DUCA Financial Services Credit Union Ltd.

Financial statements
December 31, 2019

Independent auditor's report

To the Members of
DUCA Financial Services Credit Union Ltd.

Opinion

We have audited the financial statements of **DUCA Financial Services Credit Union Ltd.** [the "Credit Union"], which comprise the statement of financial position as at December 31, 2019, 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.

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

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.

Responsibilities of Management and the Audit Committee of the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Audit Committee of the Board of Directors is 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 the Audit Committee of the Board of Directors 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.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 28, 2020

DUCA Financial Services Credit Union Ltd.

Statements of Financial Position

As at December 31

[In thousands of Canadian dollars]

	Note	2019	2018
		$	$
Assets			
Cash and cash equivalents	5	**63,388**	69,038
Investments, third-party mortgages and mortgage pools	6	**447,101**	282,263
Members' loans	7, 8	**3,506,961**	3,007,073
Other assets	10	**16,763**	1,560
Property, equipment and right-of-use assets	12	**15,010**	12,401
Income taxes recoverable	14	**2,986**	—
Intangible assets	26	**2,566**	—
Goodwill	27	**1,678**	1,678
Total assets		**4,056,453**	3,374,013
Liabilities and Members' equity			
Liabilities			
Members' deposits	13	**3,004,972**	2,558,880
Securitization liabilities	9	**604,673**	629,981
Borrowings	24	**133,000**	—
Accounts payable and accrued liabilities	25	**17,405**	5,936
Derivative financial instruments	15	**142**	589
Income taxes payable	14	—	332
Deferred tax liability	14	**676**	280
Patronage return	16	**2,243**	1,386
Members' shares	17	**1,116**	1,187
Total liabilities		**3,764,227**	3,198,571
Members' equity			
Members' shares	17	**186,524**	79,963
Retained earnings		**105,702**	95,841
Accumulated other comprehensive loss		**—**	(362)
Total Members' equity		**292,226**	175,442
Total liabilities and Members' equity		**4,056,453**	3,374,013

See accompanying notes

Approved by the Board:

Director

Director

DUCA Financial Services Credit Union Ltd.

Statements of Income and Comprehensive Income

Years ended December 31

[In thousands of Canadian dollars]

	Note	2019	2018
		$	$
Interest income			
Interest on Members' loans		**126,307**	105,935
Investment income		**11,828**	5,937
		138,135	111,872
Interest expense			
Interest on Members' deposits		**73,769**	49,698
Borrowings, securitizations and other interest expense		**15,340**	12,429
		89,109	62,127
Net interest income		**49,026**	49,745
Non-interest income	18	**17,350**	6,988
Total revenue		**66,376**	56,733
Recovery of credit losses	8	**(462)**	(320)
Non-interest expense			
Salaries and benefits		**29,168**	22,397
Occupancy		**2,499**	3,540
Depreciation and amortization	12	**3,264**	1,527
Deposit insurance		**2,159**	1,711
Directors and committees		**403**	453
Loss on derivative instruments	15	**45**	97
Other operating and administrative	19	**17,364**	11,205
		54,902	40,930
Income before the undernoted		**11,936**	16,123
Patronage return	16	**2,243**	1,386
Income before income taxes		**9,693**	14,737
Income tax expense (recovery)	14	**(1,977)**	3,430
Net income for the year		**11,670**	11,307
Change in unrealized losses on the effective portion of cash flow hedges, net of tax	15	**362**	(311)
Comprehensive income for the year, net of income taxes		**12,032**	10,996

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Statements of Changes in Members' Equity

[In thousands of Canadian dollars]

	Note	Class A shares $	Class B shares Series 1 $	Class B shares Series 4 $	Retained earnings $	Accumulated other comprehensive loss, net of tax $	Total Members' equity $
Balance, December 31, 2017		41,358	40,665	—	85,066	(51)	167,038
Adjustment for initial application of IFRS 9		—	—	—	983	—	983
Restated balance, January 1, 2018		41,358	40,665	—	86,049	(51)	168,021
Net income for the year		—	—	—	11,307	—	11,307
Dividends to Members, net of tax	17	—	—	—	(1,515)	—	(1,515)
Issue of shares		1,705	—	—	—	—	1,705
Redemption of shares		(3,431)	(334)	—	—	—	(3,765)
Losses on derivatives designated as cash flow hedges arising during the year		—	—	—	—	(311)	(311)
Balance, December 31, 2018		**39,632**	**40,331**	**—**	**95,841**	**(362)**	**175,442**
Net income for the year		**—**	**—**	**—**	**11,670**	**—**	**11,670**
Dividends to Members, net of tax	17	**—**	**—**	**—**	**(1,809)**	**—**	**(1,809)**
Issue of shares		**1,892**	**—**	**109,082**	**—**	**—**	**110,974**
Redemption of shares		**(3,904)**	**(509)**	**—**	**—**	**—**	**(4,413)**
Losses on derivatives designated as cash flow hedges arising during the year		**—**	**—**	**—**	**—**	**362**	**362**
Balance, December 31, 2019		**37,620**	**39,822**	**109,082**	**105,702**	**—**	**292,226**

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Statements of Cash Flows

Years ended December 31

[In thousands of Canadian dollars]

	Note	2019 $	2018 $
Operating activities			
Net income for the year		**11,670**	11,307
Add (deduct) non-cash items:			
Depreciation and amortization	12	**3,264**	1,527
Recovery of credit losses on Members' loans	8	**(462)**	(320)
Current income tax expense (recovery)	14	**(2,671)**	370
Deferred income taxes	14	**694**	3,060
Loss on derivative instruments	15	**45**	97
Patronage return	16	**2,243**	1,386
Gain on sale of head office building	18	**(6,893)**	—
Changes in operating assets and liabilities:			
Increase in accrued interest receivable		**(836)**	(122)
Decrease in income taxes paid		**(665)**	(453)
Decrease (increase) in other assets and intangible assets		**(17,769)**	1,239
Increase to Members' loans	7, 8	**(498,590)**	(483,414)
Increase to Members' deposits	13	**441,264**	527,021
Increase in accrued interest payable		**4,828**	4,395
Increase (decrease) in accounts payable and accrued liabilities		**2,721**	(2,046)
Decrease (increase) in securitization liabilities	9	**(25,308)**	94,272
Repayment of lease liability		**(1,013)**	—
Interest paid on lease liabilities		**(210)**	—
Cash provided by (used in) operating activities		**(87,688)**	158,319
Financing activities			
Increase in borrowings		**133,000**	—
Decrease in borrowings		—	(34,500)
Issuance of Class A shares		**1,892**	1,705
Issuance of Class B shares		**109,082**	—
Redemption of Membership shares		**(71)**	(35)
Redemption of Class A shares		**(3,904)**	(3,431)
Redemption of Class B shares		**(509)**	(334)
Patronage return paid		**(1,386)**	(1,179)
Dividend on Class A shares		**(788)**	(822)
Dividend on Class B shares		**(1,433)**	(1,239)
Cash provided by (used in) financing activities		**235,883**	(39,835)
Investing activities			
Net change in investments, third-party mortgages and mortgage pools	6	**(164,838)**	(133,429)
Purchase of fixed assets	12	**(3,927)**	(2,760)
Sale of fixed assets	12	**14,920**	—
Cash used in investing activities		**(153,845)**	(136,189)
Net decrease in cash and cash equivalents		**(5,650)**	(17,705)
Cash and cash equivalents, beginning of year		**69,038**	86,743
Cash and cash equivalents, end of year		**63,388**	69,038

See accompanying notes

Notes to Financial Statements

[In thousands of Canadian dollars]

December 31, 2019

1. Corporate information

DUCA Financial Services Credit Union Ltd. [the "Credit Union" or "DUCA"] is incorporated under the *Credit Unions and Caisses Populaires Act, 1994* [the "Act"] of Ontario and is a Member of the Deposit Insurance Corporation of Ontario ["DICO"] and Central 1 Credit Union ["Central 1"].

The Credit Union is primarily involved in providing a full range of retail and commercial services to its Members in Ontario. The activities of the Credit Union are regulated by Financial Services Regulatory Authority of Ontario ["FSRA"]. The Credit Union has 16 branches in Ontario.

2. Basis of presentation

[a] Statement of compliance

These financial statements have been prepared by Management in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"].

These financial statements have been authorized for issue by the Board of Directors on February 28, 2020.

[b] Use of judgments and estimates

Management has exercised judgments in the process of applying the Credit Union's accounting policies.

The preparation of financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the year. Key areas where Management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, deferred income taxes and useful lives of fixed assets. Actual results could differ from those estimates. Management has applied judgments in the classification of financial instruments within the financial statements.

[c] Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following items that are measured at fair value:

- Derivative financial instruments; and
- Financial instruments at fair value through profit or loss ["FVTPL"].

[d] Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. Financial information presented in Canadian dollars has been rounded to the nearest thousand, except where otherwise indicated.

3. Changes to accounting policies

The Credit Union adopted the following new standards and interpretations effective January 1, 2019:

IFRS 16*, Leases* ["IFRS 16"]

This note explains the impact of the adoption of IFRS 16 on the Credit Union's financial statements and discloses the new accounting policies that have been applied from January 1, 2019.

The Credit Union has adopted IFRS 16 on a modified retrospective basis effective January 1, 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on January 1, 2019.

The Credit Union elected to apply practical expedients allowing application of this standard to contracts that were previously identified as leases under IAS 17, *Leases* and IFRIC 4; the use of a single discount rate to a portfolio of leases with similar characteristics; the exclusion of initial direct costs from the measurement of right-of-use assets at the date of initial application; the exclusion of short-term leases, which are defined as those that have a lease term of 12 months of less; and the exclusion of leases for low-value items.

<u>Adjustments recognized on adoption of IFRS 16</u>

On adoption of IFRS 16, the Credit Union recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.80%. The Credit Union measured the right-of-use assets using the modified retrospective approach by equating them to the lease liabilities at transition.

The Credit Union leases various branch locations. Lease contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of branch locations were classified as operating leases. Payments made under operating leases [net of any incentives received from the lessor] were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Credit Union. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments [including in-substance fixed payments], less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The change in accounting policy affected the following items in the statement of financial position as at January 1, 2019.

- Right-of-use-assets – increase by $3,337
- Lease liabilities – increase by $3,337

On July 31, 2019, the Credit Union sold its Corporate Head Office at 5290 Yonge Street. The Credit Union leased new space at 5255 Yonge Street for its new head office. The new lease at 5255 Yonge Street is a six-year lease commencing May 1, 2019. The right-of-use asset was $4,632 as at December 31, 2019.

[In thousands of Canadian dollars]

The Credit Union's undiscounted lease payments for the next five years and thereafter are as follows:

	Base rent $	Common area maintenance $	Total $
2020	1,792	1,380	3,172
2021	1,707	1,396	3,103
2022	1,390	1,217	2,607
2023	1,102	1,210	2,312
2024	2,529	1,095	3,624
Thereafter	1,284	1,065	2,349
	9,804	7,363	17,167

4. Significant accounting policies

[a] Cash and cash equivalents

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

[b] Financial instruments, policy applicable from January 1, 2019

[i] Recognition and initial measurement

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

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

[ii] Classification

[1] Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ["FVOCI"] or FVTPL.

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

[a] Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Credit Union's Management;
- The risks that affect the performance of the business model [and the financial assets held within that business model] and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Credit Union's claim to cash flows from specified assets [e.g., non-recourse asset arrangements]; and
- Features that modify consideration of the time value of money – e.g., periodical reset of interest rates.

[c] Reclassifications

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

[2] Financial liabilities

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

Financial assets and financial liabilities measured at FVTPL are those that are designated by Management upon initial recognition, assets part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

[iii] Derecognition

[1] Financial assets

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

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

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

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

[2] Financial liabilities

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

[iv] Modifications of financial assets and financial liabilities

[1] Financial assets

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

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

[2] Financial liabilities

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

[v] IFRS 13, *Fair Value Measurement*

Fair value 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 in the principal, or in its absence, the most advantageous market to which the Credit Union has access at that date. The fair value of a liability reflects its non-performance risk. For assets and liabilities carried at fair value, the Credit Union measures such value using the procedures set out below, irrespective of whether these assets and liabilities are carried at fair value as a result of an election.

When available, the Credit Union uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is not available, the Credit Union uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

Treasury bills, bank deposits, bankers' acceptances, government bonds, Central 1 deposits, other bonds and deposit notes are classified as held-to-maturity and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost using the effective interest rate method less any provision for impairment.

Equity instruments and certain bonds are designated at FVTPL and are recognized at fair value at their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably measured, in which case they are carried at cost. Transaction costs that are directly attributable to their acquisition are expensed through net income.

Purchases and sales of equity instruments are recognized on the settlement date with any change in fair value between trade date and settlement date being recognized in net income.

The Credit Union manages interest rate risk through interest rate swaps. 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, in both cases shown on the statement of financial position. As the interest rate swap agreements are classified as FVTPL, changes in fair value of the interest rate swaps are reflected immediately in net income.

As part of its interest rate risk management process, the Credit Union utilized bond forwards to maintain its interest exposure on forecasted debt issuances associated with securitization activity. These hedging relationships are designated as cash flow hedges. Realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated.

The Credit Union manages the risk of foreign currency fluctuation using forward contracts. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases, shown on the statement of financial position. As the forward rate agreements are classified as FVTPL, changes in fair value of the forward rate agreements are reflected immediately in net income.

[vi] Impairment

IFRS 9, *Financial Instruments* ["IFRS 9"] replaces the incurred loss approach in IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"] with a forward-looking expected credit loss ["ECL"] approach. The Credit Union recognizes ECL allowances on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments [loans and advances and certain investment securities]; and
- Loan commitments issued.

The Credit Union measures loss allowances at an amount equal to lifetime ECL or 12-month ECL. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

The impairment model measures ECL using a three-stage approach as described below:

- **Stage 1**: When a financial asset has not shown a significant increase in credit risk ["SICR"] since origination, the Credit Union records a 12-month ECL. Interest income is calculated on the gross carrying amount.
- **Stage 2**: When a financial asset has shown a SICR since origination, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount.
- **Stage 3**: When a financial asset is credit-impaired, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount net of impairment allowance.

[a] Measurement of ECL

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

[b] Significant increase in credit risk

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status.

[c] Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect ECLs over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

[d] Forward looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a “base case” view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters. The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting.

[e] Restructured financial assets

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

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

[f] Credit-impaired financial assets

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

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

- Significant financial difficulty of the borrower or issuer, including delinquency;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

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

[g] Write-off

Loans and debt securities are written off [either partially or in full] when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

[vii] Designation of fair value through profit or loss [FVTPL]

[1] Financial assets

At initial recognition, the Credit Union has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Before January 1, 2018, the Credit Union also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

[2] Financial liabilities

The Credit Union has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- The liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[c] Derivatives held for risk management

Derivatives held for risk management purposes are measured at fair value in the statement of financial position and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

Derivatives held for risk management purposes are designated as either cash flow hedges, fair value hedges or economic hedges that do not qualify for hedge accounting. The Credit Union has employed only cash flow hedges. Cash flow hedges are utilized to hedge the variability in cash flows associated with floating rate debt liabilities by converting them to fixed rate debt liabilities.

[d] Members' loans

All Members' loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as measured at amortized cost.

Members' loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred and subsequently measured at amortized cost, using the effective interest rate method [net of an allowance for credit losses].

Deferred revenue consists primarily of commitment fee revenue received on commercial loans and is recognized using the effective interest rate method.

[e] Securitized loans and securitization liabilities

The Credit Union periodically securitizes mortgages and sells the securities to CMHC's sponsored entities. Mortgage loan securitization is part of the Credit Union's liquidity and funding strategy. In the absence of sales of retained interests, most transfers of pools of mortgages under the current programs do not result in derecognition of the mortgages from the Credit Union's statement of financial position. As such, these transactions result in the recognition of securitization liabilities when cash is received from the securitization entities. Such mortgages are recognized as securitized residential mortgages and continue to be accounted for as loans, as described above. The securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability.

[f] Property, equipment and right-of-use assets

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and amortization and any accumulated impairment (losses), with the exception of land, which is not depreciated.

Asset	Basis	Rate
Buildings	Straight-line	20 years
Computer hardware	Straight-line	3–5 years
Equipment, furniture and fixtures	Straight-line	5 years
Leasehold improvements	Straight-line	Term of lease
Right of use assets – buildings	Straight-line	Term of lease

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

[g] Impairment of non-financial assets

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

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

[h] Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net income, except to the extent that they relate to a business combination, or items recognized directly in equity.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available that allows 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).

[i] Members' deposits

All Members' deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument and have been classified as financial liabilities.

Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

[j] Pension plan

The Credit Union accrues its obligations under the supplementary executive retirement plan ["SERP"] and the related costs, net of plan assets, and has adopted the following policies:

[i] The cost of the SERP is valued using the projected benefit method based on service and Management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees; and
[ii] For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The Credit Union also has a defined contribution pension plan. Contributions to this plan are expensed as incurred.

[k] Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

[l] 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.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the requirements of International Financial Reporting Interpretations Committee ["IFRIC"] 2, *Members' Shares in Cooperative Entities and Similar Instruments* ["IFRIC 2"].

[m] Patronage return

Patronage returns are recognized in the statement of income and comprehensive income when declared payable by the Board of Directors.

[n] Revenue recognition

Revenue from the provision of services to Members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

[o] Intangible assets

The Credit Union capitalizes costs relating to the development of internal-use software. Costs incurred during the application development phase are capitalized when it is probable that the development will result in new or additional functionality. The types of costs capitalized during the application development phase include costs of employee benefits arising directly from bringing the asset to its working condition, professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over the estimated useful life of the asset, estimated at 10 years.

[p] Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

The carrying amounts of the Credit Union’s intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit [group of units] on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other intangible assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

[q] 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. As at the year-end date, 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. Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income.

[In thousands of Canadian dollars]

5. Cash and cash equivalents

	2019 $	2018 $
Cash	**19,880**	26,832
Cash resources where maturities are within three months:		
Deposits and bankers' acceptances:		
Schedule 1 banks	**12,206**	3,500
Central 1 Liquidity Reserve Deposit	**31,302**	38,706
	43,508	42,206
	63,388	69,038

The Credit Union has pledged $3,500 of deposits and bankers' acceptances to secure its comprehensive credit facility.

Interest rates on deposits and bankers' acceptances range from 0.91% to 2.80% [2018 – 0.75% to 2.43%].

6. Investments, third-party mortgages and mortgage pools

The following table provides information on the Credit Union's investments. The maximum exposure to credit risk would be the fair value as detailed below:

	2019 $	2018 $
Investment securities measured at FVTPL	**22,071**	25,684
Investment securities measured at amortized cost	**248,053**	232,230
Investment in third-party mortgages at amortized cost	**164,323**	24,349
Investment in mortgage pools at amortized cost	**12,654**	—
	447,101	282,263

The Credit Union has pledged $6,500 [2018 – $6,500] of deposits and bankers' acceptances with BMO Nesbitt Burns to secure its comprehensive credit facility.

[In thousands of Canadian dollars]

Investment securities measured at FVTPL:

	2019 $	2018 $
Shares of Social Finance Inc. ["SoFi"]	**1,900**	1,900
Preferred shares and dividend-bearing equities	**6,550**	11,764
Central 1 Class A shares	**1,216**	1,084
Central 1 Class F shares	**12,396**	10,927
Other	**9**	9
	22,071	25,684

Investment securities measured at amortized cost:

	2019 $	2018 $
Central 1 Liquidity Reserve Deposit	**216,961**	188,858
Treasury bills, bank deposits and bankers' acceptances	**25,841**	7,779
Central 1 deposits	**5,251**	35,593
	248,053	232,230

The Central 1 shares include Classes A and F, and 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 of Central 1.

Central 1 Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value of $100 [2018 – $100]. Central 1 Class F shares are rebalanced twice per year. 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 that transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

[In thousands of Canadian dollars]

Investment in third-party mortgages and mortgage pools at amortized cost:

As part of its liquidity management program, the Credit Union invests in third-party mortgages and mortgage pools originated by other financial institutions. The weighted average interest rate for third-party mortgages and mortgage pools as at December 31, 2019 was 3.55% [2018 – 4.40%].

7. Members' loans

	2019 $	2018 $
Residential mortgages		
Uninsured	**1,683,016**	1,207,150
Insured by CMHC	**169,525**	159,276
Insured by Genworth or Canada Guaranty Corp.	**667,995**	697,422
	2,520,536	2,063,848
Personal loans	**17,771**	12,057
Commercial loans	**957,594**	921,711
	3,495,901	2,997,616
Unamortized mortgage fees	**14,782**	12,841
Deferred loan revenue	**(3,557)**	(1,712)
Accrued interest receivable	**5,581**	4,744
Allowance for credit losses	**(5,746)**	(6,416)
Net Members' loans	**3,506,961**	3,007,073

[a] Terms and conditions

Members' loans can have either a variable or fixed rate of interest and they generally mature within five years.

Variable rate loans are based on a prime rate formula, ranging from prime minus 1.00% to prime plus 5.25%. The rate is determined by the type of security offered and the Member's creditworthiness. The Credit Union's prime rate as at December 31, 2019 was 3.95% [2018 – 3.95%].

The interest rate offered on fixed rate loans being advanced as at December 31, 2019 ranges from 2.95% to 18.00%. The rate offered to a Member varies with the type of security offered and the Member's creditworthiness.

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

[In thousands of Canadian dollars]

Personal loans consist of term loans and lines of credit that are not secured by real estate and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments.

Commercial loans consist primarily of term loans, operating lines of credit, co-ops and non-owner-occupied 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 charges on specific equipment, investments and personal guarantees.

[b] Average yields to maturity

Loans bear interest at both variable and fixed rates with the following yields as at December 31:

	2019		2018	
	Principal	**Average yield**	**Principal**	**Average yield**
	$	%	$	%
Variable rate	**573,354**	**5.40**	590,846	5.50
Fixed rate due less than 1 year	**432,126**	**4.19**	403,243	4.12
Fixed rate due between 1 and 5 years	**2,490,421**	**3.51**	2,003,527	3.50
	3,495,901		2,997,616	

[c] Concentration of risk

The Credit Union has no exposure to groupings of individual loans, which concentrate risk and create exposure, as no individual or related groups of Members' loans exceed 10% of Members' loans outstanding. All Members' loans are with Members whose assets are in Ontario, except for syndicated loans totalling $9,401 and $9,763 as at December 31, 2019 and 2018, respectively.

[d] Credit risk

The determination of impairment losses and allowances moves from an incurred loss model whereby credit losses are recognized when a defined event occurs under IAS 39, to an ECL model under IFRS 9 where provisions are taken upon the initial recognition of the financial asset, based on expectations of potential credit losses at the time of initial recognition.

IFRS 9 introduces a three-stage approach to impairment to financial assets that are performing at the date of origination or purchase as follows:

Stage 1: A credit loss allowance is recognized at an amount equal to 12-month ECL

Stage 2: A credit loss allowance is recognized at an amount equal to lifetime ECL.

This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the financial asset. The credit loss allowance is higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: A credit loss allowance is recognized based at an amount equal to a lifetime ECL, reflecting a probability of default of 100%. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39.

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires the recognition of lifetime losses for all credit-impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

Commercial risk rating

Risk rating involves the categorization of individual credit facilities based on credit analysis and both economic and market conditions, into a series of graded categories based on risk. A primary function of a risk rating model is to assist in the underwriting of new loans and assessment of existing loans. As well, risk ratings assist Management in predicting changes in portfolio quality and the subsequent financial impact. Risk rating can lead to earlier response to potential deteriorating trends and a wider choice of corrective action to decrease exposure to unexpected loan losses. Finally, risk ratings are useful for loan pricing and overseeing the commercial loan portfolio exposure within acceptable levels of risk as established in policy.

The Credit Union uses a 10-point risk rating model to measure and manage its exposure on its commercial loan portfolio. The 10-point rating scale ranges from Substantially Risk Free (1) to Unacceptable/Impaired Risk (10). A risk rating of 6 or below is deemed to be acceptable risk for new loans.

Retail risk rating

The Credit Union uses the “Equifax Beacon score” as one benchmark to manage the risk of the retail portfolio. Equifax is a global information solution company that provides credit scores. A credit score is one measure on how likely a person is to repay a loan. DUCA’s risk rating ranges across three bands: above standard, standard and below standard. For Members who have Beacon scores below standard, DUCA has lending programs that assist Members who are in need of credit, notwithstanding the Beacon score. These loans are priced accordingly based on risk profile.

[In thousands of Canadian dollars]

8. Allowance for credit losses

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2019:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
	$	$	$	$	$	$	$	$
Residential mortgages	**2,430,793**	**1,232**	**87,257**	**690**	**2,486**	**231**	**2,520,536**	**2,153**
Commercial loans	**809,611**	**2,189**	**142,599**	**689**	**5,384**	**582**	**957,594**	**3,460**
Personal loans	**17,256**	**85**	**496**	**37**	**19**	**11**	**17,771**	**133**
Total	**3,257,660**	**3,506**	**230,352**	**1,416**	**7,889**	**824**	**3,495,901**	**5,746**

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2018:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
	$	$	$	$	$	$	$	$
Residential mortgages	2,007,471	1,036	55,834	322	543	36	2,063,848	1,394
Commercial loans	832,836	2,664	83,040	1,447	5,835	779	921,711	4,890
Personal loans	11,569	60	441	47	47	25	12,057	132
Total	2,851,876	3,760	139,315	1,816	6,425	840	2,997,616	6,416

[In thousands of Canadian dollars]

The following table shows the continuity of the IFRS 9 ECL allowance for all portfolios:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	$	$	$
Residential mortgages				
Balance, January 1, 2019 [IFRS 9]	**1,036**	**322**	**36**	**1,394**
New loans originated	**679**	**316**	**13**	**1,008**
Financial assets derecognized	**(205)**	**(138)**	**(37)**	**(380)**
Net remeasurement	**(305)**	**223**	**213**	**131**
Transfers to Stage 1 ECL	**82**	**(82)**	—	—
Transfers to Stage 2 ECL	**(52)**	**52**	—	—
Transfers to Stage 3 ECL	**(3)**	**(3)**	**6**	—
Provision for (reversal of) credit losses	**196**	**368**	**195**	**759**
Write-offs	—	—	—	—
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2019 [IFRS 9]	**1,232**	**690**	**231**	**2,153**
Commercial loans				
Balance, January 1, 2019 [IFRS 9]	**2,664**	**1,447**	**779**	**4,890**
New loans originated	**369**	**98**	—	**467**
Financial assets derecognized	**(363)**	**(988)**	**(1)**	**(1,352)**
Net remeasurement	**(487)**	**142**	**(22)**	**(367)**
Transfers to Stage 1 ECL	**206**	**(206)**	—	—
Transfers to Stage 2 ECL	**(200)**	**200**	—	—
Transfers to Stage 3 ECL	—	**(4)**	**4**	—
Provision for (reversal of) credit losses	**(475)**	**(758)**	**(19)**	**(1,252)**
Write-offs	**—**	**—**	**(189)**	**(189)**
Recoveries on loans previously written off	**—**	**—**	**11**	**11**
Balance, December 31, 2019 [IFRS 9]	**2,189**	**689**	**582**	**3,460**

DUCA Financial Services Credit Union Ltd.

Notes to Financial Statements

[In thousands of Canadian dollars]

December 31, 2019

	2019			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Personal loans				
Balance, January 1, 2019 [IFRS 9]	**60**	**47**	**25**	**132**
New loans originated	**42**	—	**1**	**43**
Financial assets derecognized	**(11)**	**(3)**	**(25)**	**(39)**
Net remeasurement	**(19)**	**6**	**41**	**28**
Transfers to Stage 1 ECL	**16**	**(15)**	**(1)**	—
Transfers to Stage 2 ECL	**(2)**	**2**	—	—
Transfers to Stage 3 ECL	**(1)**	—	**1**	—
Provision for (reversal of) credit losses	**25**	**(10)**	**17**	**32**
Write-offs	—	—	**(56)**	**(56)**
Recoveries on loans previously written off	—	—	**25**	**25**
Balance, December 31, 2019 [IFRS 9]	**85**	**37**	**11**	**133**
Total ECL allowance	**3,506**	**1,416**	**824**	**5,746**

Notes to Financial Statements

[In thousands of Canadian dollars]

December 31, 2019

	2018			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Residential mortgages				
Balance, January 1, 2018 [IFRS 9]	668	292	75	1,035
New loans originated	587	148	36	771
Financial assets derecognized	(101)	(110)	(76)	(287)
Net remeasurement	(194)	68	—	(126)
Transfers to Stage 1 ECL	103	(103)	—	—
Transfers to Stage 2 ECL	(27)	27	—	—
Transfers to Stage 3 ECL	—	—	—	—
Provision for (reversal of) credit losses	368	30	(40)	358
Write-offs	—	—	—	—
Recoveries on loans previously written off	—	—	1	1
Balance, December 31, 2018 [IFRS 9]	1,036	322	36	1,394
Commercial loans				
Balance, January 1, 2018 [IFRS 9]	2,784	1,194	2,700	6,678
New loans originated	289	303	—	592
Financial assets derecognized	(376)	(460)	—	(836)
Net remeasurement	(354)	559	(690)	(485)
Transfers to Stage 1 ECL	417	(215)	(202)	—
Transfers to Stage 2 ECL	(86)	86	—	—
Transfers to Stage 3 ECL	(10)	(20)	30	—
Provision for (reversal of) credit losses	(120)	253	(862)	(729)
Write-offs	—	—	(1,059)	(1,059)
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2018 [IFRS 9]	2,664	1,447	779	4,890

[In thousands of Canadian dollars]

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	$	$	$
Personal loans				
Balance, January 1, 2018 [IFRS 9]	62	52	25	139
New loans originated	18	1	—	19
Financial assets derecognized	(13)	(5)	(25)	(43)
Net remeasurement	(7)	—	82	75
Transfers to Stage 1 ECL	3	(3)	—	—
Transfers to Stage 2 ECL	(3)	21	(18)	—
Transfers to Stage 3 ECL	—	(19)	19	—
Provision for (reversal of) credit losses	(2)	(5)	58	51
Write-offs	—	—	(82)	(82)
Recoveries on loans previously written off	—	—	24	24
Balance, December 31, 2018 [IFRS 9]	60	47	25	132
Total ECL allowance	3,760	1,816	840	6,416

The following table sets out the Credit Union's credit risk exposure for all loans carried at amortized cost as at December 31, 2019. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit impaired.

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	$	$	$
Residential				
Above standard	**1,627,157**	**2,171**	**960**	**1,630,288**
Standard	**703,048**	**35,338**	**597**	**738,983**
Below standard	**100,588**	**49,748**	**929**	**151,265**
	2,430,793	**87,257**	**2,486**	**2,520,536**
Commercial				
Above standard	**181,997**	**399**	**—**	**182,396**
Standard	**626,826**	**18,609**	**4,712**	**650,147**
Below standard	**788**	**123,591**	**672**	**125,051**
	809,611	**142,599**	**5,384**	**957,594**
Personal				
Above standard	**12,631**	**67**	**—**	**12,698**
Standard	**4,140**	**203**	**6**	**4,349**
Below standard	**485**	**226**	**13**	**724**
	17,256	**496**	**19**	**17,771**
	3,257,660	**230,352**	**7,889**	**3,495,901**

[In thousands of Canadian dollars]

The following table sets out the Credit Union's credit risk exposure for all loans carried at amortized cost as at December 31, 2018. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit impaired.

	Stage 1 $	**Stage 2** $	**Stage 3** $	**Total** $
Residential				
Above standard	1,397,376	2,158	—	1,399,534
Standard	550,355	21,184	346	571,885
Below standard	59,740	32,492	197	92,429
	2,007,471	55,834	543	2,063,848
Commercial				
Above standard	165,822	230	—	166,052
Standard	666,087	2,893	9	668,989
Below standard	927	79,917	5,826	86,670
	832,836	83,040	5,835	921,711
Personal				
Above standard	6,801	16	1	6,818
Standard	4,427	168	35	4,630
Below standard	341	257	11	609
	11,569	441	47	12,057
	2,851,876	139,315	6,425	2,997,616

As at December 31, 2019, 94% of outstanding commercial loans are risk rated 6 or lower [2018 – 90%] based on the Credit Union's model.

[In thousands of Canadian dollars]

The following table shows the Credit Union's gross loan balances by security type:

	2019			
	Secured by real estate $	**Secured by other collateral** $	**Unsecured** $	**Total gross loans** $
Residential	**2,520,536**	—	—	**2,520,536**
Commercial	**917,650**	**38,350**	**1,594**	**957,594**
Personal	—	**10,799**	**6,972**	**17,771**
Total	**3,438,186**	**49,149**	**8,566**	**3,495,901**

	2018			
	Secured by real estate $	**Secured by other collateral** $	**Unsecured** $	**Total gross loans** $
Residential	2,063,848	—	—	2,063,848
Commercial	875,329	44,124	2,258	921,711
Personal	—	4,547	7,510	12,057
Total	2,939,177	48,671	9,768	2,997,616

The following table shows the key economic variables the Credit Union uses to estimate its allowance on performing loans during the forecast period. The values shown represent the end-of-period average values for the first 12 months and then the average value for the remaining forecast period of 4 years.

	Benign scenario		**Base scenario**		**Adverse scenario**	
	Average value over the next 12 months	**Average value over the remaining forecast period**	**Average value over the next 12 months**	**Average value over the remaining forecast period**	**Average value over the next 12 months**	**Average value over the remaining forecast period**
Canadian GDP year-over-year growth	2.9	2.5	1.5	1.6	(2.2)	1.3
Canadian unemployment rate	3.8	3.8	5.6	5.5	7.8	7.8
National Housing Price Index growth	2.6	2.4	1.9	1.7	(3.5)	(0.0)

[In thousands of Canadian dollars]

Analysis of individual loans that are past due based on age is shown below:

	2019			
	Commercial	**Residential**	**Personal**	**Total**
	$	$	$	$
Less than 30 days	**31,820**	**28,648**	**623**	**61,091**
30 – 89 days	**3,275**	**5,342**	**81**	**8,698**
90 – 179 days	**1,282**	**1,078**	**19**	**2,379**
180 – 365 days	**117**	**291**	**—**	**408**
Over 365 days	**7**	**335**	**—**	**342**
Total loans in arrears	**36,501**	**35,694**	**723**	**72,918**
Total loans not in arrears	**921,093**	**2,484,842**	**17,048**	**3,422,983**
Balance, December 31, 2019	**957,594**	**2,520,536**	**17,771**	**3,495,901**

	2018			
	Commercial	**Residential**	**Personal**	**Total**
	$	$	$	$
Less than 30 days	8,517	20,776	251	29,544
30 – 89 days	1,834	3,856	25	5,715
90 – 179 days	67	196	47	310
180 – 365 days	1,006	—	—	1,006
Over 365 days	174	—	—	174
Total loans in arrears	11,598	24,828	323	36,749
Total loans not in arrears	910,113	2,039,020	11,734	2,960,867
Balance, December 31, 2018	921,711	2,063,848	12,057	2,997,616

[In thousands of Canadian dollars]

9. Securitization activity

As a requirement of the NHA MBS and CMB programs, the Credit Union assigns to CMHC all its interest in securitized mortgage pools. If the Credit Union fails to make timely payment under an NHA MBS or CMB security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools backing the mortgage-backed securities issued.

The following table summarizes DUCA's securitization activity:

	2019 $	2018 $
Amount securitized	**162,024**	185,266
Net cash proceeds received	**160,434**	183,385
Outstanding balances of securitized mortgages	**597,673**	637,834
Outstanding balance of mortgage-backed securities	**583,225**	633,401

The average yield on mortgage-backed securities pools was 1.82% [2018 – 1.78%]. The outstanding balance of mortgage-backed securities is net of fees.

The Credit Union securitizes and sells mortgage-backed securities of certain insured multi-unit residential mortgages with no prepayment of credit risk associated with the sold mortgage-backed securities. The Credit Union enters into certain transactions which allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. The present value of the future cash flows is recorded on the statement of financial position under other assets. The outstanding balances for these balances total $183,000 as at December 31, 2019 [2018 – Nil].

10. Other assets

	2019 $	2018 $
Securitization receivables and deferred charges	**9,962**	—
Third-party mortgage and mortgage pool receivables	**5,564**	11
Prepaid expenses	**1,135**	442
Other	**102**	1,107
	16,763	1,560

[In thousands of Canadian dollars]

11. Pension plan

The Credit Union has a defined contribution pension plan and a SERP for senior executives, under which costs and obligations are determined using the projected benefit method of actuarial valuation prorated on service.

On December 31, 2012, the SERP was closed to new Members. Included in other assets, is a net pension amount of $72 [2018 – $102] relating to the SERP.

The Credit Union contributes a percentage of employee salaries to the defined contribution plan. The amount of the expense for the year was $836 [2018 – $622].

12. Property, equipment and right-of-use assets

	Land $	Buildings $	Leasehold improvements $	Computer hardware $	Equipment, furniture and fixtures $	Right of use assets – buildings $	Total $
Cost							
Balance, December 31, 2018	929	11,033	4,130	6,950	8,896	—	31,938
Effect of adoption of IFRS 16 as at January 1, 2019 *[note 3]*	—	—	—	—	—	3,337	3,337
Adjusted balance, January 1, 2019	**929**	**11,033**	**4,130**	**6,950**	**8,896**	**3,337**	**35,275**
Additions	**—**	**22**	**1,871**	**339**	**1,721**	**6,609**	**10,562**
Dispositions	**(633)**	**(10,164)**	**(261)**	**—**	**(1,292)**	**—**	**(12,350)**
Balance, December 31, 2019	**296**	**891**	**5,740**	**7,289**	**9,325**	**9,946**	**33,487**
Accumulated depreciation and amortization							
Balance, December 31, 2018	—	3,631	2,435	6,130	7,341	—	19,537
Depreciation and amortization	**—**	**195**	**510**	**425**	**645**	**1,489**	**3,264**
Dispositions	**—**	**(3,350)**	**(87)**	**—**	**(887)**	**—**	**(4,324)**
Balance, December 31, 2019	**—**	**476**	**2,858**	**6,555**	**7,099**	**1,489**	**18,477**
Net book value							
December 31, 2019	**296**	**415**	**2,882**	**734**	**2,226**	**8,457**	**15,010**

[In thousands of Canadian dollars]

Set out below are the carrying amounts of lease liabilities [included under “accounts payable and other liabilities” in note 25] and the movements during the period:

	2019
	$
Balance as at 1 January – effect of adoption of IFRS 16 *[note 3]*	3,337
Additions	6,424
Accretion of interest	210
Payments	(1,223)
December 31, 2019	**8,748**

The Credit Union had total cash outflows for leases of $1,223 in 2019.

The Credit Union has lease contracts for various buildings used in its operations. Leases of building generally have lease terms between one and six years. The Credit Union’s obligations under its leases are secured by the lessor’s title to the leased assets. The Credit Union restricts assigning and subleasing the leased assets. The Credit Union has several lease contracts that include extension and termination options. These options are negotiated by Management to provide flexibility in managing the leased-asset portfolio and align with the Credit Union’s business needs. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised.

[In thousands of Canadian dollars]

The Credit Union recognize $1,699 in the statements of income and comprehensive income including $1,489 for depreciation expense of right-of-use assets and $210 for interest expense on lease liabilities.

	Land $	Buildings $	Leasehold improvements $	Computer hardware $	Equipment, furniture and fixtures $	Total $
Cost						
Balance, December 31, 2017	739	10,625	3,108	6,558	8,148	29,178
Additions	190	408	1,022	392	748	2,760
Balance, December 31, 2018	929	11,033	4,130	6,950	8,896	31,938
Accumulated depreciation and amortization						
Balance, December 31, 2017	—	3,276	2,198	5,670	6,866	18,010
Depreciation and amortization	—	355	237	460	475	1,527
Balance, December 31, 2018	—	3,631	2,435	6,130	7,341	19,537
Net book value						
December 31, 2018	929	7,402	1,695	820	1,555	12,401

13. Members' deposits

	2019 $	**2018** $
Demand deposit accounts	**1,178,846**	626,281
Term deposits	**1,174,016**	1,296,297
Registered deposits	**608,000**	594,023
Foreign currency accounts	**19,499**	22,614
	2,980,361	2,539,215
Accrued interest payable	**25,705**	20,877
Unamortized broker fees	**(1,094)**	(1,212)
	3,004,972	2,558,880

[In thousands of Canadian dollars]

[a] Terms and conditions

Demand deposit accounts include chequing accounts, savings accounts, and daily interest accounts, and are due on demand and bear interest at a variable rate up to 1.40% as at December 31, 2019 [2018 – 1.60%].

Term deposits bear fixed rates of interest for terms of up to seven years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2019 range from 0.25% to 3.25% [2018 – 0.25% to 3.15%].

The registered retirement savings plans accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rate accounts bear interest at rates of 1.40% as at December 31, 2019 [2018 – 1.60%]. Registered retirement income funds consist of both fixed and variable rate products with terms and conditions similar to those of the registered retirement savings plans accounts described above. Members may make withdrawals from a registered retirement income fund account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements. The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plans accounts described above.

Foreign currency accounts include accounts from all of the above balances.

[b] Average yields to maturity

Members' deposits bear interest at both variable and fixed rates with the following yields at:

	Principal	**2019 yield**	**Principal**	**2018 yield**
	$	%	$	%
Variable rate	**1,288,080**	**1.88**	722,700	1.09
Fixed rate due less than one year	**453,164**	**2.47**	805,697	2.67
Fixed rate due between one and five years	**1,239,117**	**2.95**	1,010,818	2.86
	2,980,361		2,539,215	

[c] Concentration of risk

The Credit Union does not have an exposure to groupings of individual deposits that concentrate risk as no individual or related groups of Members' deposits exceed 8% of Members' deposits.

[In thousands of Canadian dollars]

14. Income taxes

The significant components of the deferred tax liability of the Credit Union are as follows:

	Balance, December 31, 2018 $	**IFRS 9 adoption** $	**Statement of income** $	**Retained earnings** $	**OCI** $	**Balance, December 31, 2019** $
Allowance for credit losses	**1,101**	**—**	**(192)**	**—**	**—**	**909**
Broker fees	**(3,806)**	**—**	**626**	**—**	**—**	**(3,180)**
Fixed assets	**(271)**	**—**	**241**	**—**	**—**	**(30)**
Deferred revenue	**454**	**—**	**194**	**—**	**—**	**648**
Non-capital losses available for carry forward	**1,377**	**—**	**(1,596)**	**411**	**—**	**192**
Cash flow hedges	**112**	**—**	**—**	**—**	**(112)**	**—**
Corporate Minimum Tax Credit	**785**	**—**	**190**	**—**	**—**	**975**
Other	**(33)**	**—**	**(157)**	**—**	**—**	**(190)**
	(281)	**—**	**(694)**	**411**	**(112)**	**(676)**

	Balance, January 1, 2018 $	**IFRS 9 adoption** $	**Statement of income** $	**Retained earnings** $	**OCI** $	**Balance, December 31, 2018** $
Allowance for credit losses	1,948	(355)	(492)	—	—	1,101
Broker fees	(2,472)	—	(1,334)	—	—	(3,806)
Fixed assets	(385)	—	114	—	—	(271)
Deferred revenue	603	—	(149)	—	—	454
Non-capital losses available for carry forward	2,814	—	(1,983)	546	—	1,377
Cash flow hedges	—	—	—	—	113	113
Corporate Minimum Tax Credit	—	—	785	—	—	785
Other	(33)	—	—	—	—	(33)
	2,475	(355)	(3,059)	546	113	(280)

During 2019, the Credit Union utilized $2,800 of non-capital losses carried forward from the combination with Zenbanx Canada Inc. The deferred tax benefit had previously been recorded in respect of the remaining non-capital losses of $1,058. The non-capital losses will expire in 2035.

[In thousands of Canadian dollars]

The significant components of income tax expense included in net income are composed of:

	2019 $	2018 $
Current tax expense:		
Based on current year's taxable income	**151**	332
Adjustments for prior year	**(2,822)**	38
	(2,671)	370
Deferred tax expense:		
Origination and reversal of temporary differences	**1016**	3,483
Adjustments for prior year	**(322)**	(423)
	694	3,060
Total income tax expense	**(1,977)**	3,430

The difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% [2018 – 26.5%] is as follows:

	2019 $	2018 $
Income before income taxes	**9,693**	14,737
Expected taxes based on the statutory rate	**2,569**	3,905
Credit Union deduction	**(775)**	—
Over (under) provision in prior years	**(3,126)**	(385)
Permanent difference	**(700)**	—
Other	**55**	(90)
Total income tax expense (recovery)	**(1,977)**	3,430

15. Derivative financial instruments

The Credit Union has entered into bond forward contracts to hedge the Credit Union's exposure to interest rate fluctuations in the mortgage pipeline between the time the mortgage rate is committed and the time that the mortgages are securitized under the CMB program. As at December 31, 2019, the Credit Union had entered into contracts for a notional total of Nil [2018 – $20,000]. The market value of this hedge was Nil [2018 – $(492)]. The gain/loss on the hedge will be amortized over the life of the CMB program.

The Credit Union has provided mortgage rate commitments to borrowers for purchases closing in 18 months. The mortgage commitments are being hedged with a forward interest rate swap. As at December 31, 2019, the Credit Union had entered into contracts for a notional total of $5,000 [2018 – $5,000]. The market value of this hedge was $(142) [2018 – $(97)].

[In thousands of Canadian dollars]

16. Patronage return

During the year, the Board of Directors declared a patronage return of 2% [2018 – 2%] consisting of bonus interest on Members' deposits and loan interest rebates.

17. Members' shares

	2019			2018		
	Number of shares #	**Equity** $	**Liability** $	**Number of shares** #	**Equity** $	**Liability** $
Authorized						
Unlimited Membership shares	**1,116**	**—**	**1,116**	1,187	—	1,187
Investment shares:						
Unlimited Class A shares	**37,620**	**37,620**	**—**	39,632	39,632	—
Unlimited Class B shares Series 1	**39,822**	**39,822**	**—**	40,331	40,331	—
Unlimited Class B shares Series 4	**109,082**	**109,082**	**—**	—	—	—
		186,524	**1,116**		79,963	1,187

Membership shares, Class A and Class B investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, *Financial Instruments: Presentation* and IFRIC 2. If they are classified as equity, they are recognized at cost. If they are classified as liability, they are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

[a] Membership shares

As a condition of Membership, which is required to use the services of the Credit Union, each Member is required to hold one Membership share, which has a par value of $1. These Membership shares are redeemable at par only when a Membership is withdrawn.

Funds invested by Members in Membership shares are not insured by the DICO. The withdrawal of Membership shares is subject to the Credit Union maintaining adequate regulatory capital *[note 23]*, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total Membership shares and the liability amount is classified as equity.

[b] Class A shares

An unlimited number of Class A non-cumulative, non-voting, non-participating bonus shares that are redeemable at the sole and absolute discretion of the Credit Union, up to a limit of 10% of the Class each year, at full face value at any time upon the death of the holder and ranging from 50% of face value in the second year after issue with annual increments in redemption value to 100% of face value in the seventh and subsequent years. The Credit Union may redeem the full amount of the shares at any point after five years from their date of issue. The par value of a Class A share is $1.

Patronage returns are at the discretion of the Board of Directors unless a constructive obligation exists for distribution.

[c] Class B Series 1 investment shares

The Class B Series 1 investment shares are not redeemable for five years after the date of their issuance. The holders of Class B Series 1 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. The Credit Union may at any time redeem the full amount of the shares outstanding after the non-redeemable term has ended at the discretion of the Board of Directors. The par value of a Class B share is $1.

[d] Class B Series 4 investment shares

The Class B Series 4 investment shares are not redeemable for five years after the date of their issuance. The holders of Class B Series 4 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. Redemptions are subject to the aggregate limits detailed above, and, if the approval of any regulatory body having jurisdiction over the Credit Union of that redemption is required by any applicable law, are subject to obtaining that regulatory approval. The Credit Union may at any time redeem the full amount of the shares outstanding after the non-redeemable term has ended at the discretion of the Board of Directors. The par value of a Class B share is $1.

[In thousands of Canadian dollars]

18. Non-interest income

	2019	**2018**
	$	$
Gain on sale of head office building	**6,893**	—
Mortgage and loan fees	**3,018**	2,420
Wealth management	**1,956**	1,594
Securitization income	**1,707**	—
Service charges	**1,244**	1,164
Foreign exchange	**566**	322
Other	**1,966**	1,488
	17,350	6,988

19. Other operating and administrative expenses

	2019	**2018**
	$	$
Technology	**4,956**	3,643
Professional fees	**3,774**	2,745
Marketing	**3,625**	3,011
Administration	**2,577**	1,991
Central 1 and bank charges	**1,231**	968
Donations	**527**	400
Legal accruals	**—**	(1,966)
Other	**674**	413
	17,364	11,205

[In thousands of Canadian dollars]

20. Related party transactions

The Act requires disclosure of the five highest paid officers and employees of the Credit Union where total remuneration paid during the year exceeds $150,000. Bonuses reported below are with respect to the prior year. The names, positions and remuneration paid during 2019 of those officers and employees are as follows:

2019

Name	Title	Salary $	Bonus $	Pension and other post-retirement benefits $	Other $	Total $
Doug Conick	President and Chief Executive Officer	**408**	**226**	**41**	**28**	**703**
Len Dias	Chief Financial, Compliance and Corporate Services Officer	**259**	**115**	**26**	**13**	**413**
Phillip Taylor	SVP – Business and Personal Banking	**228**	**100**	**23**	**3**	**354**
Rizwan Ahmad	Chief Risk Officer	**224**	**97**	**23**	**1**	**345**
Karey Carson	SVP – People and Culture	**216**	**89**	**22**	**3**	**330**

2018

Name	Title	Salary $	Bonus $	Pension and other post-retirement benefits $	Other $	Total $
Doug Conick	President and Chief Executive Officer	398	248	40	27	713
Len Dias	Chief Financial, Compliance and Corporate Services Officer	253	147	25	12	437
Phillip Taylor	SVP – Business and Personal Banking	223	95	22	3	343
Karen Todd	SVP – Operations and Service Delivery	200	86	20	6	312
Rizwan Ahmad	Chief Risk Officer	218	49	22	1	290

Mr. Taylor joined DUCA on September 11, 2017. Mr. Ahmad joined DUCA on July 4, 2017.

[In thousands of Canadian dollars]

The Credit Union has accrued staff bonuses of $3,567 [2018 – $2,600] for services rendered during the year ended December 31, 2019. The allocation of these bonuses among staff is yet to be determined. The Credit Union entered into the following transactions with key management personnel, which are defined by FSRA as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and Management.

	2019	**2018**
	$	$
Loans to key management personnel:		
Aggregate value of loans advanced	**3,310**	2,779
Interest received on loans advanced	**51**	29
Total value of lines of credit advanced	**516**	449
Interest received on lines of credit advanced	**10**	12
Unused value of lines of credit	**184**	470
Deposits from key management personnel:		
Aggregate value of term and savings deposits	**1,510**	2,090
Total interest paid on term and savings deposits	**31**	22

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 that apply to Members for each class of loan or deposit with the exception of a policy approved by the Board of Directors, permitting a 2% interest rate discount on loans and residential first mortgages granted to officers who are employees of the Credit Union.

21. Financial instrument classification and fair value

The following methods and assumptions were used to estimate the fair values noted above of on-balance sheet financial instruments, which should be read in conjunction with the fair value measurement basis described in the significant accounting policy in note 3[b][v]:

[a] Investments, third-party mortgages and mortgage pools

The estimated fair values of investments in publicly listed equity securities are determined using quoted market prices.

[b] Members' loans

The estimated fair values of loans are arrived at by discounting the expected future cash flows of the loans at market rates for loans with similar terms of credit risk. Loans are classified as Level 3.

[c] Members' deposits

The fair values of deposits payable on demand, payable after notice and floating rate deposits are assumed to equal their carrying values. The estimated fair values for fixed rate term deposits are valued using the discounted cash flows discounted using market rates currently offered for deposits with similar terms and risks. Such deposit liabilities are classified as Level 2.

[d] Derivative financial instruments

The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. Such instruments are classified as Level 2.

[e] Other assets and liabilities

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are assumed to approximate their book values, due to their short-term nature.

Fair value measurements can be classified in a hierarchy in order to discern the significance of Management assumptions and the ability to observe inputs incorporated into the measurements, as follows:

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 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 the three levels.

[In thousands of Canadian dollars]

The following table summarizes the classification of the Credit Union's investments, investment in third-party mortgages and mortgage pools held and reported on the statement of financial position as at December 31:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Equity investments:				
Shares of SoFi	**—**	**—**	**1,900**	**1,900**
Preferred shares and dividend-bearing equities	**6,550**	**—**	**—**	**6,550**
Central 1 Class A shares	**—**	**—**	**1,216**	**1,216**
Central 1 Class F shares	**—**	**—**	**12,396**	**12,396**
Other	**9**	**—**	**—**	**9**
Liquid investments:				
Central 1 Liquidity Reserve Deposit	**—**	**216,961**	**—**	**216,961**
Treasury bills, bank deposits and bankers' acceptances	**—**	**25,841**	**—**	**25,841**
Central 1 deposits	**—**	**5,251**	**—**	**5,251**
Third-party mortgages and mortgage pools at amortized cost	**—**	**—**	**176,977**	**176,977**
	6,559	**248,053**	**192,489**	**447,101**

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Equity investments:				
Shares of SoFi	—	—	1,900	1,900
Preferred shares and dividend-bearing equities	11,764	—	—	11,764
Central 1 Class A shares	—	—	1,084	1,084
Central 1 Class F shares	—	—	10,927	10,927
Other	9	—	—	9
Liquid investments:				
Central 1 Liquidity Reserve Deposit	—	188,858	—	188,858
Treasury bills, bank deposits and bankers' acceptances	—	7,779	—	7,779
Central 1 discount deposits	—	35,593	—	35,593
Third-party mortgages and mortgage pools at amortized cost	—	—	24,349	24,349
	11,773	232,230	38,260	282,263

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018 and no changes or transfers in securities classified as Level 3.

Included in Level 3 are non-quoted equity investments, which are valued based on financial information provided by that entity. The valuation does not involve a valuation model and, as such, a sensitivity analysis is not disclosed.

The fair value of the financial assets and financial liabilities of the Credit Union approximates its carrying value, except for Members' loans and Members' deposits. As at December 31, 2019, fair value of Members' loans was $3,501,040 [2018 – $2,987,582] and Members' deposits was $2,996,051 [2018 – $2,530,164]. These fair values are estimated using valuation techniques in which one or more significant inputs are unobservable [Level 3].

22. Financial risk management

[a] General objectives, policies and processes

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

[b] Credit risk

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

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

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

[i] Objectives, policies and processes

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

- General loan policy statements, including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Loan lending limits, including Board of Director's limits, schedule of assigned limits and exemptions from aggregate indebtedness;

[In thousands of Canadian dollars]

- Loan collateral security classifications that set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives quarterly reports summarizing delinquent loans and loans that are on the watchlist. The Board of Directors also receives an analysis of the allowance for credit losses.

[ii] Exposure to credit risk

The following table indicates the Credit Union's maximum exposure to credit risk relating to its portfolios as at December 31, 2019 without considering any collateral held or credit enhancements:

	Carrying value $	**Maximum exposure** $
Cash and cash equivalents	**63,388**	63,388
Investments, third-party mortgages and mortgage pools	**447,101**	447,101
Members' loans	**3,506,961**	3,506,961
Undisbursed loans	**—**	335,520
Unutilized line of credit	**—**	213,312
Unutilized letter of credit	**—**	16,974
	4,017,450	4,583,256

A sizable portfolio of the loan book is secured by residential property in the Greater Toronto Area, Ontario. Therefore, the Credit Union is exposed to the risk of reduction in loan to value coverage 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.

[c] Liquidity risk

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

[i] Risk measurement

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

[ii] Objectives, policies and procedures

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

The Credit Union agrees to maintain at least 6% of its assets on deposit with Central 1 to retain its Membership. As at December 31, 2019, 6.0% of the Credit Union's total assets was $243,387, which is included in both investments and cash and cash equivalents. As at December 31, 2019, the Credit Union was compliant with this requirement.

Provisions of the Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet Member withdrawals, which includes the Liquidity Coverage Ratio ["LCR"], Net Cumulative Cash Flow ["NCCF"], and Net Stable Funding Ratio ["NSFR"]. In addition, the Credit Union also maintains an Internal Liquidity Ratio ["ILR"].

The Credit Union manages liquidity risk by:

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

The LCR is a measure that aims to ensure that the Credit Union has an adequate stock of unencumbered high quality liquid assets ["HQLA"] that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the institution to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by Management. DUCA's LCR as at December 31, 2019 was 223% [2018 – 1,620%] compared with a regulatory minimum of 100%.

The NCCF is a liquidity metric that measures the Credit Union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon. DUCA's NCCF as at December 31, 2019 was 110% [2018 – 266%] coverage over 12 months compared with a policy minimum of 100% coverage over 12 months.

The NSFR is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. DUCA's NSFR as at December 31, 2019 was 167% [2018 – 167%) compared with a regulatory minimum of 100%.

[In thousands of Canadian dollars]

In addition, DUCA has an ILR metric to ensure that the Credit Union has an adequate stock of unencumbered HQLA that can be converted into cash at little or no loss of value, to meet its liquidity needs based on total deposits and borrowings. DUCA's ILR as at December 31, 2019 was 12.2% [2018 – 16.70%] compared with a policy minimum of 10%.

The following tables demonstrate the Credit Union's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2019 and 2018:

	2019							
	Floating rate on demand $	**Within 1 month** $	**2–12 months** $	**1 –3 years** $	**3 –5 years** $	**Over 5 years** $	**Not specified** $	**Total** $
Assets								
Members' loans	**573,361**	**47,625**	**384,493**	**940,762**	**1,547,707**	**1,952**	**11,061**	**3,506,961**
Cash and cash equivalents	**19,880**	**10,846**	**32,662**	**—**	**—**	**—**	**—**	**63,388**
Investments, third-party mortgages and mortgage pools	**—**	**12,547**	**152,735**	**98,163**	**81,000**	**78,075**	**24,581**	**447,101**
Other assets	**—**	**—**	**—**	**—**	**—**	**—**	**39,003**	**39,003**
	593,241	**71,018**	**569,890**	**1,038,925**	**1,628,707**	**80,027**	**74,645**	**4,056,453**
Liabilities and Members' equity								
Members' deposits	**1,288,096**	**36,009**	**417,155**	**921,298**	**311,147**	**6,656**	**24,611**	**3,004,972**
Securitization liabilities	**—**	**—**	**97,779**	**227,214**	**258,232**	**—**	**21,448**	**604,673**
Borrowings	**—**	**—**	**—**	**—**	**—**	**—**	**133,000**	**133,000**
Other liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**21,582**	**21,582**
Equity	**—**	**—**	**—**	**—**	**—**	**—**	**292,226**	**292,226**
	1,288,096	**36,009**	**514,934**	**1,148,512**	**569,379**	**6,656**	**492,867**	**4,056,453**

Notes to Financial Statements

[In thousands of Canadian dollars]

December 31, 2019

	2018							
	Floating rate on demand $	**Within 1 month** $	**2–12 months** $	**1–3 years** $	**3–5 years** $	**Over 5 years** $	**Not specified** $	**Total** $
Assets								
Members' loans	590,859	51,861	351,369	562,716	1,436,399	4,412	9,457	3,007,073
Cash and cash equivalents	26,832	26,402	15,804	—	—	—	—	69,038
Investments, third-party mortgages and mortgage pools	—	—	77,164	82,565	94,500	—	28,034	282,263
Other assets	—	—	—	—	—	—	15,639	15,639
	617,691	78,263	444,337	645,281	1,530,899	4,412	53,130	3,374,013
Liabilities and Members' equity								
Members' deposits	722,744	40,538	765,159	657,304	298,374	55,140	19,621	2,558,880
Securitization liabilities	—	—	68,141	282,384	282,876	—	(3,420)	629,981
Other liabilities	—	—	—	—	—	—	9,710	9,710
Equity	—	—	—	—	—	—	175,442	175,442
	722,744	40,538	833,300	939,688	581,250	55,140	201,353	3,374,013

[d] Market risk

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

[i] 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 and on its investments.

[In thousands of Canadian dollars]

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

[a] Risk measurement

The Credit Union's interest rate risk position is measured monthly. Measurement of risk is based on rates charged to Members, as well as rates paid to depositors.

[b] Objectives, policies and procedures

The Credit Union's major source of income is net interest margin, the difference between interest earned on investments and Members' loans and interest paid on Members' deposits. The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. Management calculates and reports monthly the value-at-risk measure of net interest margin in accordance with the Credit Union's Structural Risk Management Policy. The Credit Union also enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations in accordance with the Credit Union's Interest Rate Risk Management Policy.

Key metrics involved in management of interest rate risk include the use of Earnings at Risk ["EaR"] and Economic Value of Equity at Risk ["EVEaR"]. EaR is defined as the change in the net interest income from a 100 basis point ["bps"] shock to interest rates. This exposure is measured over a 12-month period. EVEaR is defined as the difference in the change in the present value of the asset portfolio and the change in the present value of the liability portfolio resulting from a 100 bps interest rate shock.

The following table summarizes the EaR and EVEaR as follows:

	2019 $	**2018** $
EaR – up 100 bps	**1,942**	1,991
EaR – down 100 bps	**(469)**	(3,016)
EVEaR – up 100 bps	**(1.36)%**	(1.70)%
EVEaR – down 100 bps	**2.81%**	0.28%

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union Management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA by Credit Union regulations. For the year ended December 31, 2019 and December 31, 2018, the Credit Union was in compliance with this policy.

[In thousands of Canadian dollars]

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

	2019				
	Assets $	**Yield** %	**Liabilities/ Members' equity** $	**Cost** %	**Asset/liability gap** $
Maturity dates					
Interest-sensitive:					
0–3 months	**486,968**	**3.97**	**1,426,355**	**2.16**	**(939,387)**
4–12 months	**633,375**	**4.07**	**312,903**	**2.82**	**320,472**
1–2 years	**457,881**	**3.35**	**450,188**	**3.04**	**7,693**
2–5 years	**2,428,165**	**3.36**	**790,915**	**3.26**	**1,637,250**
	4,006,389		**2,980,361**		**1,026,028**
Non-interest sensitive	**50,064**		**1,076,092**		
	4,056,453		**4,056,453**		

	2018				
	Assets $	**Yield** %	**Liabilities/ Members' equity** $	**Cost** %	**Asset/liability gap** $
Maturity dates					
Interest-sensitive:					
0–3 months	740,373	5.07	881,001	1.19	(140,628)
4–12 months	400,504	3.46	715,537	2.91	(315,033)
1–2 years	319,984	3.28	370,520	2.63	(50,536)
2–5 years	1,862,033	3.41	1,205,558	2.91	656,475
	3,322,894		3,172,616		150,278
Non-interest sensitive	51,119		201,397		
	3,374,013		3,374,013		

Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

[ii] 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.

[a] Risk measurement

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

[b] Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to the lesser of $1,000 or 5% of total Member foreign currency deposits in Canadian funds.

For the year ended December 31, 2019, the Credit Union's exposure to foreign exchange risk is within policy.

[iii] Equity risk

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

The Credit Union's portfolio includes unlisted Canadian and U.S. stocks, comprising investments in Central 1 and SoFi.

The total investment in preferred shares and dividend-bearing equities cannot exceed the lesser of $15,000 or 1% of assets, excluding the Credit Union's investment in Central 1 and SoFi.

For the year ended December 31, 2019, the Credit Union's exposure to equity risk is within policy.

[e] Operational risk

Operational risk is the risk that processes, technology or people fail to deliver the required results. This includes responding to external events including legal or regulatory actions. The Credit Union has a number of programs that manage specific risks under the Operational risk umbrella, including people-related risks, criminal risks [fraud, Anti-Money Laundering], physical and information security risks, business continuity risk, as well as outsourcer and vendor risks.

23. Capital management

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

Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Capital calculated in accordance with the Act shall not be less than 4.00% of total assets; and
- Capital calculated in accordance with the Act shall not be less than 8.00% of the risk-weighted value of its assets.

The Credit Union maintains an internal policy that total Members' equity as shown on the statement of financial position shall not be less than 5.00% [2018 – 4.75%] of the book value of all assets and 10.50% [2018 – 10.50%] of risk-weighted assets.

The Credit Union considers its capital to include Membership shares, Class A shares and Class B investment shares and retained earnings.

The Credit Union establishes the risk-weighted value of its assets in accordance with the regulations of the Act, which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted value of its assets as at December 31, 2019 was $1,798,128 [2018 – $1,530,627].

[In thousands of Canadian dollars]

As at December 31, 2019, the Credit Union met the capital requirements of the Act with a calculated leverage ratio of 7.32% [2018 – 5.36%] and a risk-weighted capital ratio of 16.50% [2018 – 11.82%].

Regulatory capital consists of the following:

	2019 $	2018 $
Tier I capital:		
Membership shares	**1,116**	1,187
Class B shares Series 1 – non-redeemable portion	**39,822**	40,331
Class B shares Series 4 – non-redeemable portion	**109,082**	—
Retained earnings	**105,702**	95,841
Goodwill	**(1,678)**	(1,678)
Defined benefit pension plan assets	**(72)**	(102)
	253,972	135,579
Tier II capital:		
Class A shares	**37,620**	39,632
Collective loan provision	**5,139**	5,576
	42,759	45,208
Total regulatory capital	**296,731**	180,787
Leverage ratio	**7.32%**	5.36%
Risk-weighted capital ratio	**16.50%**	11.82%

On February 28, 2019, the Board of Directors declared a dividend of 3.5% on the outstanding amount of the Class B shares and a dividend of 2% on the outstanding amount of Class A shares to the holders of record as at December 31, 2018. The dividends were paid on March 1, 2019.

Notes to Financial Statements

[In thousands of Canadian dollars]

December 31, 2019

24. Commitments

[a] Credit facilities

A comprehensive credit facility is maintained with a major Canadian chartered bank up to a maximum of $14,000 and is secured by bank deposit notes totalling $11,727 [2018 – $10,000] *[notes 5 and 6).* The Credit Union has an unused credit facility of $14,000 [2018 – $14,000] at year-end.

A line of credit is maintained with Central 1 up to a maximum of $130,000 and is secured by a general security agreement covering all the assets of the Credit Union. The Credit Union has an unused credit facility of $100,000 [2018 – $130,000] as at year-end, of which $50,000 is prescribed for the guarantee of payment on third-party Municipalities, Universities, School Boards and Hospitals deposits with the Credit Union as agreed to by Central 1 and $14,500 is prescribed towards letters of credit issued on behalf of the Credit Union.

The Credit Union entered into an agreement with Mercury Receivables Trust on April 16, 2019, which gives the Credit Union access to a $100,000 credit facility, which is secured by a pool of $191,000 uninsured mortgages. Central 1 provides a Performance Guarantee on the drawn amount of the credit facility funded volume. As at December 31, 2019, the Credit Union has an unused credit facility of $95,000.

On March 4, 2019, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with National Bank Financial Inc., which gives the Credit Union access to an uncommitted $50,000 credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that they are holding for liquidity.

A line of credit facility is maintained with Desjardins up to a maximum of $160,000 (2018 – $125,000) and is secured by a pledge of residential mortgages. The Credit Union has an unused credit facility of $62,000 [2018 – $125,000] as at year-end.

[b] Members' loans

The Credit Union has the following commitments to its Members as at the year-end date on account of loans, unused lines of credit and letters of credit:

	2019 $	**2018** $
Unadvanced loans	**335,520**	251,392
Unused lines of credit	**213,312**	184,837
Unused letters of credit	**16,974**	9,338
	565,806	445,567

[In thousands of Canadian dollars]

25. Accounts payable and accrued liabilities

	2019 $	2018 $
Lease liabilities	**8,748**	—
Accrued liabilities	**6,640**	4,416
Accounts payables	**2,017**	1,520
	17,405	5,936

The maturity analysis of lease liabilities is disclosed in note 3.

26. Intangible assets

Intangible assets relating to the new banking system are as follows:

	2019 $
Banking system software	**1,961**
Employee compensation	**605**
	2,566

Amortization of intangible assets will commence in 2020 with the deployment of the new banking system, expected to be over 10 years on a straight-line basis.

27. Goodwill

Goodwill acquired on business combinations is assessed for impairment annually, or more frequently, if events or circumstances occur that may result in the recoverable amount of the CGU falling below its carrying value. Goodwill was assessed for annual impairment and no impairment was determined to exist.

28. Comparative figures

Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

29. Subsequent event

Subsequent to December 31, 2019, the Credit Union raised an additional $54,100 resulting in $163,182 Class B Series 4 shares issued.