 to 5 years straight line

Intangible Assets
Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). Depreciation is provided using the straight-line basis over 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Accounts Payable
Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently are carried at amortized cost using the effective interest rate method.

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

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

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

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable income will be available to allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Member Deposits
All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Members' Shares
Members' shares issued by the credit union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Provisions
Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition
Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured. Other income consists of commission income, service charges, and rent. Other income is recognized when the transaction generating the commission or service charge occurs. Rental income is earned at the end of each month of the rental contract.

Foreign Currency Translation
Foreign currency accounts are translated into Canadian dollars as follows:

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

Leases
Leases are recognized, measured and presented in line with IFRS 16 'Leases'.

Leased assets are capitalized at the commencement date of the lease and comprise the initial lease liability amount plus direct cost incurred when entering the lease agreement.

The credit union depreciates the right-of-use asset on a straightline basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The credit union also assesses the right of use asset for impairment when such indicators exist.

Lease liabilities are measured at the present value of the fixed and variable lease payments unpaid at commencement of the lease, discounted at the credit union's incremental borrowing rate.

3. ADOPTION OF IFRS 16

The credit union adopted IFRS 16 on January 1, 2019. On adoption, the credit union recorded a right-of-use asset of $659,473 for leased premises, and a corresponding lease liability for the future lease payments. The credit union applied the practical expedient allowed on adoption of IFRS 16 and did not reassess previously existing contracts not previously identified as leases. IFRS 16 was adopted without restatement of comparative figures.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments
The credit union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

Loan Loss Provision
In accordance with IFRS 9, the credit union uses an expected credit loss model to determine a loss allowance for its loan and mortgage portfolio. Under this model the credit union estimates the probability of default of a loan, and the expected loss given default. The credit union recognizes the expected losses over the next 12 months for loans that have not had significant deterioration in credit quality, and recognizes lifetime expected credit losses when there has been significant increases in credit risk since initial recognition.

Valuation of lease liabilities and right of use assets
The application of IFRS 16 requires the credit union to make judgments that affect the valuation of the lease liabilities and the valuation of right of use assets. These include determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the credit union comprises non-cancellable periods of lease contracts, and periods covered by an option to terminate the lease if the credit union is reasonably certain not to exercise that option.

The present value of the lease payment is determined using the discount rate representing the rate of interest rate swap applicable for the currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the credit unions rating, observed in the period when the lease contract commences or is modified.

5. INVESTMENTS

	2019	2018
Debt Instruments		
Central 1 Liquidity reserve deposit	13,510,000	13,164,427
Central 1 deposit note	3,890,129	1,637,040
Accrued interest	66,015	32,812
Total Central 1 Deposits	17,466,144	14,834,279
Equity Instruments		
Central 1 Credit Union - Class A	78,807	79,080
Central 1 Credit Union - Class E	494,800	494,800
Central 1 Credit Union - Class F	702,783	672,560
Other investments	1,485	1,485
Total Equity Instruments	1,277,875	1,247,925
	18,744,019	16,082,204

As a condition of membership in Central 1, the credit union is required to maintain an interest bearing "liquidity reserve deposit" equal to 6% of its total assets at the end of each month. Except for possible refunds occasioned by future reductions in total assets, this deposit is refundable to the credit union only in the event of the credit union's dissolution or withdrawal from membership in Central 1.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Central 1 Class A and Class F shares are subject to an annual rebalancing mechanism and are redeemable at the option of Central 1. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value.

Central 1 Class E shares are redeemable at $100 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

6. DERIVATIVES

The credit union has outstanding $1,501,784 (2018 - $1,781,087) in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivatives associated with these deposits are presented in liabilities and have a fair value of $252,119 (2018 - $161,784).

The credit union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the credit union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2019, the credit union had entered into such contracts on index linked term deposits for a total of $1,462,337. The agreements are secured by a general security agreement covering all assets of the credit union.

From time to time, in the ordinary course of business, the credit union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. The agreements, in aggregate, represent a notional principal amount of $30,000,000 ($20,000,000 in 2018), maturing March 2021.

Under the terms of these agreements, the credit union has contracted with the counter party to pay interest at a variable rate equivalent to the three month CIDOR rate, to be repriced every 90 days, while receiving interest at a fixed rate on the notional principal amount. The credit union is currently receiving a fixed rate on these swap of 1.755% and is paying a variable rate as at December 31, 2019 of 1.975%.

	2019	2018
Derivative assets		
Index linked hedge receivable from Central 1	252,119	161,784
Derivative liabilities		
Interest rate swaps	101,445	3,479
Index linked derivatives payable on member deposits	252,119	161,784
	353,564	165,263

These derivatives have a fair value that varies based on the particular contract and changes in interest rates. The purpose of these derivatives is to provide a hedge against interest rate fluctuations by improving the credit union's matching of its asset and liability positions.

7. LOANS TO MEMBERS

	2019	2018
Personal loans	11,649,883	12,867,741
Residential mortgages	178,889,829	180,137,581
Syndicated loans	6,817,619	3,370,975
Accrued interest	242,204	238,582
	197,599,535	196,614,879
Less: allowance for impaired loans (Note 8)	226,603	217,984
Total Loans Receivable	197,372,932	196,396,895

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignment only. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 7.56% at December 31, 2019 (7.44% in 2018).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.72% at December 31, 2019 (3.65% in 2018).

Syndicated loans consist of commercial loans 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, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 5.59% at December 31, 2019 (5.53% in 2018).

Credit Quality of Loans

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

	2019	2018
Unsecured loans	5,210,508	4,799,591
Loans secured by cash or property	6,439,375	8,068,150
Residential mortgages	164,377,228	165,510,074
Insured residential mortgages	14,512,601	14,627,507
Loans secured by commercial property	6,817,619	3,370,975
	197,357,331	196,376,297

7. LOANS TO MEMBERS (Cont'd)

Concentration of Risk
The credit union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

At December 31, 2019, there are three members with total borrowings exceeding 10% of member equity. Two hold meritlines totaling $2,672,775, and one holds a syndicated loan mortgage totaling $1,483,649. In 2018 there was 1 mortgage with a balance of $1,095,794.

All member loans are with members located in Southwestern Ontario.

8. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2019	**2018**
Stage 1 provision	53,792	61,440
Stage 2 provision	1,060	72,381
Stage 3 provision	171,751	84,163
Total provision	226,603	217,984

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		**Aggregate Impaired Loans**	
	2019	**2018**	**2019**	**2018**
Personal loans	139,260	80,459	139,260	80,459
Lines of credit	32,491	3,704	32,491	3,704
Non-specified loans	54,852	133,821	-	-
Residential mortgages	-	-	-	945,382
	226,603	217,984	171,751	1,029,545

8. ALLOWANCE FOR IMPAIRED LOANS (Cont'd)

Movement in individual specific provision and collective provision for impairment:

2019	Stage 3 Provision	Stage 1 and 2 Provision	Total
Balance at January 1, 2019	84,163	133,821	217,984
Recoveries of loans previously written off	7,823	-	7,823
Provision charged to net income	187,640	(78,969)	108,671
	279,626	54,852	334,478
Loans written off	(107,875)	-	(107,875)
Balance at December 31, 2019	171,751	54,852	226,603

2018	Stage 3 Provision	Stage 1 and 2 Provision	Total
Balance at January 1, 2018	123,040	115,554	238,594
Recoveries of loans previously written off	8,959	-	8,959
Provision charged to net income	74,238	18,267	92,505
	206,237	133,821	340,058
Loans written off	(122,074)	-	(122,074)
Balance at December 30, 2018	84,163	133,821	217,984

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

All loans have a probability of default. The credit union uses historical loss ratios of loans with similar characteristics to estimate the probability and severity of loss on origination of new loans issued. At each reporting date, the credit union considers evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the credit union to reduce any differences between loss estimates and actual loss experience.

For loans that have not increased in credit risk since origination, the credit union allows for 12 month expected credit losses (Stage 1 provision). For loans that have experienced significant increase in credit risk since origination, the credit union allows for lifetime expected credit losses (Stage 2 provision). Loans are considered to have significantly increased credit risk when payments are 30 days past due. Loans that are 90 days past due are specifically identified as impaired (Stage 3) and are evaluated individually for collateral and expected loss provision.

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold Improvements	Furniture & Fixtures	Computer Equipment	Total	Intangibles
Cost							
Balance at January 1, 2018	437,779	2,078,353	1,087,665	813,662	1,638,546	6,056,005	520,435
Additions	-	-	-	13,193	71,831	85,024	-
Disposals	-	-	-	-	(809,074)	(809,074)	-
Balance at December 31, 2018	437,779	2,078,353	1,087,665	826,855	901,303	5,331,955	520,435
Additions	-	-	-	2,345	14,904	17,249	-
Disposals	-	-	-	(354,744)	(197,205)	(551,949)	-
Balance at December 31, 2019	437,779	2,078,353	1,087,665	474,456	719,002	4,797,255	520,435
Accumulated Depreciation							
Balance at January 1, 2018	-	1,126,350	602,464	671,847	1,497,574	3,898,235	270,974
Depreciation expense	-	56,989	84,119	35,110	105,337	281,555	60,500
Disposals	-	-	-	-	(809,074)	(809,074)	-
Balance at December 31, 2018	-	1,183,339	686,583	706,957	793,837	3,370,716	331,474
Depreciation expense	-	56,319	84,119	27,527	45,365	213,330	54,307
Disposals	-	-	-	(354,744)	(197,205)	(551,949)	-
Balance at December 31, 2019	-	1,239,658	770,702	379,740	641,997	3,032,097	385,781
Net book value							
December 31, 2018	437,779	895,014	401,082	119,898	107,466	1,961,239	188,961
December 31, 2019	437,779	838,695	316,963	94,716	77,005	1,765,158	134,654

10. LEASE ASSETS AND LIABILITIES

Right of use assets for leased branch offices	
Balance at January 1, 2019	659,473
Depreciation	252,516
Balance at December 31, 2019	406,957

Lease liabilities	
Balance at January 1, 2019	659,473
Payments	268,396
Interest expense	(7,822)
Balance at December 31, 2019	398,899

Payments required under these leases are as follows:

2020 - $247,122; 2021 - $190,382;   2022 - $6,328.

11. MEMBERS' DEPOSITS

	2019	2018
Chequing accounts	21,871,140	19,212,720
Savings accounts	61,528,411	60,147,136
Term deposits	46,342,351	48,139,043
Tax free savings accounts	27,079,282	25,044,502
Registered retirement savings plans	33,105,199	34,058,432
Registered retirement income funds	19,127,826	17,801,811
Accrued interest	1,024,372	958,997
	210,078,581	205,362,641

Chequing and savings accounts are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2019, the average interest rate on term deposits was 2.36% (2.30% in 2018).

Registered retirement savings plan accounts can be fixed or variable rate, or pay a return based on market indexes. Fixed rate deposits have similar terms and rates as the term deposits described above.

Registered retirement income fund accounts can be fixed or variable rate with terms similar to those of registered retirement savings plan accounts described above. Members may make withdrawals from RRIFs on a monthly or annual basis according to individual needs and statutory requirements.

Tax free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plan accounts described above.

Concentration of Risk
The credit union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

No individuals or related groups of members' deposits exceed 1% of members' deposits.

All members' deposits are primarily with members located in Southwestern Ontario.

12. MEMBERS' SHARE CAPITAL

As a condition of membership, each member is required to hold a minimum of $25 in membership shares. This capital is of a permanent nature which cannot be withdrawn except upon the death or withdrawal from membership of the member. Any special dividends added to a member's permanent share capital account cannot be withdrawn except on the above conditions. As at December 31, 2019, the credit union had 10,618 members.

13. CAPITAL MANAGEMENT

The credit union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The credit union considers its capital to comprise membership shares, undivided earnings, reserves, and the general allowance against doubtful loans.

The credit unions and Caisses Populaires Act, 1994 requires that the credit union maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

Regulatory capital	**2019**	**2018**
Tier 1 Capital		
Membership shares	732,500	789,484
Undivided earnings	11,549,696	10,968,896
Tier 2 Capital		
Stage 1 and 2 provision for impaired loans	54,852	133,821
	12,337,048	11,892,201
Percentage of total assets	5.5%	5.4%
Risk weighted equivalent value	93,113,592	89,952,838
Percentage of risk weighted equivalent value	13.25%	13.22%

The Act also requires that the credit union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2019	**2018**
Cash	5,509,687	3,696,824
Payroll deposits receivable	10,766	2,879
Liquidity deposits with Central 1 Credit Union	13,510,000	13,164,427
Other investments qualifying as liquidity	3,890,129	1,637,040
	22,920,582	18,501,170
% of member deposits and borrowings	10.96 %	9.05 %

14. INTEREST REVENUE

	2019	2018
Personal loans	905,483	995,426
Mortgages	6,822,621	6,022,203
Investments	434,801	306,306
	8,162,905	7,323,935

15. INTEREST EXPENSE

	2019	2018
Demand savings accounts	327,817	255,159
Term deposits	1,175,290	851,365
Tax free savings accounts	395,422	316,100
Registered retirement savings plans	550,983	446,568
Registered retirement income funds	345,385	280,430
	2,794,897	2,149,622

16. INCOME TAX

The current income tax provision was calculated as follows:	2019	2018
Income per statement before income taxes	677,156	793,217
Depreciation in excess of capital cost allowance	24,585	63,756
Adjust allowance for impaired loans to allowance for tax purposes	862	1,680
Other adjustments	(6,904)	5,502
Taxable income	695,699	864,155
Tax at prescribed rate of 26.50% (2018 - 26.50%)	184,360	229,001
Small business deduction	(70,000)	(65,000)
Ontario credit union tax reduction	(15,656)	-
Provision for income tax - current	98,704	164,001

16. INCOME TAX (Cont'd)

Deferred Tax Expense	**2019**	**2018**
Origination and reversal of temporary differences	(2,348)	(8,835)
Reduction in tax rate	-	(872)
Provision for income tax - deferred	(2,348)	(9,707)

The movement in deferred tax liabilities and assets are:

2019	**Opening Balance**	**Recognized in Net Income**	**Recognized in OCI**	**Closing Balance**
Property, plant and equipment	1,963	(3,319)	-	(1,356)
Leased assets	-	1,087	-	1,087
Allowance for impaired loans	(2,943)	(116)	-	(3,059)
Cash flow hedges	(1,710)	-	(9,302)	(11,012)
	(2,690)	(2,348)	(9,302)	(14,340)

2018	**Opening Balance**	**Recognized in Net Income**	**Recognized in OCI**	**Closing Balance**
Property, plant and equipment	11,745	(9,782)	-	1,963
Allowance for impaired loans	(3,018)	75	-	(2,943)
Cash flow hedges	-	-	(1,710)	(1,710)
	8,727	(9,707)	(1,710)	(2,690)

Expected settlement of deferred tax liabilities and assets are:

	2019	**2018**
Settled within 12 months	(4,797)	(4,457)
Settled after more than 12 months	(9,543)	1,767
	(14,340)	(2,690)

17. RELATED PARTY TRANSACTIONS

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

Compensation	**2019**	**2018**
Salaries and other short-term employee benefits	738,604	625,853
Total pension and other post-employment benefits	129,694	108,385
	868,298	734,238

Loans to Key Management Personnel and Directors	**2019**	**2018**
Aggregate value of new credit approved during year	-	955,200
Outstanding balance of loans advanced at year end	2,060,984	2,435,036
Interest received on loans advanced	66,925	64,847
Outstanding balance of lines of credit advanced at year end	860,712	1,048,767
Interest received on lines of credit advanced	30,454	29,808
Unused value of lines of credit	372,415	483,567

The credit union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

Deposits from Key Management Personnel and Directors	**2019**	**2018**
Aggregate value of term and savings deposits	827,013	912,405
Total interest paid on term and savings deposits	9,958	13,081

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

Included in board and committee expenses are honoraria totaling $45,083 (2018 - $44,201).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds $150,000.

	Salary	Value of Benefits
Lew Figol, CEO	178,615	29,167

18. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2019	2018
Assets at fair value through profit or loss		
Cash	5,509,687	3,696,824
Derivative assets	252,119	161,784
Equity investments	1,277,875	1,247,925
	7,039,681	5,106,533
Assets at amortized Cost		
Debt investments	17,466,144	14,834,279
Loans	197,372,932	196,396,895
Accounts receivable (other)	83,247	32,833
	214,922,323	211,264,007
Liabilities at fair value through profit or loss		
Derivative liabilities	353,564	165,263
Liabilities at amortized cost		
Member deposits	210,078,581	205,362,641
Member shares	732,500	789,484
Accounts payable	1,417,019	1,218,854
	212,228,100	207,370,979

The amounts set out below represent the fair values of the credit union's financial instruments where fair value differs from carrying cost. Assets that are not considered financial instruments, such as property, plant and equipment, prepaid expenses and income taxes recoverable, are excluded.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

18. FINANCIAL INSTRUMENTS (Cont'd)

2019	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	17,571,416	17,466,144	105,272
Loans and mortgages	198,214,029	197,372,932	841,097
Liabilities			
Member deposits	209,616,896	210,078,581	(461,685)

2018	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	14,854,138	14,834,279	19,859
Loans and mortgages	194,721,610	196,396,895	(1,675,285)
Liabilities			
Member deposits	205,230,674	205,362,641	(131,967)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1
Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2
Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3
Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

18. FINANCIAL INSTRUMENTS (Cont'd)

December 31, 2019 Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	Total
Cash and bank	5,509,687	-	-	5,509,687
Central 1 Credit Union - Class A	-	78,807	-	78,807
Central 1 Credit Union - Class E	-	494,800	-	494,800
Central 1 Credit Union - Class F	-	702,783	-	702,783
Other equity instruments	-	1,485	-	1,485
Derivative assets	-	-	252,119	252,119
Derivative liabilities	-	-	353,564	353,564
Total fair value investments	5,509,687	1,277,875	(101,445)	6,686,117

December 31, 2018 Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	Total
Cash and bank	3,696,824	-	-	3,696,824
Other debt instruments	-	-	-	-
Central 1 Credit Union - Class A	-	79,080	-	79,080
Central 1 Credit Union - Class E	-	494,800	-	494,800
Central 1 Credit Union - Class F	-	672,560	-	672,560
Other investments	-	1,485	-	1,485
Derivative assets	-	-	161,784	161,784
Derivative liabilities	-	-	165,263	165,263
Total fair value investments	3,696,824	1,247,925	(3,479)	4,941,270

Reconciliation of Level 3 financial instruments	2019	2018
Balance beginning of year	(3,479)	(29,900)
Gains (losses) included in the statement of income as investment income	(29,060)	39,092
Gains (losses) included in other comprehensive income	(68,906)	(12,671)
Distributions received	-	-
Balance, end of year	(101,445)	(3,479)

19. RISK MANAGEMENT

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

Credit Risk
The credit union is exposed to the risk of loss related to loans and mortgages receivable. The credit union invests in loans as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. The risk of credit loss is mitigated by requiring collateral security on loans in excess of $30,000. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

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

A sizeable portfolio of the loan book is secured by residential property in Hamilton, Ontario. Therefore, the credit union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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

Liquidity Risk
Liquidity risk consists of the risk that the credit union is unable to generate sufficient cash to meet commitments as they come due. The credit union maintains a liquidity reserve with Central 1 Credit Union as described in Note 5. The credit union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, is described in the chart under interest rate risk below. The credit union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

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

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

The credit union's foreign exchange risk is related to deposits and investments denominated in United States dollars. The credit union limits its holdings in foreign currency investments to 25% of the total investment portfolio in accordance with its investment policy. Total unhedged foreign currency must be less than 2% of total assets. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

19. RISK MANAGEMENT (Cont'd)

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

The credit union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the credit union's net earnings before income taxes are not impacted by an amount greater than 0.15% of the credit union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The credit union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The credit union is exposed to interest rate price risk as a result of fixed rate financial instruments. The credit union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

The tables below identifies the maturity dates of interest rate sensitive financial instruments.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union's analysis of risk due to changes in interest rates determined that an increase in interest rates of 0.50% could result in an increase to net income of $122,000 while a decrease in interest rates of 0.50% could result in an decrease to net income of $175,000.

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

2019	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash and bank	3,004,152	-	-	-	2,347,625	5,351,777
effective rate %	-	-	-	-	-	
Loans	65,879,301	6,120,008	16,969,583	108,404,040	-	197,372,932
effective rate %	5.54	4.06	3.12	3.20	-	
Investments	-	566,015	1,000,000	9,300,000	6,600,129	17,466,144
effective rate %	-	1.93	2.00	1.93	-	
Liabilities						
Member deposits	82,674,126	14,369,040	43,674,210	46,118,339	23,084,956	209,920,671
effective rate %	0.66	2.00	1.93	2.51	-	

19. RISK MANAGEMENT (Cont'd)

2018	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash and bank	1,417,462	-	-	-	2,279,362	3,696,824
effective rate %	-	-	-	-	-	
Loans	65,914,856	3,663,732	6,156,572	120,661,735	-	196,396,895
effective rate %	5.50	3.23	3.34	3.10	-	
Investments	-	532,812	-	10,800,000	3,501,467	14,834,279
effective rate %	-	2.18	-	2.17	-	
Liabilities						
Member deposits	81,765,093	15,499,333	43,050,078	44,139,151	20,908,986	205,362,641
effective rate %	0.60	1.85	1.90	2.41	-	

20. COMMITMENTS

The credit union has an authorized line of credit with Central 1 Credit Union totaling $14,700,000. Security given is a general security agreement covering all assets of the credit union.

Mortgages
Outstanding commitments for future advances on mortgages are $1,299,500 (2018 - $200,000).

Syndication Loans
Outstanding commitments for future advances on syndicated loans are $2,886,836 (2018 - $2,724,118).

Credit Lines
Unused lines of credit available to members are $37,338,488 (2018 - $39,168,965).

Contract Commitments
The credit union's obligations for future payments, under contracts that are not considered leases in accordance with IFRS 16 (see note 10) over the next five years are as follows:

2020 - $180,206 2021 - $81,199 2022 - $71,485 2023 - 35,460 2024 - 35,460