PACE Savings & Credit Union Limited

Consolidated Financial Statements
December 31, 2020
(in thousands of Canadian dollars unless otherwise stated)

Independent auditor's report

To the Members of PACE Savings & Credit Union Limited

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PACE Savings & Credit Union Limited and its subsidiaries (together, the Credit Union) as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Credit Union's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of income (loss) and comprehensive income (loss) for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

Our audit opinion on the consolidated financial statements for the year ended December 31, 2019 was modified as we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Credit Union's investment in Continental Currency Exchange (CCE) as at December 31, 2019 and the Credit Union's share of CCE's net income for the year then ended because key audit evidence was not available at the date of this report. The Credit Union's investment in CCE, an investment accounted for by the equity method, was carried at $9,716 million on the consolidated statement of financial position as at December 31, 2019, and the Credit Union's share of CCE's net income of $0.6 million was included in the consolidated statement of income (loss) and comprehensive income (loss) for the year then ended (refer to note 8 to the consolidated financial statements). We were unable to determine whether any adjustments were necessary to investment in associate and deferred income tax assets as at December 31, 2019, retained earnings (deficit) at the beginning and the end of the years ended December 31, 2019, income (loss) on investment in joint ventures and associate, income tax recovery (expense), net income (loss) and comprehensive income (loss) and cash provided by operating activities and used in investing activities for the year ended December 31, 2019. Our opinion on the current period's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the comparative information.

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 6, 2021

PACE Savings & Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2020

(in thousands of Canadian dollars unless otherwise stated)

	2020 $	2019 $
Assets		
Cash and cash equivalents (note 5)	47,001	41,341
Investments (note 6)	348,789	274,162
Investment in joint ventures (note 7)	18,424	20,559
Investment in associate (notes 8 and 9)	-	9,716
Loans to members (notes 10 and 11)	649,674	743,762
Property and equipment (note 12)	26,711	21,470
Goodwill and other intangible assets (note 13)	28,580	2,373
Investment properties (note 14)	4,242	4,338
Other assets (note 15)	12,429	40,836
Deferred income tax assets (note 18)	4,985	887
	1,140,835	1,159,444
Liabilities		
Deposits from members (note 16)	1,097,897	1,052,776
Deferred income tax liabilities (note 18)	871	-
Other liabilities (note 17)	12,722	54,320
Class A profit shares (note 19)	5,635	5,262
Class B investment shares (note 19)	12,371	12,296
	1,129,496	1,124,654
Members' Equity		
Membership shares (note 19)	7,907	7,916
Contributed surplus	3,544	3,544
Retained earnings (deficit)	(112)	22,472
Equity attributable to members	11,339	33,932
Equity attributable to non-controlling interests	-	858
	11,339	34,790
	1,140,835	1,159,444

Approved by

David Finnie, PACE Savings & Credit Union Limited,
Chief Executive Officer

Ben Choi, PACE Savings & Credit Union Limited,
Chief Finance and Risk Officer

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

PACE Savings & Credit Union Limited

Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

For the year ended December 31, 2020

(in thousands of Canadian dollars unless otherwise stated)

	2020 $	2019 $
Interest income (note 20)	36,524	45,535
Interest expense (note 21)	18,737	20,342
Net interest income	17,787	25,193
Provision for credit losses (note 11)	12,704	3,154
Net interest income after provision for credit losses	5,083	22,039
Non-interest income		
Investment income	2,123	821
Other operating income (note 22)	6,931	4,608
	9,054	5,429
Net interest and non-interest income	14,137	27,468
Non-interest expense		
Personnel	16,213	10,846
General and administrative	13,334	8,882
Deposit insurance premium (note 24)	1,256	1,118
Marketing	310	547
Depreciation of property and equipment	3,056	1,674
Occupancy	1,982	1,219
Amortization of intangible assets	697	403
Impairment loss on investment properties and other assets	96	125
	36,944	24,814
Administration costs (note 24)	(2,425)	(2,118)
Other costs (note 24)	-	(543)
Interest on Class A profit shares (note 19)	(409)	(461)
Interest on Class B investment shares (note 19)	(115)	(130)
Income (loss) on investment in joint ventures and associate (notes 7, 8 and 9)	(320)	1,313
Income (loss) before tax	(26,076)	715
Income tax recovery (expense) (note 18)	4,949	(129)
Income (loss) from continuing operations	(21,127)	586
(Loss) from discontinued operation (note 30)	(1,595)	(222)
	(22,722)	364
Net income (loss) attributable to members	(22,340)	364
Net loss attributable to non-controlling interest	(382)	-
Net income (loss) and comprehensive income (loss) for the year	(22,722)	364

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

PACE Savings & Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2020

(in thousands of Canadian dollars unless otherwise stated)

	Membership shares $	Contributed surplus $	Retained earnings (deficit) $	Accumulated other comprehensive income $	Equity attributable to members $	Equity attributable to non-controlling interests $	Total $
As at December 31, 2018	7,745	3,544	21,709	1,657	34,655	2,086	36,741
Net income and comprehensive income	-	-	364	-	364	-	364
Issued shares	171	-	-	-	171	-	171
Dividends paid	-	-	(289)	-	(289)	-	(289)
Non-controlling interests arising in the year	-	-	(541)	-	(541)	541	-
Net redemption of shares	-	-	-	-	-	(1,769)	(1,769)
Release of AOCI	-	-	1,657	(1,657)	-	-	-
Adjustment due to consolidation	-	-	(428)	-	(428)	-	(428)
As at December 31, 2019	7,916	3,544	22,472	-	33,932	858	34,790
Net loss and comprehensive loss	-	-	(22,340)	-	(22,340)	(382)	(22,722)
Net redemption of shares	(9)		-		(9)	(476)	(485)
Dividends paid	-	-	(244)	-	(244)	-	(244)
As at December 31, 2020	7,907	3,544	(112)	-	11,339	-	11,339

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

PACE Savings & Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

(in thousands of Canadian dollars unless otherwise stated)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the year	(22,722)	364
Adjustments for		
Provision for credit losses (note 11)	12,704	3,154
Interest income (note 20)	(36,524)	(45,535)
Interest expense (note 21)	18,737	20,342
Depreciation of property and equipment	3,056	1,674
Amortization of intangible assets	697	403
Loss on disposition of property and equipment	(92)	(49)
Impairment loss on investment properties and other assets	96	125
Income from investment in joint ventures and associate and other income	(792)	(747)
Loss on disposition of property held for sale	(54)	-
Investment loss	236	-
Loss on disposition of discontinued operation	(7,192)	-
Income tax expense (recovery) (note 18)	(4,949)	129
Income attributable to minority interests	382	-
Changes in operating assets/liabilities		
Loans to members	80,868	112,260
Deposits from members	47,649	(15,424)
Other operating assets	21,039	(10,707)
Other operating liabilities	(33,445)	(18,663)
Changes generated from (used in) operating activities before interest and taxes		
Interest received	37,040	45,616
Interest paid	(21,358)	(18,554)
Income tax paid	851	1
	96,227	74,389
Investing activities		
Net purchase of investments	(82,696)	(45,998)
Capital contribution in investments in joint ventures and associate	(2,078)	(340)
Withdrawals from investments in joint ventures and associate	5,005	746
Purchase of property and equipment	(5,311)	(5,337)
Disposition of property and equipment	2,601	1,493
Purchase of intangible assets	-	(25)
Disposition of intangible assets	121	-
Purchase of investment properties	-	(174)
Disposition of investment property	7,002	-
Payment for acquisition of subsidiary – net of cash acquired	(14,764)	-
	(90,120)	(49,635)
Financing activities		
Issuance (redemption) of membership shares	(9)	171
Issuance (redemption) of Class A profit shares	(36)	11
Issuance (redemption) of Class B investment shares	(41)	63
Dividends paid	(244)	(289)
Interest re-invested in Class A profit shares	409	461
Interest re-invested in Class B investment shares	115	130
Principal portions of lease payments	104	(536)
Net redemptions by non-controlling interests	(745)	(1,769)
	(447)	(1,758)
Change in cash and cash equivalents during the year	5,660	22,996
Cash and cash equivalents – Beginning of year	41,341	18,345
Cash and cash equivalents – End of year	47,001	41,341

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

(in thousands of Canadian dollars unless otherwise stated)

1 Reporting entity

PACE Savings & Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 (Ontario), (the Act), and is regulated by the Financial Services Regulatory Authority of Ontario (FSRA), formerly Deposit Insurance Corporation of Ontario (DICO), and is a member of Central 1 Credit Union (Central 1). The Credit Union was incorporated on April 1, 2003 and was organized for the benefit of its members. The Credit Union provides financial services including, but not limited to, personal and commercial residential mortgages and loans and deposit taking to its members. These consolidated statements present consolidated financial results for the Credit Union and its wholly owned subsidiaries: 1155081 Ontario Ltd., 2049945 Ontario Ltd., 2049958 Ontario Ltd., 1961783 Ontario Ltd. and Continental Currency Exchange Canada Limited (CCE). The Credit Union discontinued the operations of the following entities by way of court-appointed liquidation on May 14, 2020: PACE Securities Corporation, PACE General Partners, PACE International LLC, PACE Insurance Brokers, PACE Financial Limited and PACE Capital LLP.

The registered office of the Credit Union is at 8111 Jane Street, Unit 1, Vaughan, Ontario L4K 4L7.

On September 28, 2018, DICO placed the Credit Union under administration for governance-related issues. DICO provided oversight of the Credit Union during the administration period. On January 27, 2020, a new Board of Directors was elected by the members of the Credit Union. On November 20, 2020, following the resignation of the directorate, FSRA resumed oversight responsibilities of the Credit Union.

2 Basis of preparation

Statement of compliance

These consolidated financial statements are general purpose financial statements that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), and in accordance with the Credit Unions and Caisses Populaires Act of Ontario.

The policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the consolidated financial statements.

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

The consolidated financial statements for the year ended December 31, 2020 were authorized by FSRA, in accordance with its oversight responsibilities on April 6, 2021.

(in thousands of Canadian dollars unless otherwise stated)

Regulatory Compliance Disclosures

Regulations specify that certain items are required to be disclosed in the consolidated financial statements that are presented at annual meetings of members. This information has been integrated into the consolidated financial statements and notes. When necessary, reasonable estimates and interpretations have been made in presenting this information. Notes 23 through 26 contain additional information disclosed to support regulatory compliance.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value.
- Financial assets at fair value through other comprehensive income (FVOCI) are measured at fair value.
- Investment in joint ventures and associate are measured using the equity accounting method.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All amounts have been rounded to the nearest thousand, except as otherwise indicated.

Impact of COVID-19

Following the announcement of COVID-19 as a global pandemic on March 11, 2020 by the World Health Organization (WHO), there was a significant downturn in the level of economic activity across the globe. Governments enforced restrictions which included the closure of non-essential businesses as well as restrictions on both international and domestic travel. Some restrictions were lifted over the course of the year, allowing for increased economic activity. While the Credit Union is considered an essential business and remained open throughout the year, CCE is considered a non-essential business and faced closures of varying lengths at each of its locations. CCE received COVID-19 related government subsidies for small businesses. Please refer to note 22 for details.

To assist members that were experiencing financial hardship, the Credit Union offered member assistance in the form of payment deferrals. The Credit Union also participated in the Canada Emergency Business Account (CEBA) program to offer Government-funded interest-free loans to its small business and not-for-profit members.

Some sectors have seen sustained negative impacts, while others have seen restrictions reimposed as cases rose again towards the end of the year. The overall economy continues to operate below pre-pandemic levels. Vaccine approvals provide a path to normalcy from current restrictions, but there is still uncertainty over the timing of when large-scale immunization will be complete. As such, the Credit Union continues to operate in an uncertain economic environment.

(in thousands of Canadian dollars unless otherwise stated)

COVID-19 and the related economic uncertainty have increased the level of judgment applied in determining certain accounting estimates, the most significant of which is assumptions and judgments related to the estimation of the allowance for credit losses and goodwill impairment. Please refer to note 11, note 13, and below for more details.

The impacts of COVID-19 have resulted in a high level of economic uncertainty, which makes it difficult to forecast future cash flows. The estimation of the value in use (VIU) for the cash generating unit (CGU) requires the use of significant judgment in the determination of inputs to the discounted cash flow model. As a result, for the 2020 impairment testing, management has prepared financial forecasts under two scenarios, a likely scenario and a pessimistic scenario, and weighted these scenarios based on the expected probability of occurrence. The weighted average VIU is the most sensitive to changes in scenario weighting, the discount rate and the terminal value. Management has conducted an analysis of the sensitivity of these key assumptions and has summarized the isolated impact of each key assumption on the VIU in the following table.

Key assumptions	Change	Impact on VIU	Remaining headroom
Likely to pessimistic scenario weighting	70/30 to 60/40	-10%	32%
Discount rate	+10%	-12%	28%
Terminal value	-10%	-7%	36%

The COVID-19 impacted business environment is rapidly evolving and management's economic outlook has a higher than usual degree of uncertainty, which may materially change the expected future cash flows of the CGU. Actual experience may differ materially from current expectations, including in relation to the duration and severity of the economic contraction and the ultimate timing and extent of a future recovery.

Use of significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these consolidated financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these consolidated financial statements.

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

Judgments and estimates made by management in the application of IFRS that have a significant effect on these consolidated financial statements are discussed below.

(in thousands of Canadian dollars unless otherwise stated)

The referenced notes to the consolidated financial statements below set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's consolidated financial statements.

i) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The judgments include considerations of liquidity and model inputs such as volatility for longer dated discount rates. The valuation of financial instruments is described in more detail in note 28.

ii) Allowance for credit losses

The expected credit loss (ECL) model requires management to make judgments and estimates in a number of areas. Management must exercise significant judgment in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of ECLs. The calculation of ECLs includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgment to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgment in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models and judgments directly impact the measurement of ECLs.

The impairment loss on loans is disclosed in further detail in notes 10 and 11.

iii) Estimated useful lives of non-financial assets

The estimated useful lives of property and equipment and intangible assets are based on management's intentions, historical experience, internal plans and other factors as determined by management. The useful lives are reviewed on an annual basis and any revisions to the useful lives are accounted for prospectively.

iv) Impairment of non-financial assets

The Credit Union assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

(in thousands of Canadian dollars unless otherwise stated)

When VIU calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

v) Fair value

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Credit Union uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within a three-level hierarchy, based on observability of significant inputs, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3 – Unobservable inputs for the asset or liability. Inputs into the determination of the fair value require managements judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

vi) Recognition of deferred income taxes

The extent to which deferred income tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of a legal or economic limit of uncertainties in various tax jurisdictions.

(in thousands of Canadian dollars unless otherwise stated)

3 Significant accounting policies

The Credit Union has consistently applied the following significant accounting policies to all periods presented in these consolidated financial statements.

Basis of consolidation

- Consolidation

  The consolidated financial statements incorporate the financial statements of the Credit Union and entities controlled by the Credit Union and its subsidiaries. Control is achieved when the Credit Union (i) has the power over the investee; (ii) is exposed, or has rights, to variable returns from the involvement of the investee; and (iii) has the ability to use its power to affect its returns.

  The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

  The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgment is applied in assessing the relevant factors and conditions in totality when determining whether the Credit Union controls an entity. Specifically, judgment is applied in assessing whether the Credit Union has substantive decision-making rights over the relevant activities and whether it is exercising its power as a principal or an agent.

  Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

  Income or loss and each component of other comprehensive income are attributed to the members of the Credit Union and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the members of the Credit Union and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

  Non-controlling interests in subsidiaries that the Credit Union consolidates are shown on its consolidated statement of financial position as a separate component of equity that is distinct from its shareholders' equity. The net income attributable to non-controlling interests is separately disclosed in its consolidated statement of income and comprehensive income.

(in thousands of Canadian dollars unless otherwise stated)

- Business combinations

  The Credit Union accounts for acquisitions using the acquisition method as at the acquisition date, which is the date on which control is acquired by the Credit Union.

  At the acquisition date, the assets and liabilities of the acquiree are included in the consolidated statement of financial position at their fair value, which are also used as the basis for subsequent measurement in accordance with the Credit Union's accounting policies. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities, unless otherwise indicated. Where the Credit Union has an obligation to purchase a non-controlling interest for cash or another financial asset, a portion of the non-controlling interest is recognized as a financial liability based on management's best estimate of the present value of the redemption amount. Where the Credit Union has a corresponding option to settle the purchase of a non-controlling interest by issuing its own common shares, no financial liability is recorded.

  The Credit Union measures goodwill, if any, as the fair value of the consideration transferred, less the net recognized amount of identifiable assets acquired and liabilities assumed at fair value at the acquisition date. When negative goodwill arises, the amount is recognized in the consolidated statement of income (loss) and comprehensive income (loss). Goodwill is subsequently carried at cost less accumulated impairment losses.

  Transaction costs incurred with the acquisition, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

- Investments in joint ventures and associates

  The Credit Union's investments in associated corporations and limited partnerships over which it has significant influence are accounted for using the equity method. The equity method is also applied to the Credit Union's interests in joint ventures over which it has joint control. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize its share of the investee's net profit or loss, including its proportionate share of the investee's other comprehensive income (OCI), subsequent to the date of acquisition.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars.

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

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

(in thousands of Canadian dollars unless otherwise stated)

of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation gains and losses are recognized immediately in net income and are included in other operating income on the consolidated statements of income (loss) and comprehensive income (loss).

Financial assets and financial liabilities

i) Recognition and initial measurement of financial assets

The Credit Union initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the assets. A financial asset or liability is initially measured at fair value, plus transaction costs that are directly attributable to its acquisition or issuance for an asset or liability not classified at FVTPL. For a financial asset or liability measured at FVTPL, transaction costs are recognized immediately in profit or loss.

ii) Classification and subsequent measurement of financial assets

- Business model assessment

  The Credit Union makes an assessment of the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and the way 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, e.g., whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the financial liabilities that are funding those assets or realizing cash flows through the sale of the assets;

  - how the performance of the portfolio is evaluated and reported to the Credit Union's management;

  - the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

  - how managers of the business are compensated, e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

  - the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objectives for managing the financial assets are achieved and how cash flows are realized.

(in thousands of Canadian dollars unless otherwise stated)

Financial assets that are held for trading and financial assets that are managed on a fair value basis are measured at FVTPL because they are neither held-to-collect contractual cash flows nor held-to-collect and for sale.

- Contractual cash flows characteristics assessment

  For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as for profit margin.

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

  If the contractual terms of a financial asset give rise to contractual cash flows that are not solely payments of principal and interest, it is classified as FVTPL.

- Financial assets

  All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI or FVTPL.

- Debt instruments measured at amortized cost

  A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated 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 assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

    After the initial measurement, these instruments are carried at amortized cost. Interest income on these instruments is recognized using the effective interest rate method. Premiums, discounts and related transaction costs are amortized over the expected life of the instruments to interest income in profit or loss using the effective interest rate method. Impairment on these debt instruments is calculated using the ECL approach.

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- Debt instruments measured at FVTPL

  Debt instruments measured at FVTPL include assets held for trading purposes, assets held as 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. These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

- Debt instruments designated at FVTPL

  On initial recognition, the Credit Union may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI. For financial assets designated at FVTPL, changes in fair value are recognized in the consolidated statement of income (loss) and comprehensive income (loss). All other financial assets are classified as measured at FVTPL.

- Equity instruments measured at FVTPL

  Equity instruments measured at FVTPL include assets held for trading purposes, assets held as 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. These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

- Equity instruments measured at FVOCI

  On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis. Subsequent to initial recognition, unrealized gains and losses are recorded in OCI, unless the instrument is designated in a fair value hedge relationship, in which case any changes in fair value due to changes in the hedged risk is recognized in profit or loss. Upon derecognition, the unrealized gains and losses accumulated in OCI are released to retained earnings.

- Financial liabilities

  The Credit Union classifies its financial liabilities as measured at amortized cost or at FVTPL.

- Financial liabilities designated at FVTPL

  The Credit Union may, at initial recognition, irrevocably designate a financial liability at FVTPL when one of the following criteria is met:

  - the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise;

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- a group of financial assets and financial liabilities is managed with its performance being evaluated on a fair value basis; or

- the financial liability contains one or more embedded derivatives that significantly modifies the cash flows that would otherwise be required by the contract.

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

- Financial liabilities measured at amortized cost

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

- Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Credit Union changes its business model for managing those financial assets.

- Effective interest method

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

- Derecognition of financial assets

Management has applied judgment in the application of its accounting policy with respect to derecognition of the loans and other assets used in securitization programs. Certain securitized loans are recognized only to the extent of the Credit Union's continuing involvement, based on management's judgment, that substantially all the risks and rewards of ownership have been transferred while control has been retained. In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgment that substantially all the risks and rewards of ownership have been transferred through the

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two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management's judgment that the Credit Union has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union continues to recognize the transferred asset to the extent of the Credit Union's continuing involvement in that asset. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in OCI and accumulated in equity is recognized in net income.

On derecognition of a financial asset other than in its entirety (e.g., when the Credit Union retains an option to repurchase part of a transferred asset or retains a residual interest that neither results in the retention nor transfer of substantially all the risks and rewards of ownership), the Credit Union allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in OCI is recognized in net income.

- Derecognition of financial liabilities

  The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Credit Union has a legally enforceable right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

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iv) Impairment of financial assets

The Credit Union recognizes ECLs on the following financial assets that are not measured at FVTPL:

- commercial loans measured at amortized cost;
- personal loans measured at amortized cost;
- residential mortgages measured at amortized cost; and
- debt instruments measured at amortized cost.

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

- Determining the credit stage

  The impairment model measures ECLs using a three-stage approach based on the extent of credit deterioration since origination: Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial asset, an amount equal to the 12-month ECL is recorded.

  Stage 2 – when a financial asset experiences a significant increase in credit risk subsequent to the origination but is not considered to be in default, an amount equal to the lifetime ECL is recorded.

  Stage 3 – when a financial asset is considered credit-impaired, an amount equal to the lifetime ECL continues to be recorded or the financial asset is written off.

  The interest income is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net of the impairment allowance amount for financial assets in Stage 3.

- Assessment of significant increase in credit risk

  The assessment of a significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The Credit Union's assessment of significant increases in credit risk is performed quarterly based on the following three factors. If any of these factors indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2.

  The Credit Union has established thresholds for significant increases in credit risk based on both a risk rating and change in probability of default relative to initial recognition.

  Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.

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Instruments that are 30 days past due are generally considered to have experienced a significant increase in credit risk, even if other metrics do not indicate that a significant increase in credit risk has occurred.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purposes of this assessment, credit risk is based on an instrument's probability of default, not the losses the Credit Union expects to incur. The assessment is generally performed at the instrument level.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment. The Credit Union considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.

- Measurement of ECLs

The measurement of ECL is based primarily on the product of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

LGD is an estimate of the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

- Expected life

When measuring ECLs, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. For facilities without a maximum contractual period or where the contractual period is not enforced as part of normal credit risk management practices, the expected losses are to be calculated over the period that the entity is expected to be exposed to credit

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risk and that expected losses are not mitigated by credit risk management actions. This period may extend beyond the contractual maturity.

- Definition of default

  The Credit Union considers a financial asset to be in default when:

  - a missed or delayed disbursement of a contractually-obligated interest or principal payment occurs (excluding missed payments restored within a contractually allowed grace period), as defined in credit agreements and indentures;

  - a bankruptcy filing or legal receivership is entered by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments;

  - the borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security (if any is held);

  - the borrower is past due more than 90 days on any credit obligation to the Credit Union; or

  - The Credit Union agrees to a distressed restructuring resulting in a material credit-related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing.

- Incorporation of forward-looking information

  The measurement of ECLs and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information require significant judgment.

- Macroeconomic factors

  In its ECL models, the Credit Union relies on a broad range of forward-looking information as economic inputs, such as GDP growth, unemployment rates, central bank interest rates, and house price indices. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using professional judgment.

- Multiple forward-looking scenarios

  The Credit Union determines ECLs using multiple probability-weighted forward-looking scenarios. The Credit Union considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. The Credit Union prepares the

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scenarios using internal and external models/data, which are then modified by management as necessary to formulate a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves developing two additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

- 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 the 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. For modifications that do not result in derecognition, the Credit Union will recalculate the gross carrying amount of the financial asset and recognize a modification gain or loss in profit or loss.

  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 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. Where modification results in derecognition, the modified financial asset is considered to be a new asset, with the modification date being the date of initial recognition of the modified financial asset.

- Presentation of allowance for ECL

  Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

  - debt instruments measured at amortized cost are presented as a deduction from the gross carrying amount of the instruments; and

  - where a financial instrument includes both a drawn and an undrawn component and the Credit Union cannot identify the ECL on the undrawn component separately from those on the drawn component, the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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- Writeoff

  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 writeoff. 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.

Cash and cash equivalents

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

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

Investments in joint ventures and associate

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. An associate is an entity over which the Credit Union has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies.

Investments in joint ventures and associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Credit Union's share of the net income and equity movements of the joint venture or associate after adjustment to align the accounting policies with those of the Credit Union from the date that significant influence commences until the date that significant influence ceases. When the Credit Union's share of losses exceeds its interest in a joint venture or an associate, the carrying amount of that interest, including any long-term investment, is reduced to $nil and the recognition of future losses is discontinued to the extent that the Credit Union has an obligation or has made payments on behalf of the joint venture or associate.

Loans to members

Loans to members, including personal loans, residential mortgages and commercial loans, are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as amortized cost, which are subsequently measured at amortized cost using the effective interest method.

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Whole loan sales

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

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

Prepaid card program

The Credit Union partnered with various distributers to manage a prepaid card program. The Credit Union acts as an issuer of the prepaid credit cards and the restricted cash and related deposits are held in trust accounts for the distributors and are not included in the consolidated statement of financial position of the Credit Union. Fees paid to the Credit Union monthly are recorded in other operating income when received. Expenses incurred are recorded in the consolidated statement of income (loss) and comprehensive income (loss) in accordance with their nature.

Property and equipment

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

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

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

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

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Depreciation of property and equipment for the current and comparative periods is based on their estimated useful lives using the following annual rates:

Asset	Depreciation method
Buildings	4% declining balance
Computer equipment	20% straight-line
Furniture and equipment	10% straight-line
Land	not depreciated
Leasehold improvements	straight-line over term of lease
Right-of-use assets	straight-line over term of lease

Leases

- The Credit Union as lessor

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

- The Credit Union as lessee

  - Identification of a lease

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

    - the contract involves the use of an identified asset – this may be specified explicitly or implicitly in the contract, and is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not considered as identified;

    - the Credit Union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

    - the Credit Union has the right to direct the use of the asset. The Credit Union has this right when it has the decision-making rights that are most relevant to changing the purpose of the asset use throughout the period of use.

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- Recognition

  In accordance with IFRS 16, Leases, the Credit Union recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

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

- Subsequent measurement

  The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

  The lease liability is measured at amortized cost using the effective interest method. The liability is remeasured if there are changes to the lease rates, or changes to the Credit Union's assessment of whether it will exercise the extension or termination options per the lease contracts.

  After the commencement date, if a lease is remeasured, an adjustment is made to the ROU asset. In case the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining amount is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

  The ROU assets and corresponding lease liabilities are included in property and equipment and other liabilities, respectively, on the Credit Union's consolidated statement of financial position.

- Short-term leases and leases of low-value assets

  The Credit Union has elected not to recognize ROU asset and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets other than goodwill

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

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The cost of such intangible assets includes expenditures directly attributable to the acquisition of the asset and costs required to establish the asset in working condition given its intended use as well as borrowing costs. The cost of self-constructed intangible assets includes the cost of materials and direct labour, any other costs required to establish the asset in working condition given its intended use as well as borrowing costs. The costs that are directly attributable to a project's development phase are recognized as intangible assets, provided they have met the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Credit Union intends to and has sufficient resources to complete the project;
- the Credit Union has the ability to use or sell the intangible asset; and
- the intangible asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalization are expensed as incurred.

Amortization is recognized in the consolidated statement of income (loss) and comprehensive income (loss) and is computed on a straight-line basis using the estimated useful lives indicated below:

Asset	Useful life
Computer software	5 years
Core deposits	10 years
Customer relationships	10 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are initially recorded at cost. Subsequent to initial recognition, indefinite life intangible assets are reported using the cost method and assessed for impairment with any impairment loss recorded in comprehensive income.

The Continental currency exchange brand has an indefinite useful life as long as CCE expects to operate under the brand into the future. In such case, it is carried at cost less accumulated impairment losses. The PACE brand has not been capitalized as an intangible asset.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an

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individual asset, the Credit Union estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or assets within a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or assets within a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

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

Goodwill

Goodwill represents the excess purchase price paid over the net fair value of the identifiable assets and liabilities acquired through a business combination. Goodwill is carried at its initial cost less accumulated impairment losses.

Goodwill is allocated to the CGU that is expected to benefit from the business combination. A CGU is the smallest identifiable group of assets that generate cashflows independently from other groups of assets. The Credit Union's wholly owned subsidiary is considered to be the CGU for non-financial assets related to that business.

Goodwill is assessed for impairment at least annually and when a significant event indicates that the carrying amount may be impaired. The recoverable amount of the CGU is the higher of its VIU or its estimated fair value less cost of disposal. Key assumptions used in the estimation of the recoverable amount include: (i) discount rates and (ii) growth rates used to extrapolate cash flow projections. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both internal and external sources. Given that key assumptions are based on estimates, uncertainty exists with respect to the recoverable amount valuation. Details of the goodwill impairment analysis are included under note 13.

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Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in net income.

Property acquired by foreclosure and held for resale

Properties acquired by foreclosure and held for resale represent assets that have been repossessed on delinquent member residential mortgages and are recorded at the lower of their prior carrying value and fair value less costs to sell. Such investments are intended to be sold as soon as practicable.

Deposits from members

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

Employee benefits

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

Provisions and contingent liabilities

- Provisions

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

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

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

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- Contingent liabilities acquired in a business combination

  Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with International Accounting Standard (IAS) 37, Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognized less cumulative amortization recognized.

Membership shares

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

Type of shares	Classification
Membership shares	Equity
Class A profit shares	Liability
Class B investment shares	Liability

Membership shares, Class A profit shares and Class B investment shares are classified as a liability, equity or compound instrument based on their terms and conditions in accordance with IAS 32, Financial Instrument Presentation, and International Financial Reporting Interpretations Committee (IFRIC) 2, Members' Shares in Co-operative Entities and Similar Instruments (IFRIC 2). Shares are classified as a liability if they are redeemable at the option of the member, either on demand or upon withdrawal from membership. These shares qualify as capital for regulatory purposes.

If the shares are classified as equity, they are recorded at cost. If the shares are classified as a liability, they are initially measured at fair value and subsequently recorded at amortized cost using the effective interest method.

Payments of dividends on shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the Board of Directors.

Revenue recognition

Interest income is accrued on a time basis, by reference to the amortized cost and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition (see effective interest method under note 3(ii).

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

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

(in thousands of Canadian dollars unless otherwise stated)

Government grants

Assistance by government in the form of transfers of resources to the Credit Union in return for past or future compliance with certain conditions relating to the operating activities of the Credit Union are accounted for as government grants.

Government grants will be recognized by the Credit Union if there is reasonable assurance that:

i) the Credit Union has complied or will comply with the conditions attaching to them; and

ii) the government grants will be received.

Government grants will be recognized in the consolidated statement of income (loss) and comprehensive income (loss) on a systematic basis over the periods in which the Credit Union recognizes as expenses the related costs for which the grants are intended to compensate and are presented separately in the consolidated statement of income (loss) and comprehensive income (loss) as other income.

Income taxes

Income tax comprises current tax and deferred tax and is recognized in the Credit Union's consolidated statement of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

- Current tax

  Current tax is based on taxable income in the period. Taxable income may differ from income as reported in the consolidated statement of income (loss) and comprehensive income (loss) because of the items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Credit Union's current income tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the fiscal year.

- Deferred tax

  Deferred tax is recognized on temporary differences between the carrying values of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences.

  Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

(in thousands of Canadian dollars unless otherwise stated)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the fiscal year. The measurement of the deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Credit Union expects, at the end of the fiscal year, to recover or settle the carrying value of its assets and liabilities.

Future accounting policy changes

At the date of authorization of these financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the International Accounting Standards Board. None of these standards or amendments to existing standards have been adopted early by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's financial statements.

4 Change in accounting policy in accordance with IAS 8

Changes during the year relate to a change in classification of Class A profit shares and Class B investment shares from equity to liability for the Credit Union. While these shares have redeemable features, there was no mechanism for approving the redemption in the past, which was a redemption requirement, hence the classification of these shares as equity. With redemptions approved by the prior Board earlier in the year, PACE has adopted IFRIC 2 in accordance with the Credit Union's accounting policy for membership shares in note 3. As such, the classification of the shares was changed from equity to liabilities.

5 Cash and cash equivalents

The following table provides information on the cash and cash equivalents held by the Credit Union and its subsidiaries as at December 31.

	2020 $	2019 $
Cash on hand	10,252	5,254
Cash held with Central 1	33,595	33,732
Cash held with other chartered banks	3,154	2,355
	47,001	41,341

The average yield on the above accounts as at December 31, 2020 is 0.20% (2019 – 1.72%).

(in thousands of Canadian dollars unless otherwise stated)

The Credit Union has available lines of credit with Central 1 in the amounts of $7,500 CAD and $250 USD (2019 – $7,500 CAD and $250 USD), and a demand loan with Central 1 in the amount of $38,700 CAD (2019 – $40,000 CAD), to cover shortfalls in cash resources. These lines of credit and demand loan were unutilized as at December 31, 2020 and 2019.

The Credit Union has a letter of credit with Central 1 in the amount of $1,300, of which $91 is unutilized as at December 31, 2020 (2019 – $2,000, $772 unutilized).

These lines of credit, demand loan and letter of credit are secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union.

6 Investments

The following table provides information on the investments held by the Credit Union and its subsidiaries as at December 31.

	2020 $	2019 $
Debt securities		
Central 1 – liquidity reserve deposits	69,270	67,521
Term deposits	260,435	138,714
Other loans	3,707	15,991
Marketable debt securities	-	38,640
	333,412	260,866
Accrued interest on deposits and loans	2,054	1,274
	335,466	262,140
Equity instruments		
Central 1 – Class A shares	387	413
Central 1 – Class E shares	2,112	2,112
Central 1 – Class F shares	3,290	3,483
Other shares	7,534	6,014
	13,323	12,022
Total investments	348,789	274,162

Central 1 – liquidity reserve deposit

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

(in thousands of Canadian dollars unless otherwise stated)

On January 1, 2021, the Credit Union's liquidity reserve deposits were transferred into a bankruptcy-remote and creditor-proof pool of high-quality liquid assets, in accordance with the segregated portfolio model. The initial investment in such portfolio was $69,593 on January 4, 2021 and will be measured at FVOCI.

Central 1 – share investment

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

In addition to the above, Central 1 Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Class A and F shares are carried at fair value, which is considered to be equivalent to par value or redemption value. These shares are rebalanced at least annually. Class F shares were redeemed for cash at their par value on January 1, 2021.

Class E shares are carried at fair value with no annual rebalancing and their redemption value is not equal to par value.

Central 1 – other transactions

Fees are paid to Central 1 for banking services, educational training and consulting. The total fees paid to Central 1 for the year ended December 31, 2020 amounted to $305 (2019 – $377).

7 Investment in joint ventures

Details of the Credit Union's investment in joint ventures as at December 31 are as follows:

Name of joint venture	Principal activity	Ownership % 2020	Ownership % 2019
Geranium Homes (Ballantrae)	Homes development	30	30
Geranium Homes (Ninth Line)	Homes development	30	30
Aurora Highland Gate	Homes development	30	30
Bloomington Woods	Homes development	30	30
Claremont	Homes development	30	30
Geranium Homes (Scugog)	Homes development	30	30

(in thousands of Canadian dollars unless otherwise stated)

Summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the Credit Union, for the fiscal year ended December 31, in respect of the Credit Union's investment in joint ventures, is set out below.

						2020
	Ballantrae $	**Ninth Line** $	**Aurora Highland Gate** $	**Bloomington Woods** $	**Claremont** $	**Scugog** $
Total assets	83	455	10,337	567	3012	2,710
Total liabilities	57	76	-	454	54	5
Net assets	26	379	10,337	113	2,958	2,705
Total revenue	1	-	-	100	-	-
Total net income for the year	1	7	-	100	-	-

						2019
	Ballantrae $	**Ninth Line** $	**Aurora Highland Gate** $	**Bloomington Woods** $	**Claremont** $	**Scugog** $
Total assets	157	1,808	10,275	980	2,570	3,874
Total liabilities	72	207	-	922	83	4
Net assets	85	1,601	10,275	58	2,487	3,870
Total revenue	-	-	1,125	-	-	-
Total net income (loss) for the year	97	(413)	1,125	(67)	-	-

(in thousands of Canadian dollars unless otherwise stated)

The Credit Union's carrying value of the investment in the joint ventures for the fiscal year ended December 31 is as follows.

							2020
	Ballantrae $	**Ninth Line $**	**Aurora Highland Gate $**	**Bloomington Woods $**	**Claremont $**	**Scugog $**	**Total $**
Opening investment	106	1,183	11,985	252	2,515	4,518	20,559
Adjustment to opening accrued profit and interest	-	(7)	-	(69)	(97)	(47)	(220)
Capital contribution	-	-	1,840	-	390	-	2,230
Withdrawals during the year	(13)	(965)	(2,904)	-	-	(1,124)	(5,006)
Accrued interest – net of interest payments received	(83)	(30)	614	-	113	193	807
Net income during the year	-	4	-	50	-	-	54
Closing balance	10	185	11,535	233	2,921	3,540	18,424

(in thousands of Canadian dollars unless otherwise stated)

							2019
	Ballantrae $	Ninth Line $	Aurora Highland Gate $	Bloomington Woods $	Claremont $	Scugog $	Total $
Opening investment	224	2,160	10,612	146	2,431	4,424	19,997
Adjustment to opening accrued profit and interest	(170)	(102)	261	245	(383)	(117)	(266)
Capital contribution	-	-	-	-	340	-	340
Withdrawals during the year	-	(700)	-	-	-	(46)	(746)
Accrued interest	84	(72)	550	14	127	257	960
Net income (loss) during the year	(32)	(103)	562	(153)	-	-	274
Closing balance	106	1,183	11,985	252	2,515	4,518	20,559

As at December 31, 2020, the Credit Union had limited guarantees outstanding of $13,000 (2019 – $15,500) in favour of Aurora Highland Gate.

8 Investment in associate

CCE is engaged in the foreign currency exchange and money transfer business in southern Ontario, Canada. Through a step acquisition completed on April 13, 2020, CCE became a wholly owned subsidiary of the Credit Union. Please refer to note 9 for details. Prior to the acquisition, the Credit Union held a 30% equity interest in CCE, which was recorded as an investment in associate.

In accordance with the Credit Union's accounting policies for business combinations, goodwill and consolidation in note 3, the assets, liabilities and the results of operation since the date of acquired control of CCE have been consolidated in these consolidated financial statements.

(in thousands of Canadian dollars unless otherwise stated)

Summarized financial information for CCE, not adjusted for the percentage ownership held by the Credit Union, for the fiscal year ended December 31, is set out below:

	2020 $	2019 $
Total assets	38,224	42,861
Total liabilities	10,184	12,156
Net assets	28,040	30,705
Total revenue	7,002	17,855
Net income (loss) for the year	(2,665)	2,141

The Credit Union's carrying value of the investment in CCE for the stub period ended April 13, 2020 and fiscal year ended December 31, 2019 are as follows:

	January 1 to April 13, 2020 $	January 1 to December 31, 2019 $
Opening investment	9,716	9,074
Net income (loss) for the period	(163)	642
Fair value adjustment on change of control	(523)	-
Derecognition for consolidation	(9,030)	-
	-	9,716

9 Step acquisition from associate to subsidiary

During year, the Credit Union acquired the remaining 70% equity interest in CCE. The step acquisition was made to gain full ownership of CCE.

The purchase price of the additional shares was $22,518. They were acquired through a combination of cash and debt consideration.

Acquisition-related costs of $92 were excluded from the consideration transferred and have been expensed in the consolidated statement of income (loss) and comprehensive income (loss).

The step acquisition was completed on April 13, 2020. The Credit Union remeasured the fair value of its previously held 30% equity interest in CCE at the completion date and recognized a loss of $523 on the remeasurement. The loss has been recognized in income on investment in joint ventures and associate on the consolidated statement of income (loss) and comprehensive income (loss).

(in thousands of Canadian dollars unless otherwise stated)

Details of the carrying value and fair value of the Credit Union's previously held equity interest in CCE at the completion date are summarized as follows:

	$
Fair value of previously held equity interest in CCE	9,030
Carrying value of previously held equity interest in CCE	9,553
Loss on step acquisition	523

The fair value of identifiable assets and liabilities of CCE and the determination of goodwill as at the date of acquisition are as follows:

	$
Cash and cash equivalents	7,754
Other assets	506
Property and equipment (including ROU assets)	7,366
Intangible assets (excluding goodwill)	2,669
Total assets	18,295
Liabilities	11,481
Net identifiable assets	6,814
Total purchase consideration (70% equity interest)	22,518
Fair value of pre-existing equity interest (30% equity interest)	9,030
Goodwill	24,734

The goodwill of $24,734 mainly represents the control premium paid, skills of the workforce and the strategic value of CCE's branch locations. These benefits could not be separately recognized from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The gross amount and fair value of the receivables is $506. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Included in other operating income and net income (loss) and comprehensive income (loss) for the year are $3,441 and $2,100, respectively, attributable to the consolidated results of CCE since the date of the acquisition, excluding acquisition-related costs. Had this business combination been effected at January 1, 2020, the other operating income of the Credit Union would have been $10,491, and the net loss and comprehensive loss for the year, excluding acquisition-related costs, would have been $23,174. This pro forma information is for illustrative purposes only and is not necessarily an indication of the other operating income and net loss and comprehensive loss of the Credit Union that would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future performance.

(in thousands of Canadian dollars unless otherwise stated)

10 Loans to members

The following tables provide information on the loans to members as at December 31.

	2020 $	2019 $
Residential mortgages	423,326	395,356
Personal	30,964	42,838
Commercial	219,219	320,671
	673,509	758,865
Add: Accrued interest on loans	940	1,456
Less: Allowance for credit losses (note 11)	(24,775)	(16,559)
Net loans to members	649,674	743,762

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

Residential mortgages are repayable in weekly, bi-weekly and monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of 30 years. Residential mortgages are secured by residential properties.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in weekly, bi-weekly and monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

The Credit Union participated in the CEBA program to offer government-funded interest-free loans to small business and not-for-profit members. As the Credit Union is not the lender, these loan balances have not been included in the consolidated statement of financial position.

(in thousands of Canadian dollars unless otherwise stated)

Concentration of risk and credit quality of loans

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

	2020 $	2019 $
Loans secured by cash	2,050	1,882
Loans secured by real estate property	601,592	424,215
Loans guaranteed by CMHC	19,049	15,060
Residential mortgages insured by Genworth	1,173	493
Residential mortgages insured by AIG	104	156
Loan secured by other assets	36,969	304,424
Unsecured loans	12,572	12,635
	673,509	758,865

Credit quality of loan portfolio

Summary of the aging of member loans at December 31:

				2020	2019
	Personal $	Residential mortgages $	Commercial $	Total $	Total $
Neither past due nor impaired*	29,189	409,682	154,834	593,705	693,105
Past due but not impaired	723	12,028	34,799	47,550	40,013
Impaired	1,052	1,616	29,586	32,254	25,747
	30,964	423,326	219,219	673,509	758,865

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

(in thousands of Canadian dollars unless otherwise stated)

Member loans past due but not impaired at December 31:

	2020				2019
	Personal $	Residential mortgages $	Commercial $	Total $	Total $
Past due but not impaired					
Under 30 days	319	8,823	22,344	31,486	21,068
30 to 89 days	404	3,206	12,455	16,065	18,945
	723	12,029	34,799	47,551	40,013

Loan commitments

As at December 31, the Credit Union had unutilized additional credit loans of $121,445 (2019 – $131,099).

As at December 31, 2020, the Credit Union has committed to the issuance of $10,000 in new commercial loans to members (2019 – $7,407).

See note 29 for additional disclosures related to management's policies and procedures to manage its credit and liquidity risks.

Letters of credit

The Credit Union has issued letters of credit in the amount of $2,077 as at December 31, 2020 (2019 – $2,274).

Whole loan sales

As at December 31, 2020, the Credit Union was administering, for a fee, on behalf of Concentra Financial (Concentra), members' mortgage loans aggregating $9,985 (2019 – $24,695). In the current year, no mortgage loans (2019 – $nil) were transferred to/from Concentra. As the Credit Union does not have the rights and benefits of ownership to these mortgage loans, they are not included in these consolidated financial statements.

(in thousands of Canadian dollars unless otherwise stated)

11 Allowance for credit losses

The following allowance for credit losses or ECLs are determined in accordance with the accounting policy in note 3(iv).

The Credit Union's allowance for credit losses and their changes for the fiscal year ended December 31 are as follows:

	Personal $	Residential mortgages $	Commercial $	Total $
Balance as at January 1, 2020	2,717	559	13,283	16,559
Writeoffs	(1,208)	-	(3,455)	(4,663)
Recoveries	175	-	-	175
Provision for credit losses	(724)	29	13,399	12,704
Balance as at December 31, 2020	960	588	23,227	24,775
Balance as at January 1, 2019	1,490	623	12,276	14,389
Writeoffs	(61)	(188)	(803)	(1,052)
Recoveries	67	1	-	68
Provision for credit losses	1,221	123	1,810	3,154
Balance as at December 31, 2019	2,717	559	13,283	16,559

The Credit Union's ECL movement among the stages and their ending balances for the fiscal year ended December 31 are as follows:

Personal loans	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance as at January 1, 2020	1,004	66	1,647	2,717
Transfer in (out) Stage 1	(47)	38	9	-
Transfer in (out) Stage 2	47	(51)	4	-
Transfer in (out) Stage 3	184	1	(185)	-
New originations	48	7	-	55
Derecognition and maturities	(100)	-	(192)	(292)
Remeasurement due to/on transfers	(230)	40	311	121
Remeasurement due to changes in risk, parameters and models	(576)	(7)	(1,058)	(1,641)
Balance as at December 31, 2020	330	94	536	960

(in thousands of Canadian dollars unless otherwise stated)

Personal loans	**Stage 1** **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance as at January 1, 2019	493	213	784	1,490
Transfer in (out) Stage 1	(30)	5	25	-
Transfer in (out) Stage 2	146	(157)	11	-
Transfer in (out) Stage 3	42	2	(44)	-
New originations	98	-	6	104
Derecognition and maturities	(61)	(31)	(157)	(249)
Remeasurement due to/on transfers	(135)	4	477	346
Remeasurement due to changes in risk, parameters and models	451	30	545	1,026
Balance as at December 31, 2019	1,004	66	1,647	2,717

Residential mortgages	**Stage 1** **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance as at January 1, 2020	366	79	114	559
Transfer in (out) Stage 1	(4)	2	2	-
Transfer in (out) Stage 2	38	(38)	-	-
Transfer in (out) Stage 3	15	-	(15)	-
New originations	123	-	-	123
Derecognition and maturities	-	-	-	-
Remeasurement due to/on transfers	(29)	3	56	30
Remeasurement due to changes in risk, parameters and models	(67)	(10)	(47)	(124)
Balance as at December 31, 2020	442	36	110	588

(in thousands of Canadian dollars unless otherwise stated)

Residential mortgages	**Stage 1** **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance as at January 1, 2019	464	11	148	623
Transfer in (out) Stage 1	(46)	45	1	-
Transfer in (out) Stage 2	9	(9)	-	-
Transfer in (out) Stage 3	-	-	-	-
New originations	67	-	-	67
Derecognition and maturities	(43)	-	(5)	(48)
Remeasurement due to/on transfers	(1)	32	14	45
Remeasurement due to changes in risk, parameters and models	(84)	-	(44)	(128)
Balance as at December 31, 2019	366	79	114	559

Commercial loans	**Stage 1** **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance as at January 1, 2020	1,576	409	11,298	13,283
Transfer in (out) Stage 1	(1)	-	1	-
Transfer in (out) Stage 2	85	(248)	163	-
Transfer in (out) Stage 3	1,125	-	(1,125)	-
New originations	93	-	3	96
Derecognition and maturities	-	-	-	-
Remeasurement due to/on transfers	(951)	-	1,000	49
Remeasurement due to changes in risk, parameters and models	574	49	9,176	9,799
Balance as at December 31, 2020	2,501	210	20,516	23,227

(in thousands of Canadian dollars unless otherwise stated)

Commercial loans	**Stage 1 $**	**Stage 2 $**	**Stage 3 $**	**Total $**
Balance as at January 1, 2019	4,507	1,442	6,327	12,276
Transfer in (out) Stage 1	(1,101)	1,089	12	-
Transfer in (out) Stage 2	-	(517)	517	-
Transfer in (out) Stage 3	-	(811)	811	-
New originations	6	-	-	6
Derecognition and maturities	(33)	(19)	(6)	(58)
Remeasurement due to/on transfers	-	(1,052)	4,490	3,438
Remeasurement due to changes in risk, parameters and models	(1,803)	277	(853)	(2,379)
Balance as at December 31, 2019	1,576	409	11,298	13,283

	Stage 1 $	**Stage 2 $**	**Stage 3 $**	**Total $**
Personal loans	330	94	536	960
Residential mortgages	442	36	110	588
Commercial loans	2,501	210	20,516	23,227
Total balance as at December 31, 2020	3,274	339	21,162	24,775

	Stage 1 $	**Stage 2 $**	**Stage 3 $**	**Total $**
Personal loans	1,004	66	1,647	2,717
Residential mortgages	366	79	114	559
Commercial loans	1,576	409	11,298	13,283
Total balance as at December 31, 2019	2,946	554	13,059	16,559

Forward-looking macroeconomic variables

The PD, LGD, and EAD inputs used to estimate Stage 1, 2 and 3 credit loss allowances are modelled based on macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in ECL calculation includes a projection of all relevant macroeconomic variables used in the models for the forecast period. Depending on their usage in the models, macroeconomic variables are projected at a country, province or more granular level.

(in thousands of Canadian dollars unless otherwise stated)

The ECL allowances are calculated through three probability-weighted forward-looking macroeconomic scenarios: base case, best case and worst case. Management reviews the weighting of the three scenarios periodically and they are updated as necessary.

The following table provides the key forward-looking macroeconomic inputs used in each of the scenarios over the next 12 months.

	2020			2019		
	Base case %	Best case %	Worst case %	Base case %	Best case %	Worst case %
Three-month Government of Canada bond rate	0.20	0.75	0.13	1.70	2.14	0.58
Ontario unemployment rate	7.25	6.39	8.24	5.55	5.05	6.56
National house price index growth rate	2.48	5.02	(0.17)	1.47	3.50	(7.33)
Real GDP growth rate	5.46	6.85	4.09	1.80	2.60	(2.60)

The allowance for credit losses is sensitive to the inputs used in the model, including macroeconomic variables in the forward-looking scenarios and their respective probability weightings, among other factors. Changes in any of these variables could have a material impact on the assessment of significant increase in credit risk and the measurement of allowance for ECL.

The following compares the probability weighted ECL (used as the reported allowance for credit losses) against the base case ECL to illustrate the impact of applying probability weights to each of the scenarios in the determination of allowance for credit losses. The difference is isolated to the measurement of ECL without considering the impact of transfer among stages.

	2020 $	2019 $
Probability-weighted ECL (reported allowance for credit losses)	24,775	16,559
Base case ECL	24,756	16,552

The following presents the allowance for credit losses as at December 31 for all performing loans (total of Stage 1 and Stage 2 allowance for credit losses) compared to the allowance for credit losses that would result if all performing loans were measured as Stage 1 loans using a 12-month ECL. The difference reflects the estimated impact of Stage 2 loans being measured using a lifetime ECL instead of a 12-month ECL, holding all risk profiles constant.

(in thousands of Canadian dollars unless otherwise stated)

	2020 $	2019 $
Allowance for credit losses for performing loans (reported Stage 1 and Stage 2 ECL)	3,612	3,500
Allowance for credit losses for performing loans if all measured as 12-month ECL	3,578	3,432

12 Property and equipment

The Credit Union's carrying value of the property and equipment for the fiscal year ended December 31 is as follows:

	Land $	Buildings $	Computer equipment $	Furniture and equipment $	Leasehold improvements $	Right-of-use assets $	Total $
Cost							
Balance – Beginning of year	1,874	18,007	3,250	2,212	1,072	2,658	29,073
Adjustments – acquisition	-	-	1,820	599	5,603	6,659	14,681
Additions	-	390	1,071	27	148	1,530	3,166
Assets – discontinued operations	-	-	(75)	(126)	(219)	(439)	(859)
Disposals	-	-	-	(77)	-	(1,995)	(2,072)
Balance – End of year	1,874	18,397	6,066	2,635	6,604	8,413	43,989
Accumulated depreciation							
Balance – Beginning of year	-	3,283	1,843	1,492	824	161	7,603
Adjustments – acquisition	-	-	1,777	442	3,590	1,510	7,319
Depreciation	-	607	605	154	469	1,221	3,056
Assets – discontinued operations	-	-	(60)	(76)	(47)	(117)	(300)
Disposals	-	-	-	(51)	-	(349)	(400)
Balance – End of year	-	3,890	4,165	1,961	4,836	2,426	17,278
Net book value – 2020	1,874	14,507	1,901	674	1,768	5,987	26,711
Net book value – 2019	1,874	14,724	1,407	720	248	2,497	21,470

(in thousands of Canadian dollars unless otherwise stated)

13 Goodwill and other intangible assets

The Credit Union's carrying value of intangible assets for the fiscal year ended December 31 is as follows:

	Computer software $	Core deposits $	Customer relationships $	Trademarks and other* $	Goodwill $	Total $
Cost						
Balance – Beginning of year	3,519	4,358	873	585	-	9,335
Adjustments – acquisition	1,705	-	-	2,142	-	3,847
Additions	136	-	-	-	24,734	24,870
Assets – discontinued operations	-	-	-	(585)	-	(585)
Disposals	-	-	-	(58)	-	(58)
Balance – End of year	5,360	4,358	873	2,084	24,734	37,409
Accumulated depreciation						
Balance – Beginning of year	2,540	3,947	475	585	-	7,547
Adjustments – acquisition	939	-	-	231	-	1,170
Assets – discontinued operations	-	-	-	(585)	-	(585)
Amortization expense	361	200	21	115	-	697
Balance – End of year	3,840	4,147	496	346	-	8,829
Net book value – 2020	1,520	211	377	1,738	24,734	28,580
Net book value – 2019	979	411	398	585	-	2,373

* includes intangible assets with indefinite life carried at cost less accumulated impairment losses.

Goodwill and other indefinite life intangible assets were tested for impairment at December 31, 2020. It was determined that no impairment existed. For more details on goodwill, refer to note 9.

The impacts of COVID-19 have resulted in a higher level of uncertainty in forecasting future cash flows for the impairment assessment. Further details are described in note 2 under impact of COVID-19.

14 Investment properties

The Credit Union's carrying value of the investment properties for the fiscal year ended December 31 is as follows:

	2020 $	2019 $
Cost		
Balance – Beginning of year	4,338	4,164
Disposals and adjustments	(96)	174
Balance – End of year	4,242	4,338
Rental income from investment properties	168	168

(in thousands of Canadian dollars unless otherwise stated)

Rental income is collected on a monthly basis for any properties leased.

Subsequent to the year-end, the Credit Union sold an investment property for $3,038. The carrying value of this property at December 31, 2020 was equal to the net proceeds of the sale.

15 Other assets

The following table provides information on the other assets held by the Credit Union and its subsidiaries as at December 31.

	2020 $	2019 $
Accounts receivable	4,495	22,162
Prepaid expenses	2,278	3,126
Funds held in trust	4,824	7,727
Property acquired by foreclosure and held for resale	832	7,821
	12,429	40,836

Funds held in trust

Funds held in trust are cash and marketable securities managed at a chartered bank, overseen by a court-appointed trustee, for the purpose of funding contractual termination compensation for prior executives.

Property acquired by foreclosure and held for resale

As at December 31, 2020, the Credit Union was in possession of one commercial property with a carrying value of $832 (2019 – two commercial properties with a carrying value of $7,821).

16 Deposits from members

The following table provides information on the deposits from members held by the Credit Union and its subsidiaries as at December 31.

	2020 $	2019 $
Chequing accounts	209,964	193,212
Savings accounts	230,906	197,671
Term deposits	430,666	432,318
Registered retirement savings accounts	133,793	140,068
Tax-free savings accounts	80,062	74,380
	1,085,391	1,037,649
Add: Accrued interest on deposits from members	12,506	15,127
	1,097,897	1,052,776

(in thousands of Canadian dollars unless otherwise stated)

Term deposits

Term deposits for periods of one to five years generally may not be withdrawn prior to maturity. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

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

Registered retirement plans

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

17 Other liabilities

The following table provides information on the other liabilities held by the Credit Union and its subsidiaries as at December 31.

	2020 $	2019 $
Accounts payable and accrued liabilities	5,255	11,391
Employment benefits	1,255	2,092
Preference shares	-	15,153
Margin accounts for investment purposes	-	18,492
Lease liabilities	6,212	4,149
Due to investment carrying broker	-	3,043
	12,722	54,320

Preference shares

On May 14, 2020, the Credit Union disposed of these liabilities which pertain to discontinued operations. For details, please refer to note 30. As at December 31 ,2019, 3,271,036 redeemable cumulative preference shares with gross proceeds of $16,355 and a coupon rate of 5% per annum were outstanding. The shares were unsecured borrowings of PACE Financial Limited and did not contain any equity component.

(in thousands of Canadian dollars unless otherwise stated)

Margin accounts for investment purposes

On May 14, 2020, the Credit Union disposed of these liabilities which pertain to discontinued operations. For details, please refer to note 30. Prior to their disposal, PACE Financial Limited utilized these credit facilities when it transacted security trading through its carrying broker.

Lease liabilities

Credit Union has lease liabilities for the branches with maturities to April 30, 2030. The following table summarizes the contractual maturities of lease liabilities as at December 31, 2020.

	Within 1 year $	1 to 3 years $	3 to 5 years $	Over 5 years $	Lease liabilities $
Lease liabilities	1,291	1,995	1,409	1,517	6,212

For the year ended December 31, 2020, a $38 (2019 – $40) lease expense on applied exempt short-term and low-value leases and $356 (2019 – $593) on variable lease components not included in lease liabilities are included under non-interest expenses in the consolidated statement of income (loss) and comprehensive income (loss). Cash payments of $104 (2019 – $536) on the principal portion of the lease liability and $75 (2019 – $199) on the interest portion of the lease liability are included in financing activities and interest paid under operating activities, respectively, on the consolidated statement of cash flows.

18 Income taxes

The following are major components of the income tax expense (recovery):

	2020 $	2019 $
Current income taxes	(1,080)	1
Deferred income taxes	(3,869)	128
	(4,949)	129

(in thousands of Canadian dollars unless otherwise stated)

The provision for income taxes reported for the fiscal year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2020 $	2019 $
Income (loss) before taxes	(26,076)	715
Income tax expense (recovery) based on statutory rate of 23.7% (2019 – 19.5%)	(6,180)	139
Effect of non-deductible expenses and capital losses	803	7
Change in unrecorded tax benefit of losses and temporary differences	785	21
Effect of permanent differences	(155)	206
Income tax rate changes in deferred taxes, return to provision and other	(202)	(244)
	(4,949)	129

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

	2020 $	2019 $
Deferred income tax asset (liability)		
Loans to members	-	39
Investments	(605)	-
Investment in associate	261	-
Allowance for impaired loans	1,147	1,208
Property and equipment	(1,445)	(389)
Intangibles	(555)	(463)
Members deposits	70	90
Employment benefit and other liabilities	838	258
Lease assets	-	(424)
Lease liabilities	407	427
Investment properties	71	71
Unused tax losses	3,925	70
Net deferred income tax assets	4,114	887
Reflected on the consolidated statement of financial position as follows:		
Deferred tax assets	4,985	887
Deferred tax liabilities	(871)	-
Net deferred income tax assets	4,114	887

(in thousands of Canadian dollars unless otherwise stated)

19 Members' shares

Members' shares as at December 31 are as follows:

($ thousands)	Authorized amount	2020 Liability $	2020 Equity $	2019 Liability $	2019 Equity $
Membership shares	unlimited	-	7,907	-	7,916
Class A profit shares	unlimited	5,635	-	5,262	-
Class B investment shares, Series 1	unlimited	1,245	-	1,299	-
Class B investment shares, Series 2	unlimited	652	-	634	-
Class B investment shares, Series 3	unlimited	7,136	-	7,143	-
Class B investment shares, Series 4	unlimited	2,660	-	2,556	-
Class B investment shares, Series 5	unlimited	678	-	664	-
		18,006	7,907	17,558	7,916

Membership, Class A profit shares and Class B investment shares are recognized as a liability, equity or compound instrument based on their terms and conditions in accordance with IAS 32 and IFRIC 2. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of Credit Union's oversight governance (previously the Board of Directors), the shares are classified as equity. If the shares are classified as equity, they are recorded at cost. If the shares are recognized as a liability, they are measured at fair value.

In calculating regulatory capital, all classes of shares are classified as equity and recorded at cost.

Authorized share capital and classification

Membership shares rank junior to Class A profit shares and to Class B investment shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class A profit shares rank junior to the Class B investment shares. All classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions that are set out in governing legislation.

(in thousands of Canadian dollars unless otherwise stated)

- Membership shares

  The Credit Union is authorized to issue an unlimited number of membership shares, with an issuance price of $5 each. As a condition of membership, each member under 18 years of age must hold at least two shares, while all other members must hold 35 shares.

  As at December 31, 2020, there were 39,663 members (2019 – 39,226 members) and 1,581,331 (2019 – 1,583,257) membership shares outstanding. Shares may be withdrawn subject to the Credit Union meeting capital adequacy requirements and the discretion of the Credit Union's oversight governance (previously the Board).

- Class A profit shares

  The Credit Union is authorized to issue an unlimited number of Class A non-cumulative, non-voting, non-participating special shares (Class A profit shares) with an issue price of $1 each. The Class A profit shares are redeemable at the issuance price at any time on or after the date on which the shareholder reaches the age of 65 years, or upon termination of membership, or after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Class A profit shares outstanding at the beginning of that fiscal year. As at December 31, 2020, the number of outstanding shares is 5,634,853 (2019 – 5,262,135)

- Class B investment shares, Series 03, Series 04 and Series 05

  The Credit Union is authorized to issue an unlimited number of Class B, Series 03, Series 04 and Series 05 non-cumulative, non-voting, non-participating special shares (Class B investment shares), issuable in series, with an issuance price of $1 each. Class B investment shares, Series 03, Series 04 and Series 05 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B investment shares, Series 03, Series 04 or Series 05 outstanding at the end of the previous fiscal year, or after the death of the shareholder, or if expelled from membership. As at December 31, 2020, the number of outstanding shares is 12,381,800 (2019 – 12,296,389).

- Class B investment shares, Series 01

  The Credit Union is authorized to issue an unlimited number of Class B, Series 95 non-cumulative, non-voting, non-participating special shares (Class B investment shares, Series 95), issuable in series, with an issuance price of $1 each. Class B investment shares, Series 95 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B investment shares, Series 95 outstanding at the end of the previous fiscal year, or after the death of the shareholder.

(in thousands of Canadian dollars unless otherwise stated)

- Class B investment shares, Series 02

  The Credit Union is authorized to issue an unlimited number of Class B, Series 97 non-cumulative, non-voting, non-participating special shares (Class B investment shares, Series 97), issuable in series, with an issuance price of $1 each. Class B investment shares, Series 97 may be redeemed in any fiscal year, to the extent of 10% of the total Class B investment shares, Series 97 outstanding at the end of the previous fiscal year.

Dividends

The holders of Class A profit shares and Class B investment shares are entitled to receive dividends when declared by the Credit Union's oversight governance (previously the Board), subject to the availability of sufficient earnings to meet regulatory requirements of the Act.

20 Interest income

The following table provides information on the interest income for the fiscal year ended December 31.

	2020 $	2019 $
Residential mortgages	14,071	15,225
Personal	2,447	3,119
Commercial	15,136	23,178
Investments	4,870	4,013
	36,524	45,535

All interest income reported above is calculated using the effective interest method, and relates to financial assets carried at amortized cost.

21 Interest expense

The following table provides information on the interest expense for the fiscal year ended December 31.

	2020 $	2019 $
Chequing accounts	16	15
Savings accounts	1,806	2,409
Term deposits	12,195	13,175
Registered retirement savings accounts	3,150	3,179
Tax-free savings accounts	1,570	1,564
	18,737	20,342

(in thousands of Canadian dollars unless otherwise stated)

Total interest expense reported above is calculated using the effective interest method, and relates to financial liabilities not carried at FVTPL.

22 Other operating income

The following table provides information on the other operating income for the year ended December 31.

	2020 $	2019 $
Commissions and fees	937	1,207
Service charges	317	602
Rental income	283	463
Administration charges	537	442
Foreign exchange gains	21	309
Prepaid card program	990	870
Currency conversion services	957	-
Government subsidies	2,482	-
Other income	407	715
	6,931	4,608

Rental income includes $40 for variable lease receipts that do not depend on an index or rate.

Except for rental income, administration charges and government subsidies, all other operating income items detailed above relate to financial assets and liabilities that are not at FVTPL and do not include any amounts used in determining the effective interest rate.

During the year, CCE applied for the Canada Emergency Commercial Rent Assistance, the Canada Emergency Rent Subsidy, and the Canada Emergency Wage Subsidy. These are government financial support programs for small businesses that have encountered revenue declines due to the COVID-19 pandemic. As at December 31, 2020, $273 (2019 – $nil) of this recognized income is still receivable.

23 Capital management

The Credit Union maintained a capital management policy and an annual business plan to manage its capital adequacy. The capital management policy outlines the Credit Union’s overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain regulatory capital of at least 4% of total assets (denoted as leverage ratio) and 8% of risk-weighted assets (risk weighted capital ratio). The risk weighting of assets is specified in the Regulations to the Act. As of December 31, the Credit Union was not in compliance with its policy and the Act regarding regulatory capital and has applied for variation from the capital requirement of the Act. FSRA has issued a capital variation decision that allows PACE to continue operations in accordance with the terms and

(in thousands of Canadian dollars unless otherwise stated)

conditions set out in that decision. As at December 31, the Credit Union had maintained a leverage ratio of 2.82% (2019 – 5.03%) and a risk weighted capital ratio of 6.51% (2019 – 9.18%).

24 Deposit insurance premium and administration costs

As noted in note 1, on September 28, 2018, the Credit Union was placed under administration by DICO. Deposit insurance premiums of $1,256 were paid to DICO in the year ended December 31, 2020 (2019 – $1,118).

The Credit Union incurred costs related to the FSRA administration process, of $2,425, including costs related to legal and consulting authorized by FSRA for the year ended December 31, 2020 (2019 – $2,118).

Other costs, incurred during the administration process, but not resulting from the credit union having been placed under administration, were $nil (2019 – $543).

25 Related party transactions

Key management personnel, directors and their related parties held balances with the Credit Union at December 31 as follows:

	2020 $	2019 $
Loans to members – authorized limit	1,603	3,540
Member deposits	520	9,802
Membership and investment shares	56	26

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

The Credit Union paid $190 (2019 – $nil) for consultancy services during the year provided by an organization considered to be a related party to key management personnel.

During the year, CCE incurred various expenses with Continental Currency Exchange Canada Inc. totalling $954 (2019 – $282).

The key management personnel of the Executive Team and their related parties received compensation in the period, which comprised:

	2020 $	2019 $
Salaries and other short-term employee benefits	1,969	2,274
Post-retirement benefits	944	-
	2,913	2,274

(in thousands of Canadian dollars unless otherwise stated)

Directors received the following amounts for serving the Credit Union:

	2020 $	2019 $
Director fees	390	-
Expenses reimbursement	5	-

26 Remuneration of officers and employees

Pursuant to the requirements of the Act and accompanying regulations to disclose the remuneration of the specified officers and employees for the 12-month period ended December 31, 2020, information regarding the remuneration of the five most highly paid officers and employees is listed below. The remuneration listed as a dollar amount includes base salary, bonus and short-term incentive, employment benefit and other short-term compensations according to employment contracts directly with the Credit Union.

	Total $
Barbara Dirks, former Chief Executive Officer	note a
Terri O'Brien, former Chief Risk Officer	note a
Rubina Havlin, former Interim Chief Executive Officer (Procurement contract)	318
Heather Sarnecki, Senior Vice President and Chief Administrative Officer	244
Ben Choi, Senior Vice President and Chief Financial and Risk Officer	204

Note a: As at December 31, 2020, final compensation remains subject to negotiations.

27 Contingencies

The Credit Union is involved in ongoing legal matters initiated by FSRA against former management of the Credit Union and others in relation to being placed under administration. At this time, the Credit Union is unable to quantify the potential outcome of these legal matters.

In relation to the claims arising from PACE Securities Corporation, a constructive liability of approximately $3,000 (2019 – $nil) has been recorded as at December 31, 2020 by the Credit Union in other liabilities. It is possible there could be additional liability associated with this matter that may need to be recorded in the future, but this can only be determined with the unfolding of ongoing legal proceedings.

The Credit Union has submitted a claim under its fidelity insurance bond to recover certain incurred losses and costs. Coverage has not formally been confirmed by the insurer, and the claim is currently being processed by the insurer. Any amounts paid by the insurer would be to the benefit of the Credit Union and would offset previously booked incurred costs and losses.

(in thousands of Canadian dollars unless otherwise stated)

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

28 Fair value of financial instruments

Fair value

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

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets that are not considered financial instruments, such as prepaid expenses, property and equipment, investments in joint ventures and associate, goodwill, intangible assets, investment properties, other property held for resale, deferred income taxes and employment benefits.

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

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

	2020		2019	
	Fair value $	**Carrying value $**	**Fair value $**	**Carrying value $**
Assets				
Investments	348,789	348,789	271,076	274,162
Loans to members	658,500	649,674	744,847	743,762
Deposits				
Deposits from members	1,111,372	1,097,897	1,063,180	1,052,776
Class A profit shares	5,635	5,635	-	-
Class B investment shares	12,371	12,371	-	-

(in thousands of Canadian dollars unless otherwise stated)

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

- The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.
- The fair value of investments is based on quoted market values, amortized cost using the effective interest rate method, par value, redemption value or discounted expected future cash flows as appropriate to the nature and terms of the investment.
- The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

Fair value hierarchy

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

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

(in thousands of Canadian dollars unless otherwise stated)

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy as at December 31, 2020 and 2019.

				2020
	Level 1 $	**Level 2 $**	**Level 3 $**	**Assets at fair value $**
Assets				
Cash and cash equivalents	47,001	-	-	47,001
Debt securities	-	335,465	-	335,465
Equity securities	-	-	13,324	13,324
Loans to members	-	-	658,500	658,500
	47,001	335,465	671,824	1,054,290
Liability				
Deposits from members	-	1,111,372	-	1,111,372
Class A profit shares	-	-	5,635	5,635
Class B investment shares	-	-	12,371	12,371
	-	1,111,372	18,006	1,129,378

				2019
	Level 1 $	**Level 2 $**	**Level 3 $**	**Assets at fair value $**
Assets				
Cash and cash equivalents	41,341	-	-	41,341
Debt securities	-	259,054	-	259,054
Equity securities	-	47	12,022	12,069
Loans to members	-	-	744,847	744,847
	41,341	259,101	756,869	1,057,311
Liability				
Deposits from members	-	1,063,180	-	1,063,180

(in thousands of Canadian dollars unless otherwise stated)

29 Nature and extent of risks arising from financial instruments

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

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

Credit risk

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

The FSRA oversight group (previously the Board) oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes. Events impacting oversight of the Credit Union are disclosed in detail in note 1.

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

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

Liquidity risk

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

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

The FSRA oversight group (previously the Board) is ultimately responsible for the liquidity risk management policy. On a monthly basis, senior management reports the Credit Union's compliance with the policy and

(in thousands of Canadian dollars unless otherwise stated)

regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; borrowings for liquidity purposes; the level of borrowings and the liquidity less borrowings in relation to the statutory minimum. Events impacting oversight of the Credit Union are disclosed in further detail in note 1.

The table in the market risk section below sets out the period in which the Credit Union's non-derivative financial assets and financial liabilities will mature and be eligible for renegotiation or withdrawal. These cash flows are not discounted and include both the contractual cash flows pertaining to the Credit Union's consolidated statement of financial position assets and liabilities and the future contractual cash flows that they will generate. In the case of loans where material, the table reflects adjustments to the contractual cash flows for prepayment estimates, which reflect expected repayments on other than contractual maturity dates. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies, as set out in notes 10, 14 and 27.

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

	2020 $	2019 $
Cash and cash equivalents	47,001	41,341
Investments – Central 1 term deposits	260,000	138,000
Investments – Central 1 liquidity reserve deposits	69,270	67,521
Investments – Other financial institutions	-	250
Total assets held for liquidity	376,271	247,112

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

Market risk

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

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

(in thousands of Canadian dollars unless otherwise stated)

The FSRA oversight group (previously the Board) is responsible for monitoring significant variances and to ensure that corrective measures are implemented. Events impacting oversight of the Credit Union are disclosed in further detail in note 1.

- Interest rate risk

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

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

	2020						2019	
	Variable rate/on demand $	Less than one year $	One to five years $	Non-rate sensitive $	Total $	Effective interest rate %	Total $	Effective interest rate %
Cash and cash equivalents	35,690	-	-	11,311	47,001	0.58	41,341	0.69
Investment	-	299,328	31,090	18,371	348,789	0.70	274,162	1.61
Loans to members	195,842	201,879	251,953	-	649,674	4.60	743,762	4.98
	231,532	501,207	283,043	29,682	1,045,464	3.12	1,059,265	3.94
Deposits from members	279,190	387,716	208,169	222,822	1,097,897	1.97	1,052,776	2.31
On-balance sheet gap	(47,658)	113,491	74,874	(193,140)	(52,433)		6,489	

An analysis of the Credit Union's risk due to changes in interest rates determined that a 100 bp increase in interest rates, with all other variables held constant, would result in an increase in net income of $756 (2019 – $1,012) while a 100 bp decrease in interest rates, with all other variables held constant, would result in a decrease in net income of $1.011 (2019 – $919).

- Foreign currency exchange risk

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

Net foreign exchange gains of $21 (2019 – $309) have been included in other operating income on the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2020.

(in thousands of Canadian dollars unless otherwise stated)

30 Discontinued operations

On May 14, 2020 the Credit Union obtained a court order to liquidate its security trading and investment management line of business comprising PACE Securities Corporation and its subsidiaries: PACE General Partners, PACE International LLC, PACE Insurance Brokers, PACE Financial Limited and PACE Capital LLP. As the Credit Union no longer controls the assets of the business line and all the entities within the business line will be wound up, they have been reported in the current period as a discontinued operation. Financial information related to the discontinued operation for the period to the date of loss of control is set out below.

Net assets and financial performance

The table below summarizes the carrying amounts of assets and liabilities as at the date of disposal:

	As at May 14, 2020 $
Investments	7,834
Property and equipment	1,871
Other assets	926
Total assets	10,631
Other liabilities	2,232
Preferred shares	15,478
Total liabilities	17,710
Net liabilities	(7,079)
Net assets attributable to non-controlling interests	113
Net liabilities attributable to members	(7,192)

(in thousands of Canadian dollars unless otherwise stated)

The table below summarizes the financial performance of the discontinued operation for the period ending on the date of disposal and the year ended December 31, 2019.

	Period ended May 14, 2020 $	Year ended December 31, 2019 $
Other operating income	(6,484)	7,074
Non-interest income	(6,484)	7,074
Personnel expenses	438	2,760
General and administrative	1,493	3,008
Depreciation of property and equipment	105	313
Occupancy	74	207
Total operating expenses	2,110	6,288
Dividends on preferred shares	-	638
Income (loss) before tax	(8,594)	148
Income tax expense	80	370
Loss after tax on discontinued operation	(8,674)	(222)
Writeoff of net liabilities of discontinued operation	7,079	-
Loss from discontinued operation	(1,595)	(222)
Loss from discontinued operation attributable to members	(1,213)	(222)
Loss from discontinued operation attributable to non-controlling interest	(382)	-

31 Subsequent events

Commercial loan payouts

Subsequent to the year-end, certain higher risk commercial loans were written off after receiving partial payouts for the remaining principal balance. The portion of the loan loss provision that relates specifically to these loans at December 31, 2020 was sufficient to cover the losses incurred at the time of writeoff.