Equity Credit Union

Financial Statements

For the year ended December 31, 2020

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Members of Equity Credit Union Inc.:

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

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

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

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

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

February 24, 2021

Thomas Dimson, Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Members of Equity Credit Union

Opinion
We have audited the financial statements of Equity Credit Union (the "Credit Union"), which comprise the statement of financial position as at December 31, 2020, and the statement of income and comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and schedules.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2020, 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. 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.

Other Matter
The financial statements of the Credit Union for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 27, 2020.

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 generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

February 24, 2021

EQUITY CREDIT UNION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

	2020	2019
ASSETS		
Cash and cash equivalents (Note 5)	$ 28,668,465	$ 7,435,350
Investments (Note 6)	6,436,380	11,040,700
Member loans (Note 7)	172,973,889	154,365,593
Other assets (Note 8)	257,753	324,534
Deferred tax asset (Note 15)	103,000	77,000
Right-of-use asset (Note 10)	285,568	360,742
Property and equipment (Note 9)	297,512	125,530
	$209,022,567	$173,729,449
LIABILITIES		
Member deposits (Note 11)	$196,384,403	$163,265,853
Other liabilities (Note 13)	469,121	244,230
Lease liabilities (Note 12)	299,293	367,970
Member shares (Note 16)	61,620	62,320
	197,214,437	163,940,373
Commitments (Note 22)		
MEMBERS' EQUITY		
Retained earnings	11,808,130	9,789,076
	$209,022,567	$173,729,449

Approved on behalf of the board

Director, ____________________ Director, ____________________

The accompanying notes are an integral part of these financial statements.

EQUITY CREDIT UNION
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the year ended December 31, 2020

	2020	2019
Interest and investment income		
Member loans	$ 8,334,025	$ 7,311,535
Investment	216,028	329,919
	8,550,053	7,641,454
Interest expense		
Member deposits	4,410,348	4,129,545
Dividend to members	153,175	77,900
External borrowings	12,715	14,538
	4,576,238	4,221,983
Net interest income	3,973,815	3,419,471
Provision for loan losses (Note 7)	62,297	124,523
Net interest income after provision for loan losses	3,911,518	3,294,948
Non-interest income		
Other income	43,052	63,057
Grants and subsidies	8,952	-
	52,004	63,057
Net interest and non-interest income	3,963,522	3,358,005
Operating expenses		
Salaries and benefits	640,307	557,413
Administrative expenses (Schedule)	692,738	636,907
Occupancy costs	65,329	66,944
Depreciation	151,957	175,103
	1,550,331	1,436,367
Income before income taxes	2,413,191	1,921,638
Income tax expense (recovery)		
Current (Note 15)	420,137	411,224
Deferred (Note 15)	(26,000)	(77,000)
	394,137	334,224
Net income and comprehensive income for the year	$ 2,019,054	$ 1,587,414

The accompanying notes are an integral part of these financial statements.

EQUITY CREDIT UNION
STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the year ended December 31, 2020

	2020	2019
Balance, beginning of year	$ 9,789,076	$ 8,201,662
Net income	2,019,054	1,587,414
Balance, end of year	$ 11,808,130	$ 9,789,076

The accompanying notes are an integral part of these financial statements.

EQUITY CREDIT UNION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2020

	2020	2019
Cash provided by (used for) the following activities		
Operating activities		
Net Income	$ 2,019,054	$ 1,587,414
Adjustments for		
Depreciation	151,957	175,103
Deferred income taxes	(26,000)	(77,000)
Loss on disposal of capital assets	252	-
	126,209	98,103
	2,145,263	1,685,517
Change in non-cash working capital items		
Other assets	66,781	75,510
Other liabilities	224,891	240,221
Loan loss provision	62,554	(17,604)
	354,226	298,127
	2,499,489	1,983,644
INVESTING ACTIVITIES		
Purchase of property and equipment	(249,017)	(16,818)
Net increase in right-of-use assets	-	(329,503)
Net increase (decrease) in investments	4,604,320	(2,238,368)
	4,355,303	(2,584,689)
FINANCING ACTIVITIES		
Increase in member loans	(18,670,850)	(27,932,768)
Increase in member deposits	33,118,550	34,855,133
Repayment of term loans	-	(2,500,000)
Net change in lease liabilities	(68,677)	243,007
Net change in member shares	(700)	2,740
	14,378,323	4,668,112
Increase in cash and cash equivalents	21,233,115	4,067,067
Cash and cash equivalents, beginning of year	7,435,350	3,368,283
Cash and cash equivalents, end of year	$ 28,668,465	$ 7,435,350

The accompanying notes are an integral part of these financial statements.

1. Reporting entity and nature of operations

Equity Credit Union (the "Credit Union") is an Ontario incorporated financial institution which operates in compliance with the Credit Unions and Caisses Populaires Act, 1994 (the "Act") and is regulated by the Financial Services Regulatory Authority of Ontario (FSRA). The Credit Union was incorporated on May 25, 1943. The Credit Union provides financial products and services to members throughout Ontario and is a member of Central 1 Credit Union ("Central1"). The principal place of business is located at 299 Kingston Road East, Ajax, Ontario.

Statement of compliance

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

The financial statements for the year ended December 31, 2020 were approved and authorized for issue by the Board of Directors on February 24, 2021.

2. Change in accounting policies

The Credit Union adopted amendments to the following standards, effective January 1, 2020. Adoption of these amendments has no effect on the Credit Union's financial statements.

IFRS 3 Business combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors

Amendments to IAS 1 and IAS8 issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications. The amendments are effective for annual periods beginning on or after January 1, 2020.

3. Basis of presentation

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

COVID-19

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Credit Union’s environment and in the global markets, and the measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Credit Union’s operations. The extent of the impact of this outbreak and related containment measures on Credit Union’s operations cannot be reliably estimated at this time.

Management believes that the effects of COVID-19 had a significant impact on member's ability to pay their loans. The Credit Union is taking advantage of all government subsidies that it is eligible for. During government imposed lockdowns the Credit Union has been limiting the amount of members allowed in the Credit Union at one time.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions, and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Credit Union's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgments, estimates, and assumptions made by management during the preparation of the Credit Union's financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

3. Basis of presentation (Continued)

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Impairment of financial assets

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

- Expected significant increase in unemployment rates, interest rates and other economic assumptions.
- Expected and actual changes in internal credit ratings of the borrowers
- Changes in the value of the collateral supporting the obligation

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments and the timing and extent of missed payments or default events.

In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

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

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

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios

3. Basis of presentation (Continued)

- Housing price indices

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

Fair value of unquoted equity instruments

The Credit Union has assessed that the fair value of its unquoted equity instruments, Central 1 shares and other cooperative shares approximates its cost base on the terms that the equity instruments cannot be transferred, the shares cannot be sold and new shares are issued at par value of all currently held shares.

Deferred income taxes

The calculation of deferred income taxes is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have been adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Impairment of non-financial assets

At each reporting date, other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Useful lives of property and equipment

Estimates must be utilized in evaluating the useful lives of all property and equipment for calculation of the depreciation for each class of assets.

4. Significant accounting policies

The significant accounting policies used in the preparation of these financial statements have been summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

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

4. Significant accounting policies (Continued)

(a) **Financial instruments**

Financial assets

Recognition and initial measurement

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

The Credit Union recognizes and de-recognizes purchases and sales of financial assets on the trade date, which is the date that the Credit Union commits to selling or purchasing the financial asset. Interest is not accrued on the asset and corresponding liability until the settlement date when title of the financial asset passes.

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of deposits included in cash and cash equivalents, other receivables, member loans and certain investments.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatory at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash.

4. Significant accounting policies (Continued)

- Designated at fair value through profit or loss - On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares in Central 1 and other cooperatives.

Business model assessment

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

Contractual cash flow assessment

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

Reclassification

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

4. Significant accounting policies (Continued)

Impairment

The Credit Union recognizes a provision for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

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

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

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

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset; and
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the provision over the carrying amount of the drawn component is presented as a provision.

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

Refer to Note 7 and 19 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

4. Significant accounting policies (Continued)

Derecognition of financial assets

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

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

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

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances. For this purpose, a financial asset is transferred if the Credit Union either:

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

4. Significant accounting policies (Continued)

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

Modification of financial assets

The Credit Union assessed the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's de-recognition policy. When modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

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

Financial liabilities

Recognition, initial and subsequent measurement

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

Subsequent to initial recognition, financial liabilities are measured at amortized cost. Financial liabilities are comprised of members' deposits, lease liabilities, other liabilities and member shares.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

4. Significant accounting policies (Continued)

Interest

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

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

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

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

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

4. Significant accounting policies (Continued)

(b) Revenue recognition

Loan interest and revenue is recognized in the statement of income and comprehensive income using the effective interest rate method. Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the effective interest rate. Fee and commission income not directly attributable to the acquisition of financial instruments is recognized as the related performance obligation is satisfied, either over time or at a point in time.

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

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

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalent at exchange rates prevailing at the date of the transaction. Monetary assets and liabilities are retranslated at the exchange rates at the balance sheet date. Exchange transaction gains and losses are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction. Translation gains and losses are included in comprehensive income.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits net of bank overdrafts that are repayable on demand or within original maturities of three months or less and form an integral part of the Credit Union's cash management system.

(e) Investments

Central 1 liquidity reserve deposits are measured at amortized cost.

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

(f) Property and equipment

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

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. The depreciation rates applies are as follows:

4. Significant accounting policies (Continued)

(f) **Property and equipment (Continued)**

Computer equipment	3 - 5 years
Furniture and fixtures	5 - 10 years
Leasehold improvements	term of lease

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

(g) **Impairment of non-financial assets**

Non-financial assets other than deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable at each reporting date. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in net income.

Non-financial assets that have incurred impairment losses in prior years are reviewed for possible reversal of the impairment loss at each reporting date. A reversal of impairment is limited to the original impairment amount.

4. Significant accounting policies (Continued)

(h) Member shares

Member shares are redeemable at the option of the member on withdrawal from membership and are classified as liabilities.

(i) Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes, whereby the Credit Union recognizes both the current and future income tax consequences of all transactions that have been recorded in the financial statements.

Current income taxes are the expected taxes refundable or payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous years. Current tax liabilities are classified and measured at amortized cost.

Deferred income taxes provide for temporary differences between the carrying values of assets and liabilities and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected timing of realization or settlement of the carrying value of assets and liabilities, using tax rates enacted or substantively enacted at the reporting period date. A deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available to utilize taxable benefits associated with the temporary difference in carrying value.

(j) Leases

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

4. Significant accounting policies (Continued)

(j) **Leases (Continued)**

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in net income if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases and low value leases. The Credit Union recognizes the lease payments associated with these leases as an expense over the lease term.

(k) **Employee benefits**

The Credit Union's post employment benefit programs consist of a group RRSP plan. Credit Union contributions to the group RRSP plan are expensed as incurred.

(l) **Standards and interpretations issued but not effective**

The Credit Union has not yet applied the following new standard, interpretations and amendments to standards that have been issued as at December 2020 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

4. Significant accounting policies (Continued)

(l) **Standards and interpretations issued but not effective (Continued)**

(i) **Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)**

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(ii) **Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

(iii) **Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iv) **Annual Improvements to IFRS Standards 2018–2020**

IFRS 9 – The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

5. Cash and cash equivalents

	2020	2019
Cash on hand in Canadian dollars	526,582	381,880
Deposits in Canadian dollars	28,060,191	6,982,593
Cash on hand and deposits in USD dollars	81,692	70,877
	28,668,465	7,435,350

The Credit Union's cash and current accounts are held at Central 1. The Canadian current account earns interest at 0.40% on the first $10 million on deposit and 0.20% on additional balances (1.90% and 1.70% in 2019).

6. Investments

	2020	2019
Amortized cost		
Central 1 liquidity reserve deposits	5,712,191	10,323,524
Fair Value through profit and loss (FVTPL)		
Central 1 Class A shares	58,042	50,182
Central 1 Class E shares	143,400	143,400
Central 1 Class F shares	522,647	523,494
Shares in other co-operatives	100	100
	724,189	717,176
	6,436,380	11,040,700

6. Investments (Continued)

Central 1 liquidity reserve deposits

As a condition of maintaining membership in Central 1 in good standing, the Credit Union was required until December 31, 2020 to maintain on deposit in Central 1 an amount equal to 6% of its total assets at each month end. The deposits bore interest at a rate which was fixed periodically and was callable by the Credit Union on ninety days notice. The Credit Union met this requirement consistently in the year.

Central 1 shares

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

Class A and F Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. All Class F shares were redeemed on January 8, 2021 for an amount of $522,647.

Class E Central 1 shares are issued are redeemable at $100 per share at the option of Central 1. There is no separately quoted market value for these shares and the fair value is determined to be equivalent to cost.

The Credit Union is not intending to dispose of its Class A and E shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividend on these shares are at the discretion of the Board of Directors of Central 1.

7. Member loans

	2020	2019
Residential mortgages	171,431,687	152,227,827
Commercial	994,374	1,435,036
Personal	690,147	834,598
	173,116,208	154,497,461
Accrued interest on loans	333,000	280,897
Provision for credit losses	(475,319)	(412,765)
	172,973,889	154,365,593

7. Member loans (Continued)

The loan classification set out above are as defined in the Act and its regulations.

Residential and commercial mortgage loans are repayable in blended principal and interest installments, over a maximum term of seven years based on a maximum amortization period of 30 years. Mortgages are open to prepayments to a maximum of 15% of the original principal balance annually. Mortgage backed lines of credit are repayable on a revolving credit basis and require minimum monthly payments. Residential and commercial mortgage loans are secured by residential property.

Personal loans are repayable in blended principal and interest installments, over a maximum amortization period of ten years. Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments. Personal loans are open and may be repaid at any time without notice. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Concentration of credit risk and quality of loans

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

	2020	2019
Residential mortgages insured by CMHC	42,532,632	44,391,172
Residential mortgages insured by Genworth	3,860,862	3,492,144
Loans secured by real estate property	126,032,567	105,779,548
Loans secured by cash or other assets	476,645	557,650
Unsecured loans	213,502	276,947
	173,116,208	154,497,461

Changes in the provision for credit losses

	2020	2019
Balance, beginning of year	412,765	430,370
Impairment losses (recoveries) recognized	63,601	130,205
Amounts written-off	(1,047)	(147,810)
Balance, end of year	475,319	412,765

Of the total provision for credit losses of $475,319 (2019 - $ 412,765), $474,459 (2019 - $409,459) is a collective provision and $860 (2019 - $3,182) is a specific provision.

Reconciliation of the provision for credit losses

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

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

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

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2020	407,571	2,012	3,182	412,765
Transfers	-	-	-	-
Provision for credit losses	39,707	25,169	(2,579)	62,297
Recovery	-	-	1,304	1,304
Written off	-	-	(1,047)	(1,047)
Balance, December 31, 2020	447,278	27,181	860	475,319

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	-	-	430,370	430,370
Transfers	407,571	2,012	(409,583)	-
Provision for credit losses	-	-	124,523	124,523
Recovery	-	-	5,252	5,252
Written off	-	-	(147,380)	(147,380)
Balance, December 31, 2019	407,571	2,012	3,182	412,765

As at December 31, 2020 the Credit Union was not in possession of property acquired by foreclosure and held for resale (Nil in 2019).

Credit quality of loan portfolio

A loan is considered past due when a payment has not been received by the contractual due date. The following table presents the carrying value classified as neither past due or impaired because they are less than 90 days past due unless there is information to the contrary that an impairment event has occurred or fully secured and collection efforts are reasonably expected to result in repayment and as impaired.

Summary aging of member loans as at December 31, are as follows:

	Neither past due or impaired	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
2020						
Residential mortgages	171,431,687	-	-	-	-	171,431,687
Personal	687,800	-	1,487	-	860	690,147
Commercial	994,374	-	-	-	-	994,374
	173,113,861	-	1,487	-	860	173,116,208
2019						
Residential mortgages	150,895,724	-	305,836	-	1,026,267	152,227,827
Personal	831,416	-	-	3,182	-	834,598
Commercial	1,384,636	-	-	-	50,400	1,435,036
	153,111,776	-	305,836	3,182	1,076,667	154,497,461

8. Other assets

	2020	2019
Other receivables	8,952	-
Prepaid and other assets	246,067	298,009
Accrued interest on investments	2,734	26,525
	257,753	324,534

The Credit Union applied and has accrued a receivable for the Temporary Wage Subsidy provided by the Federal government under the COVID-19 assistance programs in the amount of $8,952.

9. Property and equipment

	Cost	Accumulated Amortization	2020 Net Book Value	2019 Net Book Value
Computer equipment	243,337	194,067	49,270	85,254
Furniture and fixtures	151,562	127,742	23,820	19,757
Leasehold improvements	475,464	251,042	224,422	20,519
	870,363	572,851	297,512	125,530

In the year an amount of $76,783 (2019 - $81,383) was recognized as depreciation.

10. Right-of-use asset

The Credit Union leases its head office and branch location. The Credit Union extended the lease term to May 2025. A right-of-use asset is recognized for this leased asset.

The following provides the changes to the right-of-use asset for the year:

	2020	2019
Balance, beginning of year	360,742	124,960
Additions	-	329,502
Depreciation	(75,174)	(93,720)
Balance, end of year	285,568	360,742

11. Member deposits

	2020	2019
Chequing and Savings accounts	10,326,495	8,739,581
Term deposits	132,693,688	112,002,420
Registered retirement savings plans	25,789,554	22,367,473
Registered retirement income funds	11,811,674	7,842,492
Registered tax-free savings accounts	13,507,124	10,032,402
	194,128,535	160,984,368
Accrued interest on member deposits	2,255,868	2,281,485
	196,384,403	163,265,853

Registered plans

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

Fixed interest rate deposits are withdrawable only at the maturity date, unless otherwise stated.

The average interest rates are as follows:

Chequing and Savings accounts	0.39%
Term deposits	2.34%
Registered Retirement Savings Plans	1.96%
Registered Retirement Income Funds	2.01%
Registered tax-free savings accounts	2.23%

12. Lease liabilities

The following provides the changes to the lease liability related to the right-of-use asset for the year:

	2020	2019
Balance, beginning of year	367,970	124,960
Additions	-	329,502
Payments and interest	(68,677)	(86,492)
Balance, end of year	299,293	367,970

Of the lease liabilities $64,588 matures within the year and the remaining balance of $234,705 matures by 2025.

The Credit Union has recognized $12,715 (2019 - $9,508) as an interest expense on the lease liability for the year in external borrowings, under interest expense. The statement of cash flows recognizes the cash outflow for the lease of $82,000 (2019 - $96,000)

13. Other liabilities

	2020	2019
Accounts payable and accrued liabilities	190,380	91,935
Accrued member dividend	231,075	77,900
Income taxes payable	47,666	74,395
	469,121	244,230

14. Related party transactions

The Credit Union entered in the following transactions with key management personal, which are defined by IAS24, 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.

Management of the Credit Union includes the Chief Executive Officer, Lending Operations & Business Development Manager, Administration Manager and Finance Manager.

Loans made to related parties are approved under the same lending criteria applicable to members. Preferential rates of interest on deposits loans and facilities are extended under the Credit Union's policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2020 and 2019.

	2020	2019
Compensation and board expenses		
Salaries and short-term benefits of key management personnel	$ 337,772	$ 316,374
Board honoraria and per diems	23,674	23,799
Other board and committee expenses	11,165	14,521
Loans to key management personnel and restricted parties		
Loans advanced	$ 1,972,735	$ 1,985,272
Interest received on loans advanced	55,753	43,169
Unused value of lines of credit	38,895	76,368
Deposits from key management personnel and restricted parties		
Aggregate value of deposits and accrued interest	$ 1,647,572	$ 843,059
Interest paid on deposits	8,706	17,067

15. Income taxes

	2020	2019
Net income	2,019,053	1,587,413
Current	420,137	411,224
Future	(26,000)	(77,000)
Income before taxes	2,413,190	1,921,637
Combined federal and provincial statutory income tax rates 26.5% (2019-26.5%)	639,495	509,234
Rate reduction for credit unions	(163,782)	(156,311)
Small business deduction	(136,500)	(135,000)
Non deductible expenses	1,077	326
Property and equipment	17,314	30,140
Allowance for impaired loans	18,757	129,651
Lease liabilities	(20,124)	(25,213)
Other	63,900	58,397
	420,137	411,224

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

Deferred income tax asset/(liability)		
Allowance for impaired loans	70,000	70,000
Accrued distributions	39,000	13,000
Lease liabilities	51,000	63,000
Property and equipment	(9,000)	(8,000)
Right-of-use asset	(48,000)	(61,000)
	103,000	77,000

16. Member shares

As a condition of membership, each member must hold a minimum of 4 membership shares with an issue price of $5 each. As at December 31, 2020, there were 3,081 members (2019 - 3,116). Shares are redeemable on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements.

Dividends on membership shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet regularly capital requirements of the Act.

During the year, 1,408 (2019 - 2,312) member shares were issued for proceeds of $7,040, (2019 - $11,560). During the year, 1,548, (2019 - 1,764) member shares were redeemed for proceeds of $7,740, (2019 - $8,820).

As at December 31, 2020, a total of 12,324, (2019 - 12,464) shares were outstanding

During the year, the Board of Directors approved a dividend of $50 per member (2019 - $25 per member).

17. Capital management

The Credit Union maintains a capital management policy and an annual business plan to manage its capital adequacy. The capital management policy outlines the Credit Union's overall objectives and guidelines to ensure the Credit Union has the required quantify, 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 the credit union to maintain regulatory capital of at least 4% of total assets (denoted as the leverage ratio) and 8% of risk-weighted assets (denoted as the risk-weighted capital ratio). The risk weighting of assets is specified in the Act and its Regulations. Policy sets the minimum capital leverage ratio at 5.25% and the risk-weighted capital ratio at 16%. The Credit Union is in compliance with its policy and the Act regarding regulatory capital and as at December 31 had maintained a leverage ratio of 5.91% (2019 - 5.90%) and a risk-weighted capital ratio of 22.73% (2019 - 21.20%).

Total eligible capital is comprised of Tier 1 and 2 capital as follows:

	2020	2019
Tier 1 capital		
Member shares	61,620	62,320
Retained earnings	11,808,130	9,789,076
	11,869,750	9,851,396
Tier 2 capital		
Stage 1 and 2 provision for credit losses	474,459	409,583
Total eligible capital	12,344,209	10,260,979

18. Fair value of financial instruments

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

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as prepaid expenses, property and equipment and deferred income taxes.

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.

18. Fair value of financial instruments (Continued)

	2020		2019	
	Fair value	Carrying value	Fair value	Carrying value
Assets				
Investments	6,463,048	6,436,380	11,105,384	11,040,700
Member loans	176,616,000	173,449,208	157,473,746	154,778,358
Deposits				
Member deposits	199,117,000	196,384,403	162,898,585	163,265,853

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

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

The fair value of investments is based on quoted market prices, when available, or quoted market prices of similar investments. Central 1 shares fair value is assessed at amounts comparable to their carrying amount. The shares are not quoted or traded, and when new shares are offered the price remains the same as currently available shares.

For variable interest rate loans that reprice frequently, fair values approximate carrying values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar group of loans.

Carrying values approximate fair values for deposits with adjustable rates without specified maturity terms. Fair values for other deposits with specified maturity terms are estimated using discounted cash flows calculations at market rates for similar deposits with similar terms.

The interest rates used to discount estimated cash flows, when applicable, are based on interest rates for identical products as at the reporting date.

Fair value hierarchy

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

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

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

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

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

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy as at the reporting period date.

				2020
	Level 1	Level 2	Level 3	Fair value
Assets				
Cash and cash equivalents	28,668,465	-	-	28,668,465
Investments	-	5,738,859	724,189	6,463,048
Member loans	-	176,616,000	-	176,616,000
	28,668,465	182,354,859	724,189	211,747,513
Liabilities				
Member deposits	-	199,117,000	-	199,117,000
	-	199,117,000	-	199,117,000

				2019
	Level 1	Level 2	Level 3	Fair value
Assets				
Cash and cash equivalents	7,435,350	-	-	7,435,350
Investments	-	10,388,208	717,176	11,105,384
Member loans	-	157,473,746	-	157,473,746
	7,435,350	167,861,954	717,176	176,014,480
Liabilities				
Member deposits	-	162,898,585	-	162,898,585
	7,435,350	330,760,539	717,176	338,913,065

19. Financial instrument risk management

The nature of the Credit Union's financial instruments creates exposure to credit, liquidity and market risk. Management of these risks is established in policies and procedures determined by the Board of Directors. In addition, FSRA establishes standards to which the Credit Union must comply.

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

Credit risk

Credit risk is the risk of loss to the Credit Union if a member or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with a governing policy established by the Board of Directors. The Board of Directors has delegated responsibility for the management of credit risk to the Chief Executive Officer (CEO).

The Credit Union mitigates credit risk by obtaining quality collateral as defined by its internal policies by category of loan. Types of collateral generally obtained include mortgage charges, personal property such as vehicles, cash and term deposits. The Credit Union monitors its loan portfolio to ensure it is in compliance with its policies.

Inputs, assumptions and techniques

Definition of default and assessment of credit risk

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

The Credit Union considers loans and receivables to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union. These loans are considered stage 3 loans.

Credit risk (Continued)

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers. These loans are considered stage 2 loans. The Credit Union considers there not have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming. Loans that are not determined to be stage 2 or stage 3 loans are considered stage 1 loans.

When contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower's payment performance compared to the modified contractual terms and whether such modifications increase the borrower's ability to meet its contractual obligations.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Credit risk (Continued)

Measurement of expected credit losses

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

The Credit Union will measure expected credit losses on an individual basis for the loans that are considered credit-impaired since it usually has information available to estimate the actual amounts that are expected to be recovered. The lifetime expected credit losses will be calculated at the difference between the carrying amount and the present value of expected recoveries for the individual loan. When measuring the 12-month and lifetime expected credit losses, the Credit Union utilizes complex modelling that incorporates forward-looking information such as regional economic journals and forecasts, information available from regular commercial dealings with its members and other publicly available information.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses. Management also makes judgment on how many years of data to utilize or whether to weigh more recent years more heavily in the analysis.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when they have exhausted all attempts to obtain some of the loan back, including realizing on the security, if any, and disposing of related security. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 Financial instruments. The table represents the assets' gross carrying amount and the maximum exposure to credit risk for that class of financial asset.

	Stage 1	Stage 2	Stage 3	Total
2020				
Personal loans				
Loans outstanding	687,800	1,487	860	690,147
Provision for credit losses	(13,570)	(39)	(860)	(14,469)
	674,230	1,448	-	675,678
Residential mortgages				
Loans outstanding	166,539,711	4,891,976	-	171,431,687
Provision for credit losses	(431,588)	(27,142)	-	(458,730)
	166,108,123	4,864,834	-	170,972,957
Commercial loans				
Loans outstanding	994,374	-	-	994,374
Provision for credit losses	(2,120)	-	-	(2,120)
	992,254	-	-	992,254
Total loans				
Loans outstanding	168,221,885	4,893,463	860	173,116,208
Provision for credit losses	(447,278)	(27,181)	(860)	(475,319)
	167,774,607	4,866,282	-	172,640,889
2019				
Personal loans				
Loans outstanding	831,416	-	3,182	834,598
Provision for credit losses	(9,359)	-	(3,182)	(12,541)
	822,057	-	-	822,057
Residential mortgages				
Loans outstanding	150,895,724	305,836	1,026,267	152,227,827
Provision for credit losses	(394,172)	(2,012)	-	(396,184)
	150,501,552	303,824	1,026,267	151,831,643
Commercial loans				
Loans outstanding	1,384,636	-	50,400	1,435,036
Provision for credit losses	(4,040)	-	-	(4,040)
	1,380,596	-	50,400	1,430,996
Total loans				
Loans outstanding	153,111,776	305,836	1,079,849	154,497,461
Provision for credit losses	(407,571)	(2,012)	(3,182)	(412,765)
	152,704,205	303,824	1,076,667	154,084,696

Exposure to credit risk (Continued)

During the year the Credit Union was proud to be able to provide loan deferrements to 146 members for total loans of $64.7 million. At December 31, 9 loans for $4.9 million remain deferred. These loans are considered as neither impaired nor past due. These loans have been classified as Stage 2 for the purpose of the IFRS 9 calculation for the provision for credit losses.

Concentration of credit risk

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

Investments

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

Loan portfolio

Refer to Note 7 which summarizes credit risk exposures for the loan portfolio including performing loans, impaired loans, past due but not impaired loans and provision for credit losses.

Exposure to credit risk

The Credit Union's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial asset (cash and cash equivalents, investments, loans and other receivables) is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

In the normal course of business, the Credit Union has entered in various commitments to extend credit that may not be reported on the statement of financial position. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. Commitments are included in Note 22.

20. Liquidity risk

Liquidity risk is the risk that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due. Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, FSRA establishes standards to which the Credit Union must comply.

Management reports to the Board of Directors monthly on the Credit Union's compliance with the policy and regulatory requirements. The Credit Union measures and manages the liquidity position from three risk perspectives:

20. Liquidity risk (Continued)

(i) Short-term exposure (up to three months) based on contractual maturities and historical changes in liquidity;

(ii) Medium-term exposure (up to one year) based on forecasted cash flow; and

(iii) Exposure to abnormal liquidity events based on selected stress tests.

The Credit Union has available a credit facility with Central 1 totaling $8,201,000, consisting of a demand loan facility of $7,700,000 and $500,000 CAD and $1,000 USD operating lines of credit. The facility is secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union. At December 31, 2020 the credit facility was not utilized.

The liquidity policy sets a target between 6 - 15% of total deposits and borrowings as a prudent range for liquid assets. At December 31, 2020, liquid assets amount to 17.5% (2019 - 11.0%) of deposits and borrowings.

The Act requires the Credit Union to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are as follows:

	2020	2019
Cash and cash equivalents	28,668,465	7,435,350
Liquidity reserve deposits with Central 1	5,712,191	10,323,524
Total assets held for liquidity	34,380,656	17,758,874

Contractual maturities of financial liabilities are shown under interest rate risk.

21. Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors, such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risks that the Credit Union is exposed to are interest rate risk.

Management manages day-to-day market risk within approved policies and reports monthly to the Board of Directors to ensure policy compliance.

Fair value risk

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

Interest rate risk

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

Interest rate re-price and contractual maturities

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.

2020

($ thousands)	Variable rate	Less than one year	One to five years	Non-rate sensitive	**Total**	Effective yield
Assets						
Cash and cash equivalents	28,060	-	-	608	28,668	0.18%
Investments	724	5,712	-	-	6,436	0.23%
Member loans	23,346	26,590	123,179	334	173,449	4.74%
	52,130	32,302	123,179	942	208,553	
Liabilities						
Member Deposits	(13,451)	(134,880)	(45,787)	(2,266)	(196,384)	2.23%
On-balance sheet gap	38,679	(102,578)	77,392	(1,324)	12,169	

2019

($ thousands)	Variable rate	Less than one year	One to five years	Non-rate sensitive	**Total**	Effective yield
Assets						
Cash and cash equivalents	7,019	-	-	416	7,435	1.83%
Investments	717	4,611	5,712	-	11,040	1.79%
Member loans	29,138	22,496	102,450	694	154,778	4.83%
	36,874	27,107	108,162	1,110	173,253	
Liabilities						
Member deposits	(14,947)	(111,890)	(31,317)	(5,112)	(163,266)	2.63%
On-balance sheet gap	21,927	(84,783)	76,845	(4,002)	9,987	

An analysis of the Credit Union's risk due to changes in interest rates determined by a 1% increase in interest rates, with all other variables held constant, would result in an increase in net interest income by approximately $122,000 (2019 - $168,000), while a 0.5% decrease in interest rates, with all other variables held constant, would result in a decrease in net interest income of $13,000 (2019 - $44,000).

22. Commitments

Contractual obligations

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

2021	$ 75,000
2022	75,000
2023	75,000
2024	75,000
2025	31,250

22. Commitments (Continued)

Member Loans

The Credit Union has the following commitments to its members at the year end date on account of loans and unused lines of credit:

Unadvanced lines of credit	4,386,759

Other commitments

The Credit Union has entered in an agreement with Central 1 for the development and deployment of a national payment modernisation system in exchange for a seven year commitment to use Central 1's payments processing services. The Credit Union was required and paid $86,000 to Central 1 in January 2021 under this commitment for the software and future rights of use.

23. Comparative information

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

24. Subsequent events

Subsequent to the year end, the agreement between the Credit Union and Central 1 in regards to its requirement to maintain assets under a mandatory liquidity pool (MLP) arrangement was terminated. Liquidity reserve deposits held in the MLP were liquidated on January 4, 2021 and a gain of $23,179 was realized.

The Credit Union entered into an asset management agreement with Durward Wealth Management, an agent of RBC Dominion Securities whose purpose is to hold and invest assets on behalf of the Credit Union to fulfil its regulatory requirements for liquidity purposes.

On January 8, 2021 the Class F shares held of Central 1 were redeemed for a value of $522,647.

EQUITY CREDIT UNION
SCHEDULE OF ADMINISTRATIVE EXPENSES
December 31, 2020

	2020	2019
EXPENSES		
Insurance	$ 199,974	$ 166,751
Office and general	149,027	122,785
Data equipment maintenance	123,992	116,488
Professional fees	61,587	40,289
Service charges and credit reports	53,102	76,258
Annual dues	42,363	37,520
Advertising	27,854	28,773
Board and committee honoraria	23,674	23,799
Board and committee expense	11,165	24,244
	$ 692,738	$ 636,907