PACE Savings & Credit Union Limited

Consolidated Financial Statements

For the Year Ended December 31, 2018

PACE Savings & Credit Union Limited

Index

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 Company) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income and comprehensive income 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 a summary of significant accounting policies.

Basis for qualified opinion

The Company's investment in Continental Currency Exchange (CCE), an investment accounted for by the equity method, is carried at $11.914 million on the consolidated statement of financial position as at December 31, 2018, and the Company's share of CCE's net income of $2.050 million is included in the consolidated statement of income and comprehensive income for the year then ended (refer to note 8). We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investment in CCE as at December 31, 2018 and the Company'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. Consequently, we were unable to determine whether any adjustments to investment in associates, deferred income tax assets and retained earnings as at December 31, 2018, income on investment in associates, income tax expense, net income and cash provided by operating activities and used in investing activities for the year ended December 31, 2018 were necessary.

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.

PricewaterhouseCoopers LLP
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Independence
We are independent of the Company 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.

Emphasis of matter – restated comparative information

We draw attention to note 34 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. The financial statements for the year ended December 31, 2017 (prior to the adjustments that were applied to restate certain comparative information explained in note 34) were audited by another auditor who expressed an unmodified opinion on those financial statements on April 4, 2018. Our opinion is not modified in respect of this matter.

Emphasis of matter – clarification of compensation

We draw attention to note 27 to the consolidated financial statements, which provides additional description to clarify the compensation of Philip Smith and Larry Smith. We issued our original auditor's report dated June 7, 2019 on the previously issued consolidated financial statements. Due to the restatement of note 27, we provide this amended auditor's report on the reissued consolidated financial statements.

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company 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
June 25, 2019

PACE Savings & Credit Union Limited

Consolidated Statements of Financial Position

(Thousands of Canadian dollars unless otherwise stated)

As at December 31

	2018	2017[1] Restated
Assets		
Cash and cash equivalents (note 5)	$ 18,345	$ 29,809
Investments (note 6)	229,110	158,542
Investment in associates (notes 7 & 8)	31,912	27,849
Loans to members (notes 9 & 10)	859,256	810,420
Index-linked derivative contracts (note 15)	46	90
Property and equipment (note 11)	15,430	12,586
Intangible assets (note 12)	2,751	2,892
Investment property (note 13)	4,164	4,952
Other assets (note 14)	25,868	26,922
Deferred income tax assets (note 18)	1,384	729
	1,188,266	**1,074,791**
Liabilities		
Deposits from members (note 15)	1,066,328	956,577
Other liabilities (note 16)	68,258	58,066
Index-linked derivative contracts (note 15)	46	90
Class A profit shares (note 19)	-	479
Class B investment shares (note 19)	-	1,210
	1,134,632	1,016,422
Members' Equity		
Membership shares (note 19)	7,745	7,023
Class A profit shares (note 19)	4,790	4,310
Class B investment shares (note 19)	12,103	10,893
Contributed surplus	3,544	3,544
Retained earnings	21,709	28,856
Accumulated other comprehensive income	1,657	1,657
Equity attributable to members	51,548	56,283
Equity attributable to non-controlling interests	2,086	2,086
	53,634	58,369
	1,188,266	**1,074,791**

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

Approved by:

Guy Hubert, Executive Vice President
Credit Union and Prudential, on behalf of FSRAO
acting in its capacity as the administrator of the Credit Union

Rubina Havlin, PACE Savings & Credit Union Limited
Interim CEO

[1] Restated for prior year adjustments. Please see note 34 for adjustments made

PACE Savings & Credit Union Limited

Consolidated Statements of Income and Comprehensive Income
(Thousands of Canadian dollars unless otherwise stated)

For the year ended December 31

	2018	2017[2] Restated
Interest income (note 20)	$ 42,256	$ 34,333
Interest expense (note 21)	(17,166)	(12,928)
Net interest income	25,090	21,405
Provision for credit losses (recovery) (note 10)	1,687	(1,610)
Net interest income after provision for credit losses	23,403	23,015
Non-interest income		
Investment income	3,011	3,975
Other operating income (note 22)	12,025	8,275
	15,036	12,250
Net interest and non-interest income	38,439	35,265
Non-interest expense		
Amortization of intangible assets	355	524
Deposit insurance premium and administration costs (note 26)	3,806	694
Depreciation of property and equipment	1,220	1,041
General and administrative	12,168	12,650
Marketing	1,663	1,956
Impairment loss on investment property and other assets	763	1,842
Occupancy	1,640	1,642
Personnel expenses	14,416	14,475
	36,031	34,824
Dividends on Class A profit shares (note 19)	-	(38)
Dividends on Class B investment shares (note 19)	-	(11)
Dividends on preference shares (note 19)	(1,159)	(287)
	(1,159)	(336)
Income on investment in associates (notes 7 & 8)	3,689	857
Income before tax	4,938	962
Income tax expense (note 18)	(881)	(268)
	4,057	**694**
Net income attributable to members	4,057	585
Net income attributable to non-controlling interest	-	109
	4,057	694
Other comprehensive loss, net of income taxes (note 23)	-	(771)
Net income and comprehensive income for the year	**4,057**	**(77)**

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

[2] Restated for prior year adjustments. Please see note 34 for adjustments made

PACE Savings & Credit Union Limited

Consolidated Statements of Changes in Members' Equity
(Thousands of Canadian dollars unless otherwise stated)

	Membership shares $	Class A profit shares $	Class B invest-ment shares $	Contri-buted surplus $	Restated Retained earnings $	Accumu-lated other compre-hensive income $	Restated Equity attribu-table to members $	Equity attributable to non-controlling interests $	Restated Total $
As at December 31, 2016	6,320	3,960	10,796	3,544	30,788	2,428	57,836	-	57,836
Prior year adjustments (note 34)					(2,513)		(2,513)		(2,513)
Restated December 31, 2016	6,320	3,960	10,796	3,544	28,275	2,428	55,323	-	55,323
Net income and comprehensive income	-	-	-	-	585	(771)	(186)	109	(77)
Business combination	-	-	-	438	-	-	438	-	438
Transfer of contributed surplus to retained earnings	-	-	-	(438)	438	-	-	-	-
Dividends on Class A profit shares	-	-	-	-	(383)	-	(383)	-	(383)
Dividends on Class A profit shares qualifying as liabilities reclassified to expense	-	-	-	-	39	-	39	-	38
Dividends re-invested in Class A profit shares	-	384	-	-	-	-	384	-	383
Dividends on Class B investment shares	-	-	-	-	(108)	-	(108)	-	(108)
Dividends on Class B investment shares qualifying as liabilities reclassified to expense	-	-	-	-	10	-	10	-	10
Dividends re-invested in Class B investment shares	-	-	107	-	-	-	107	-	108
Issued shares	703	13	9	-	-	-	725	-	725
Redeemed shares	-	(8)	(8)	-	-	-	(16)	-	(17)
Shares reclassified to liabilities	-	(39)	(11)	-	-	-	(50)	-	(49)
Non-controlling interest arising in the year	-	-	-	-	-	-	-	1,977	1,976
As at December 31, 2017	7,023	4,310	10,893	3,544	28,856	1,657	56,283	2,086	58,369
Adjustment for initial application of IFRS 9	-	-	-	-	(11,277)	-	(11,277)	-	(11,277)
Deferred tax on IFRS 9	-	-	-	-	700		700	-	700
Restated December 31, 2017	7,023	4,310	10,893	3,544	18,280	1,657	45,706	2,086	47,792
Net income and comprehensive income		-	-	-	4,057	-	4,057	-	4,057
Issued shares	722	480	1,210	-	-	-	2,412	-	2,413
Adjustment due to consolidation	-	-	-	-	(627)	-	(627)	-	(627)
As at December 31, 2018	7,745	4,790	12,103	3,544	21,709	1,657	51,548	2,086	53,634

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

PACE Savings & Credit Union Limited

Consolidated Statements of Cash Flows
(Thousands of Canadian dollars unless otherwise stated)

For the year ended December 31

	2018	2017[3] Restated
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	$ 4,057	$ 694
Adjustments for		
Provision for credit losses (recovery) (note 10)	1,687	(1,610)
Interest income (note 20)	(42,256)	(34,332)
Interest expense (note 21)	17,166	12,927
Depreciation of property and equipment	1,203	1,041
Amortization of intangible assets	337	523
Amortization of fair value adjustment on financial assets and liabilities	-	(2)
Loss on disposition of property and equipment	41	-
Loss on disposition of intangible assets	23	-
Impairment loss on investment property and other assets	763	-
Income from investment in associates and other income	(3,689)	(856)
Investment income	-	-
Income tax expense (note 18)	881	268
Changes in operating assets/liabilities		
Loans to members	(59,797)	(119,214)
Deposits from members	109,750	141,856
Other operating assets	429	4,743
Other operating liabilities	3,138	38,810
Changes generated (used) from operating activities before interest and taxes		
Interest received	41,960	38,061
Interest paid	(14,401)	(10,006)
Income tax paid	(994)	(503)
	60,298	72,400
Investing activities		
Purchase of investments	(70,568)	(89,367)
Capital contribution in investments in associates	(2,887)	(13,742)
Withdrawals from investments in associates	3,587	1,769
Purchase of property and equipment	(4,088)	(3,252)
Purchase of intangible assets	(219)	(348)
Cash received on business combination	-	4,009
	(74,175)	(100,931)
Financing activities		
Issuance of membership shares	722	453
Issuance of Class A profit shares	481	13
Issuance of Class B Investment shares	1,210	-
Redemption of Class A profit shares	-	(9)
Issuance of Class B investment shares	-	9
Redemption of Class B investment shares	-	(9)
Dividends paid on Class A profit shares	-	(346)
Dividends paid on Class B investment shares	-	(97)
Dividends re-invested in Class A profit shares	-	385
Dividends re-invested in Class B investment shares	-	108
Issuance of preference shares	-	11,453
Subscriptions by non-controlling interests	-	2,937
Redemptions by non-controlling interests	-	(960)
	2,413	13,937
Net change in cash and cash equivalents	(11,464)	(14,594)
Cash and cash equivalents – Beginning of year	29,809	44,403
Cash and cash equivalents – End of year	18,345	29,809

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

[3] Restated for prior year adjustments. Please see note 34 for adjustments made

1. Reporting entity

PACE Savings & Credit Union Limited (“the Credit Union”,” We” or “Our”) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 (Ontario), (the Act) and is a member of the Deposit Insurance Corporation of Ontario (DICO) and of Central 1 Credit Union (Central 1). The Credit Union 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 mortgages and loans and deposit taking to its members. These consolidated statements present consolidated financial results for PACE Savings & Credit Union Limited, and its wholly owned subsidiaries:1155081 Ontario Ltd., 2049945 Ontario Ltd., 2049958 Ontario Ltd., 1961783 Ontario Ltd., PACE Securities, 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 assumed the responsibilities of Board of Directors of the Credit Union when it placed the Credit Union under administration.

Effective June 8, 2019, Financial Services Regulatory Authority of Ontario (FSRAO) assumed the regulatory responsibilities of DICO and therefore any Credit Union related regulatory filings or references made to DICO will therefore apply to FSRAO upon this change. The responsiblility for administration of the Credit Unions and Caisses Populaires Act, 1994 (Ontario), as it relates to the Credit Union will transfer to FSRAO at that date.

2. Basis of preparation

Statement of compliance

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

This is the first set of the Credit Union’s annual financial statements in which IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have been applied. Changes in accounting policies are described in note 4.

With the exception of IFRS 9 and IFRS 15 adoption, the policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the Consolidated Financial Statements.

The consolidated financial statements for the year ended December 31, 2018 were authorized for issue by FSRAO on June 25, 2019.

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, applicable from January 1, 2018.
- Available-for-sale (AFS) financial assets are measured at fair value, applicable before January 1, 2018.
- Derivative financial instruments are measured at fair value.
- Investment in associates measured using 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.

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 made by management in the application of IFRS that have a significant effect on these consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The notes to the consolidated financial statements 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 such as:

i) Impairment of available-for-sale investments (prior to January 1, 2018)

The Credit Union reviews its debt securities and equity instruments classified as available-for-sale at each consolidated statement of financial position date to assess whether they are impaired.

The Credit Union records impairment charges on available-for-sale equity instruments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

ii) 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 31.

iii) Allowance for credit losses under IFRS (post January 1, 2018)

The expected credit loss ("ECL") model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgement 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 judgement 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 judgements directly impact the measurement of ECLs.

The impairment loss on loans is disclosed in further detail in notes 9 and 10, and accounting policy changes related to the implementation of IFRS 9 are further detailed under note 4.

iv) Provisions and contingent liabilities

At the consolidated statement of financial position date, a provision related to the prepaid card program has been recorded related to a shortfall between the total value of prepaid cards outstanding and the funds on deposit. The calculation of the recorded provision includes the assumptions that the recoverability of the shortfall from the distributor is unlikely and that a portion of the outstanding prepaid card balances that have no recent activity or have small balances remaining, will never be redeemed.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these consolidated financial statements are reasonable. Actual results in the future may differ from those reported.

3. Significant Accounting policies

Except for the changes explained in note 4, the Credit Union has consistently applied the following significant accounting policies to all periods presented in these Consolidated Financial Statements.

(a) 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 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 we control an entity. Specifically, judgment is applied in assessing whether we have substantive decision-making rights over the relevant activities and whether we are exercising our 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 we consolidate are shown on our Consolidated Balance Sheets as a separate component of equity which is distinct from our shareholders' equity. The net income attributable to non-controlling interests is separately disclosed in our Consolidated Statements of Income.

Investments in joint ventures and associates

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

Business combinations and goodwill

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. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the investee. We have power over an entity when we have existing rights that give us the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

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 and comprehensive income . 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.

(b) 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 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 the 'other operating income' line item in the consolidated statement of income and comprehensive income

(c) 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. Regular way 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, for an item not at FVTPL, plus transaction costs that are directly attributable to its acquisition or issuance. 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 (policy applicable from January 1, 2018)

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The 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 stated objectives for managing the financial assets are achieved and how cash flows are realized.

Financial assets that are held for trading and financial assets that are managed on a fair value basis are measured as 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 at 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.

Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI 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, realized gains and losses are reclassified from OCI to profit or loss. Foreign exchange gains and losses that relate to the amortized cost of the debt instruments are recognized in profit or loss.

ECL on debt instruments measured at FVOCI is recognized under IFRS 9. The ECL does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to “Impairment on financial assets” (previously “Provision for (recovery of) credit losses”) in the Consolidated Statement of Income and Comprehensive Income.

Cumulative gains and losses recognized in OCI are recycled to profit or loss upon derecognition of the debt instruments.

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 and Comprehensive Income. All other financial assets are classified as measured at FVTPL.

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.

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 which would otherwise arise; or

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 which 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 and Comprehensive Income, 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 and Comprehensive Income upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from AOCI to retained earnings upon derecognition/ extinguishment of the liabilities.

Financial liabilities measured at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest 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. There were no changes to any of the Credit Union's business models for the year ended December 31, 2018.

iii) Classification and subsequent measurement (policy applicable before January 1, 2018)

Except for rights and obligations within the scope of IFRS 15 Revenue from Contracts with customers that are financial instruments, the scope of items under IFRS 9 for the purpose of classification is the same as IAS 39. Accordingly, the financial assets of PACE identified to be in scope of IAS 39 will also be in scope for IFRS 9. PACE's financial assets and classification are as follows:

Financial asset/liability	Classification
Cash and cash equivalents	Loans and receivables
Investments – Debt securities	
Term deposits	Loans and receivables
Liquidity reserve deposit	Loans and receivables
Guaranteed investment certificates	Loans and receivables
Bonds	Held to maturity
Marketable debt securities	Fair value through profit and loss
Privately held bonds	Available-for-sale (cost)
Term certificate	Available-for-sale (cost)
Investments – Equity instruments	
Central 1 shares	Available-for-sale (cost)
CUCO Co-op – Class B investment shares	Available-for-sale (fair value)
Marketable equity securities	Fair value through profit and loss
Other shares	Available-for-sale (cost)
Loans to members	Loans and receivables
Index-linked derivative contracts	Fair value through profit and loss
Other assets	
Accounts receivable	Loans and receivables
Funds held in trust account	Loans and receivables
Deposit from members	Other liabilities
Other liabilities	
Accounts payables and accrued liabilities	Other liabilities
Prepaid card program	Other liabilities
Preference shares	Other liabilities
Class A profit shares (liability portion)	Other liabilities
Class B investments shares (liability portion)	Other liabilities

Fair value through profit of loss (FVTPL)

Financial assets and financial liabilities are classified as at FVTPL when the financial asset or financial liability is either held for trading or it is designated as at FVTPL.

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

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

A financial asset and financial liability other than a financial asset or financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. The net gain or loss recognized in net income incorporates any dividend or interest earned/paid on the financial asset/liability and is included in the ‘other operating income’ line item in the consolidated statement of income and comprehensive income.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intent and ability to hold to maturity, other than those that the entity upon initial recognition designates as at fair value through profit or loss as available-for-sale.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, net of impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

Available-for-sale financial assets

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

Debt securities that are not traded in an active market are classified as available-for-sale. Available-for-sale debt instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Central 1 Class A shares, Central 1 Class E shares, CUCO Co-op Class B investment shares, other shares and term certificates held by the Credit Union are not traded in an active market and therefore classified as available-for-sale. Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividend income is recognized in net income when the Credit Union’s right to receive the dividends is established. Dividend income is included in the ‘investment income” line item in the consolidated statement of income and comprehensive income.

Interest income is recognized in income using the effective interest method. Foreign exchange gains or losses on debt securities are recognized immediately in net income and is included in the ‘other operating income’ line item in the consolidated statement of income and comprehensive income.

Effective interest method (policy applicable before and after January 1, 2018)

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 net carrying amount on initial recognition.

Derecognition of financial assets (policy applicable before and after January 1, 2018)

Management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Certain securitized loans are recognized only to the extent of the Credit Union’s continuing involvement, based on management’s judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IFRS 9 Financial Instruments (IFRS 9). In other cases, when residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management’s judgement that substantially all the risks and rewards of ownership have been transferred through the two transactions. The remaining loans and other assets that have been securitized are not derecognized, based on management’s judgement 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 other comprehensive income 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.

Other financial liabilities

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

Derecognition of financial liabilities (policy applicable before and after January 1, 2018)

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

Transaction costs (policy applicable before and after January 1, 2018)

Transaction costs related to financial assets and liabilities at fair value through profit and loss are expensed as incurred. Transaction costs include fees and commissions paid to agents, fees received from clients, advisors, suppliers, broker and dealers, levies by regulatory agencies and transfer taxes and duties related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are included in the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative costs.

Derivative instruments (policy applicable before and after January 1, 2018)

The Credit Union enters into derivative financial instruments to manage its exposure to market risk, including interest rate, foreign currencies and equity indices.

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

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

iv) 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.

v) Impairment of financial assets (policy applicable from January 1, 2018)

IFRS 9 replaces the 'incurred loss' model in International Accounting Standards (IAS) 39 with an ECL model. The new impairment model also applies to certain loan commitments and financial guarantee contracts. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

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

- Commercial loans measured at amortized cost;
- Personal loans measured at amortized cost
- Mortgages measured at amortized cost;
- Debt instruments measured at amortized cost; and
- Debt instruments measured at FVOCI.

No impairment loss is recognized on equity investments in the scope of IFRS 9.

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

Determining the Stage

The impairment model measures ECL 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 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 lifetime ECL is recorded.

Stage 3 – when a financial asset is considered credit-impaired, an amount equal to 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 Stage 1 and 2 and on the gross carrying amount, net of the impairment allowance for financial assets, in Stage 3.

Assessment of significant increase in credit risk

The assessment of 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.

Instruments which 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 fulfil 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 ECL

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 ECL, 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 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 ECL and the assessment of significant increases 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 estimation and application of forward-looking information requires significant judgement.

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 ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using professional judgement.

Multiple forward-looking scenarios

The Credit Union determines ECL 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 scenarios using forecasts generated by its management and Central 1. The forecasts are created 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 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 as a deduction from the gross carrying amount of the instruments;
- 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.

Write-off

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

vi) Impairment on financial assets (policy applicable before January 1, 2018)

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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of loans to members, where the carrying amount is reduced through use of an allowance account. When a loan to a member is considered uncollectible, it is written off against the allowance for impaired loans.

Subsequent recoveries of amounts previously written off are credited against the allowance for impaired loans. Changes in the carrying amount of the allowance for impaired loans are recognized in net income. The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The Credit Union has established percentages for the allowance for doubtful accounts, which are based on historical collection trends for each loan type with similar risk characteristics. Loans that are considered to be uncollectible are reserved for in the allowance until they are written off or collected.

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

A loan was recognized as being impaired (non-performing) when there was objective evidence of deterioration in credit quality to the extent that the Credit Union was no longer reasonably assured of the timely collection of the full amount of principal and interest.

As a matter of practice, an uninsured mortgage, consumer retail loan, or line of credit was deemed to be impaired at the earlier of the date it had been individually provided for or when it had been in arrears for 90 days. Single-family and multi-unit residential mortgages (including securitized mortgages) guaranteed by the Government of Canada were not considered impaired until payment was contractually 365 days past due. Material credit losses are generally not anticipated on insured mortgages. Secured and unsecured credit card balances that had a payment that was contractually 120 days in arrears were individually provided for, and those that had a payment that was 180 days in arrears were written off.

When loans were classified as impaired, the book value of such loans was adjusted to their estimated realizable value based on the fair value of any security underlying the loan, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for loan losses as described below. Interest income continued to accrue when a loan was considered impaired with an appropriate allowance for credit loss, also discussed below.

An impaired loan was not returned to an unimpaired status unless all principal and interest payments were up to date and management was reasonably assured of the recoverability of the loan.

An allowance for credit losses was maintained at an amount that, in management's opinion, was considered adequate to absorb all credit-related losses that had occurred in the portfolio whether or not detected at the period end, including accrued interest on impaired loans. Allowances were mainly related to loans but could also apply to other assets. The allowance consisted of accumulated individual and collective allowances, each of which was reviewed at least quarterly. The collective allowance was deducted from total loans on the consolidated balance sheets. The allowance was increased by the provision for credit losses and decreased by write-offs, net of recoveries.

Individual allowances were determined on an item-by-item basis and reflected the associated estimate of credit loss. The individual allowances were the amounts required to reduce the carrying value of an impaired asset, including accrued interest, to its estimated realizable amount. The fair value of any underlying security was used to estimate the realizable amount of the receivable. The allowance was the difference between the receivable's carrying value, including accrued interest, and its estimated realizable amount.

Collective allowances were established to absorb credit losses on the aggregate exposures in each of the Credit Union's loan portfolios for which losses had been incurred but not yet individually identified. The collective allowance took into account asset quality, borrower creditworthiness, property location, past loss experience, probability of default and exposure at default based on product, risk ratings, credit scores, current economic conditions, and management's judgement. The collective allowance, based on the historical loss experience adjusted to reflect changes in the portfolios and credit policies, was applied to each pool of loans with common risk characteristics. This estimate included consideration of economic and business conditions.

(d) 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 classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

(e) Investments in associates

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 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 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 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 associate.

(f) Loans to members

Loans to members, including personal loans, 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.

(g) Whole loan sales

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

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

(h) 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. Accordingly, in 2018 $ 95,178 in cash held in trust and associated deposits from members are removed from the consolidated statement of financial position of the Credit Union (2017 – $14,396). 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 and comprehensive income in accordance with their nature.

(i) Property and equipment

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

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

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

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

Buildings	4% declining-balance
Computer equipment	20% straight-line
Furniture and equipment	10% straight-line
Leasehold improvements	term of lease, straight-line

(j) Leases

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

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

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

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

(k) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Cost of such intangible assets includes expenditures directly attributable to the acquisition of the asset and required to establish the asset in working condition given its intended use as well as borrowing costs.

Amortization is recognized in the consolidated statement of income and comprehensive income and is computed on a straight-line basis using the rates and estimated useful lives indicated below. These rates most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Asset description	**Amortization rate**
Computer software	20% straight-line
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 estimate being accounted for on a prospective basis.

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

(l) Impairment of tangible and intangible assets other than goodwill

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

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.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in net income. No impairment losses on tangible or intangible assets were identified as at December 31, 2018.

(m) 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 depreciation and 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.

(n) 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 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.

(o) 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.

(p) 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.

(q) 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.

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 recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortization recognized in accordance with IAS 18 Revenue.

(r) 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 and equity
Class B investment shares	Liability and equity

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

Dividends are recorded when declared by the Board of Directors.

(s) 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.

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

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.

(t) Income taxes

Income tax comprises current tax and deferred tax and is recognized in our consolidated statement of income and comprehensive income 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 and comprehensive income 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.

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.

(u) New accounting standards and interpretations not yet adopted

A number of new or amended accounting standards are effective for annual periods beginning after January 1, 2019 and earlier adoption is permitted. The Credit Union has not early adopted the new or amended standards in preparing its 2018 Annual Consolidated Financial Statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16), which replaces IAS 17, Leases (IAS 17) and related interpretations. This new standard includes a comprehensive model for the identification and treatment of lease arrangements in the financial statements of both the lessee and lessor. From a lessee perspective, this new standard eliminates the classification of leases as operating or finance leases, and instead requires the recognition of all leases on the statement of financial position, subject to limited exceptions. From a statement of income and comprehensive income perspective, depreciation and interest expense will be recorded for leases in a manner similar to that for current finance leases. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the potential impact of this standard.

Amendments to IFRS 9 Financial Instruments

In October 2017, the IASB published amendments to IFRS 9 relating to prepayment features with negative compensation. The amendments are to be applied retrospectively to annual reporting periods beginning on or after January 1, 2019 with earlier applications permitted. Based on preliminary assessments, the amendments are not expected to materially impact the Credit Union's consolidated financial statements.

4. Change in accounting policies

The adoption of IFRS 15 on January 1, 2018 has resulted in changes in the Credit Union's accounting policies for revenue recognition. The adoption of IFRS 9 on January 1, 2018 has resulted in changes in the Credit Union's accounting policies for classification and measurement of financial assets and financial liabilities as well as impairment of financial assets.

IFRS 15 – Revenue from Contracts with Customers

On January 1, 2018, the Credit Union adopted IFRS 15 which replaced the revenue recognition guidance from IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. The new standard provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. As such, the Credit Union has changed its accounting policies for revenue recognition as detailed in note 3. The adoption of IFRS 15 did not have a material impact on the Consolidated Financial Statements.

The Credit Union has applied IFRS 15 using the cumulative effect method and therefore the comparative figures have not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 15.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

IFRS 9 – Transition

On January 1, 2018, the Credit Union adopted IFRS 9 retrospectively and did not restate comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and AOCI as at January 1, 2018.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the retained earnings of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

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

a) Classification and measurement of financial instruments

The measurement category and the gross amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

($ Thousands)

	As at December 31, 2017		As at January 1, 2018	
Financial Assets	**IAS 39 measurement category**	**IAS 39 carrying amount**	**IFRS 9 measurement category**	**IFRS 9 carrying amount**
Cash and cash equivalents	Loans and receivables	$ 29,809	Amortized cost	$ 29,809
Investments	Loans and receivables, HTM, FVTPL and AFS	158,542	Amortized cost and FVTPL (marketable debt instruments) and FVTOCI (equity instruments)	158,542
Loans to members	Loans and receivables	810,420	Amortized cost	799,143
Index-linked derivative contracts	FVTPL	90	FVTPL	90
Other assets	Loans and receivables	26,922	Amortized cost, FVTPL	26,922
Total financial assets		**1,025,783**		**1,014,506**

There was no impact of IFRS 9 adoption on the classification of financial instruments.

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Credit Union performed a detailed analysis of its business models for managing financial assets and analysis of cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

($ Thousands)

Financial Assets	As at December 31, 2017 IAS 39 carrying amount		Transition Adjustment for Expected Credit Losses		As at January 1, 2018 IFRS 9 carrying amount	
Cash and cash equivalents	$	29,809	$	-	$	29,809
Investments		158,542		-		158,542
Loans to members		810,420		(11,277)		799,143
Index-linked derivative contracts		90		-		90
Other assets		26,922		-		26,922
Total financial assets		**1,025,783**		**(11,277)**		**1,014,506**

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

($Thousands)

	As at December 31, 2017				As at January 1, 2018			
	IAS 39				IFRS9			
Loan Portfolio	**Collective**	**Specific**	**Total**	**Transition Adjustments**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgages	$ 38	$ -	$ 38	$ 460	$ 403	$ 6	$ 89	$ 498
Personal	541	386	927	437	641	266	457	1,364
Commercial	1,819	348	2,167	10,380	4,656	19	7,872	12,547
Total	**2,398**	**734**	**3,132**	**11,277**	**5,700**	**291**	**8,418**	**14,409**

5. Cash and cash equivalents

($ Thousands)	2018	2017
Cash on hand	$ 3,946	$ 3,963
Cash held with Central 1	13,207	18,418
Cash held with other chartered banks	1,192	7,428
	18,345	**29,809**

The average yield on the above accounts as at December 31, 2018 is 1.38% (2017 – 0.49%).

The Credit Union has available lines of credit with Central 1 in the amounts of $7,500 CDN and $250 USD, and a demand loan with Central 1 in the amount of $40,000CDN, to cover shortfalls in cash resources. These lines of credit and demand loan were unutilized as at December 31, 2018 and 2017.

The Credit Union has a letter of credit with Central 1 in the amount of $ 2,000, of which $ 790 is unutilized as at December 31, 2018 (2017 – $2,000, $436 unutilized).

The Credit Union has set an overall borrowing limit of $30,000.

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 tables provide information on the investments held by the Credit Union and its subsidiaries.

Debt securities

($ Thousands)	**2018**	**2017[4]**
Amortized cost		
Central 1 – term deposits	$ 80,000	$ 18,000
Central 1 – liquidity reserve deposits	70,697	62,392
RBC – guaranteed investment certificates	250	1,188
Concentra – guaranteed investment certificates	8	308
Lora Bay Corporation	2,180	2,180
Laurentian Bank – Bonds	0	5,583
The Co-operators Group Limited term certificate	152	157
Fair value through profit and loss		
Marketable debt securities	63,440	53,492
	216,727	143,300
Accrued interest on investments	1,167	739
	217,894	**144,039**

Equity instruments

($ Thousands)	**2018**	**2017**
Fair value through profit and loss		
Central 1 – Class A shares	$ 423	$ 3,242
Central 1 – Class E shares	2,112	2,814
Central 1 – Class F shares	3,601	-
CUCO Co-op – Class B investment shares	46	46
Lora Bay Corporation	4,000	4,000
Other shares	1,034	972
Marketable equity securities	-	3,429
	11,216	**14,503**

[4] See note 34 for prior year adjustments of investments.

($ Thousands)	2018	2017
Debt securities	$ 217,894	$ 144,039
Equity securities	11,216	14,503
Total investments – Carrying value	**229,110**	**158,542**
Market value	**229,110**	**158,542**

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.

Shares in Central 1

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

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 & F are carried at fair value. These shares are rebalanced at least annually & redemption value is equal to par. Fair value is considered to be equivalent to par value or redemption value.
Class E carried at fair value & no annual rebalancing and redemption value is not equal to par value.

Credit Union Central of Ontario Cooperative Association (CUCO Co-op)

The Credit Union classified CUCO Co-op Class B Investment Shares as available-for-sale and is measured at fair value. As no market exists for these investment shares, the fair value is determined based on an independent valuation performed on the underlying investments of the CUCO Co-op, utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the statement of financial position date. The Credit Union continues to monitor the investment on a go forward basis. Possible changes that could have a material impact on the future of the assets held by CUCO Co-op include the following: (i) current economic conditions; and (ii) future developments related to the liquidity of the underlying assets.

7. Investments in associates

Details of the Credit Union's associates at the end of the reporting period are as follows:

Name of associate	Principal activity	2018 %	2017 %
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

Summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the group, financial statements as of December 31st, in respect of the Credit Union's associates is set out below.

($ Thousands)						2018
	Ballan-trae	**Ninth Line**	**Aurora Highland Gate**	**Bloomin-Ton Woods**	**Clare-mont**	**Scugog**
Total assets	$ 235	$ 3,496	$ 8,941	$ 872	$ 2,322	$ 3,881
Total liabilities	74	613	-	552	235	5
Net assets	**161**	**2,883**	**8,941**	**320**	**2,087**	**3,876**
Total revenue	-	-	-	-	-	-
Total net income / (loss) for the year	(5)	7,590	(388)	(332)	-	-

($ Thousands)						2017
	Ballan-trae	**Ninth Line**	**Aurora Highland Gate**	**Bloomin-Ton Woods**	**Clare-mont**	**Scugog**
Total assets	$ 453	$ 4,919	$ 12,847	$ 1,018	$ 1,276	$ 2,335
Total liabilities	177	898	747	1,215	79	5
Net assets	**276**	**4,021**	**12,100**	**(197)**	**11,197**	**2,330**
Total revenue	-	-	-	28,670	-	-
Total net income for the year	-	-	-	1,013	-	-

The carrying value of the investment is as follows.

($ Thousands)							2018
	Ballan-trae	**Ninth Line**	**Aurora Highland Gate**	**Bloomin-Ton Woods**	**Clare-mont**	**Scugog**	**Total**
Opening investment	$ 267	$ 2,710	$ 12,100	$ 146	$ 1,020	$ 2,330	$ 18,573
Capital contribution	-	-	-	-	754	1,546	2,300
Withdrawals during the year	(43)	(550)	(2,994)	-	-	-	(3,587)
Accrued interest	-	-	1,115	-	365	548	2,028
Net income during the year	-	-	391	-	292	-	683
	224	**2,160**	**10,612**	**146**	**2,431**	**4,424**	**19,997**

($ Thousands)							2017
	Ballan-trae	**Ninth Line**	**Aurora Highland Gate**	**Bloomin-ton Woods**	**Clare-mont**	**Scugog**	**Total**
Opening investment	$ 267	$ 3,110	$ 8,245	$ 1,008	$ 1,020	$ 1,370	$ 15,020
Capital contribution	-	-	3,855	-	-	960	4,815
Withdrawals during the year	-	(400)	-	(1,369)	-	-	(1,769)
Net income during the year	-	-	-	507	-	-	507
	267	**2,710**	**12,100**	**146**	**1,020**	**2,330**	**18,573**

8. Investment in associates – Continental Currency Exchange (CCE)

Details of the Credit Union's investment in CCE at the end of the reporting period are as follows:

Name of associate	**Principal activity**	**2018 %**	**2017 %**
Continental Currency Exchange (CCE)	Currency services	30	30

Summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the group, unaudited financial statements as of December 31, in respect of the CCE is set out below:

($ Thousands)	**2018**	**2017**
Total assets	$ 38,868	$ 36,701
Total liabilities	10,092	7,836
Net assets	28,776	28,865
Total revenue	16,405	10,706
Total net income for the year	3,911	2,833
Dividends payable to Credit Union	2,050	350

($ Thousands)	2018	2017
Opening investment	$ 9,277	$ -
Capital contribution	587	8,926
Withdrawals during the year	-	-
Loan payable	2,050	350
	11,914	**9,276**

9. Loans to members[5]

($ Thousands)	2018	2017
Mortgages	$ 401,505	$ 365,312
Personal	54,214	50,115
Commercial	416,389	396,884
	872,108	812,311
Add: accrued interest on loans	1,537	1,241
Less: allowance for credit losses (note 10)	(14,389)	(3,132)
Net loans to members	**859,256**	**810,420**

The Allowance for credit losses for the year ended December 31, 2018 was prepared in accordance with IFRS9. The prior year amount was prepared in accordance with IAS 39 and has not been restated (refer to note 10). The loan classifications set out above are as defined in the regulations to the Act.

Mortgages are repayable in weekly, bi-weekly and monthly blended principal and interest installments over a maximum term of five years based on a maximum amortization period of thirty years. 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.

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

[5] The balances as at December 31, 2018 have been prepared in accordance with IFRS 9. Balances as at December 31, 2017 have been prepared in accordance with IAS39.

members at December 31 is below. In addition, below is a breakdown of the security held on a portfolio basis:

($ Thousands)	2018	2017
Loans secured by cash	$ 1,123	$ 1,111
Loans secured by real property	436,634	401,627
Loans guaranteed by CMHC	13,460	13,613
Mortgages insured by Genworth	251	766
Mortgages insured by AIG	271	486
Unsecured and secured loans by other assets	420,369	394,708
	872,108	**812,311**

Credit quality

Credit quality of member loans is summarized as follows:

($ Thousands)	Personal	Mortgages	Commercial	2018	2017
Neither past due nor impaired*	$ 51,359	$ 386,347	$ 374,514	$ 812,220	$ 785,719
Past due but not impaired	1,559	12,661	27,856	42,076	12,654
Impaired	1,296	2,497	14,019	17,812	13,938
	54,214	**401,505**	**416,389**	**872,108**	**812,311**

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

Member loans past due but not impaired:

($ Thousands)	Personal	Mortgages	Commercial	2018	2017
Past due but not impaired					
Under 30 days	$ 1,181	$ 10,899	$ 20,912	$ 32,992	$ 11,028
30 to 89 days	378	1,762	6,944	9,084	1,625
	1,559	**12,661**	**27,856**	**42,076**	**12,654**

Loans commitments

The Credit Union has authorized additional credit loans, which are unutilized at December 31, 2018, for a sum of $156,280 (2017 – $158,774).

As at December 31, 2018, the Credit Union has committed to the issuance of $55,037 new commercial loans to members (2017 – $80,753).

See note 32 for additional disclosures related to management's policies and procedures to manage its credit risk.

Letters of credit

The Credit Union has issued letters of credit in the amount of $3,519 as at December 31, 2018 (2017 – $5,040).

Whole loan sales

At December 31, 2018, the Credit Union was administering, for a fee, on behalf of Concentra Financial (Concentra), members’ mortgage loans aggregating $ 34,590 (2017 – $41,629). In the current year, no mortgage loans (2017 – $850) were transferred to Concentra. As these mortgage loans do not belong to the Credit Union, they are not included in these consolidated financial statements.

10 Allowance for credit losses

a) Allowance for credit losses under IFRS9

($ Thousands)	Personal	Mortgages	Commercial	Total
Balance as at January 1, 2018 (IAS 39)	$ 927	$ 38	$ 2,167	$ 3,132
IFRS 9 opening adjustment (note 4)	437	460	10,380	11,277
Balance as at January 1, 2018	**1,364**	**498**	**12,547**	**14,409**
Gross write-off	(361)	-	(1,363)	(1,724)
Recovery	15	-	2	17
Provision for credit losses	472	125	1,090	1,687
Balance as at December 31, 2018	**1,490**	**623**	**12,276**	**14,389**

($ Thousands)	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance as at January 1, 2018	$ 640	$ 266	$ 457	$ 1,363
Transfer in (out) Stage 1	(449)	107	342	-
Transfer in (out) Stage 2	40	(127)	87	-
Transfer in (out) Stage 3	17	6	(23)	-
New Originations	472	-	-	472
Derecognition and maturities	(227)	(39)	(79)	(345)
Balance as at December 31, 2018	**493**	**213**	**784**	**1,490**

($ Thousands)	Stage 1	Stage 2	Stage 3	Total
Mortgages				
Balance as at January 1, 2018	$ 403	$ 6	$ 89	$ 498
Transfer in (out) Stage 1	(67)	11	56	-
Transfer in (out) Stage 2	5	(6)	3	-
New Originations	134	-	-	134
Derecognition and maturities	(11)	-	-	(8)
Balance as at December 31, 2018	**464**	**11**	**148**	**623**

($ Thousands)	Stage 1	Stage 2	Stage 3	Total
Commercial				
Balance as at January 1, 2018	$ 4,656	$ 19	$ 7,872	$ 12,547
Transfer in (out) Stage 1	(1,183)	1,183	-	-
Transfer in (out) Stage 2	12	(12)	-	-
Transfer in (out) Stage 3	-	1,189	(1,189)	-
New Originations	1,104	-	-	1,104
Derecognition and maturities	(82)	(937)	(356)	(1,375)
Balance as at December 31, 2018	**4,507**	**1,442**	**6,327**	**12,276**

($ Thousands)	Stage 1	Stage 2	Stage 3	Total
Personal loans	$ 493	$ 213	$ 784	$ 1,490
Mortgages	464	11	148	623
Commercial	4,507	1,442	6,327	12,276
Total balance as at December 31, 2018	**5,464**	**1,666**	**7,258**	**14,389**

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 expected credit loss 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.

b) Allowance for impaired loans under IAS 39

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

($ Thousand)	Personal	Mortgages	Commercial	2017
Balance – Beginning of year	$1,143	89	$2,135	$3,368
Collection of loans written off	598	-	1,242	1,840
Loans written-off as uncollectible	(466)	-	-	(466)
(Recovery of) provision for impaired loans	(348)	(51)	(1,210)	(1,609)
	927	**38**	**2,167**	**3,132**

11 Property and equipment

($ Thousands)						**2018**
	Land	**Buildings**	**Computer equipment**	**Furniture and equipment**	**Leasehold improve-ments**	**Total**
Cost						
Balance – Beginning of year	$1,585	$11,150	$2,079	$2,015	$755	$17,584
Additions	285	1,959	726	828	290	4,088
Disposals	-	-	(38)	(117)	(413)	(568)
Balance – End of year	1,870	13,109	2,767	2,726	632	21,104
Accumulated depreciation						
Balance – Beginning of year	-	2,363	710	1,350	574	4,997
Depreciation	-	399	448	229	127	1,203
Disposals	-	-	(36)	(77)	(413)	(567)
Balance – End of year	-	2,762	1,122	1,502	288	5,674
Net book value – 2018	**1,870**	**10,347**	**1,645**	**1,224**	**344**	**15,430**
Net book value – 2017	1,585	8,800	1,359	661	181	12,586

12 Intangible assets

($ Thousands)					**2018**
	Computer software	**Core deposits**	**Customer relation-ships**	**License***	**Total**
Cost					
Balance – Beginning of year	$3,280	$4,358	$873	$585	$9,096
Additions	220	-	-	-	220
Disposals	(186)	-	-		(186)
Balance – End of year	3,314	4,358	873	585	9,130

Accumulated depreciation

Balance – Beginning of year	2,162	3,611	431	-	6,204
Amortization expense	179	137	21	-	337
Disposals	(163)	-	-	-	(163)
Balance – End of year	2,179	3,747	453	-	6,378
Net book value – 2018	**1,135**	**611**	**420**	**585**	**2,751**
Net book value – 2017	1,118	748	442	585	2,892

* Intangible asset has indefinite life, therefore not amortized.

13 Investment properties

($ Thousands)	**2018**	**2017**
Cost		
Balance – Beginning of year	$ 4,952	$ 5,120
Transfer (out) in	(138)	(168)
Disposals and adjustment	(650)	-
Balance – End of year	**4,164**	**4,952**
Rental income from investment properties	168	112

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

14 Other assets

($ Thousands)	**2018**	**2017**[6]
Accounts receivable	$ 7,695	$ 7,944
Prepaid expenses	1,344	1,229
Funds held in trust	7,265	6,995
Property acquired by foreclosure and held for resale	9,564	10,754
	25,868	**26,922**

Property acquired by foreclosure and held for resale

As at December 31, 2018 the Credit Union was in possession of 3 commercial properties with a carrying value of $9,564 (2017 – 4 commercial properties with a carrying value of $10,754).

[6] See note 34 for prior year adjustments of other assets.

15 Deposits from members

($ Thousands)	2018	2017
Personal chequing accounts	$ 202,103	$ 219,903
Savings accounts	206,767	235,262
Term deposits	441,668	301,195
Registered retirement savings plans	84,695	84,769
Registered retirement savings funds	52,814	49,568
Tax free savings accounts	65,026	55,389
	1,053,073	946,086
Add: accrued interest on deposits from members	13,255	10,491
	1,066,328	**956,577**

Term deposits

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty. 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 withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by the Credit Union, on behalf of Concentra Trust.

Index-linked term deposits

As at December 31, 2018, the Credit Union has issued $850 (2017 – $947) of index-linked term deposit products to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term, based on the performance of various Toronto Stock Exchange (TSX) indices.

The Credit Union has entered into hedge agreements with Central to offset the exposure to the indices associated with these products. The Credit Union pays Central a fixed amount on the face value of these term deposit products. At the end of the respective terms, the Credit Union receives payments from Central equal to the amount required to be paid to the depositors based on the performance of the specified TSX indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have a fair value that varies based on the particular contract and changes in interest rates. The fair value of these agreements is $46 at December 31, 2018 (2017 – $90) and has been accounted for as a derivative in accordance with the Credit Union's accounting policy.

16 Other liabilities

($ Thousands)	2018	2017[7]
Accounts payable and accrued liabilities	$ 11,212	$ 2,105
Prepaid card program	50	1,081
Employment benefits	3,320	4,455
Preference shares	17,194	11,453
Margin accounts for investment purposes	29,584	29,921
Due to investment carrying broker	6,898	9,051
	68,258	**58,066**

Prepaid card program

At December 31, 2018, The Credit Union recorded a liability in the amount of $50 (2017 – $1,081) to cover any remaining obligations estimated for the card program.

Preference shares

449,083 redeemable cumulative preference shares with a coupon rate of 5% per annum were issued during the year at an issue price of $10 per share. The shares are redeemable up to five and one-half years from the subscription date with a fixed redemption date of December 31, 2023. The shares are unsecured borrowings of PACE Financial Limited. These redeemable cumulative preference shares do not contain any equity component and are classified as financial liabilities in their entirety. Dividends of $1,159 on redeemable cumulative preference shares are included in comprehensive income.

17 Employment Contracts

The Credit Union has certain key management employee contracts. The amount recorded in the other liabilities represents the amount estimated to settle the obligation.

18 Income taxes

The following are major components of the income tax expense:

($ Thousands)

	2018	2017[8]
Current income taxes	$ 836	$ 18
Deferred income taxes	45	250
	881	**268**

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

[7] See note 34 for prior year adjustments of other liabilities.
[8] See note 34 for prior year adjustments of income taxes

	2018	2017
Income before taxes	$ 4,938	$ 962
Income tax expense based on statutory rate of 19.5% (2017 – 19.5%)	962	187
Effect of non-deductible expenses	17	41
Change in unrecorded tax benefit of losses and temporary differences	(24)	
Effect of permanent differences	(45)	(86)
Income tax rate changes in deferred taxes, return to provision and other	(29)	126
	881	**268**

Temporary differences which give rise to the following deferred income tax liability as at December 31 are as follows:

	2018	2017
Deferred income tax asset (liability)		
Investments	$ -	$ 5
Loans to members	47	56
Allowance for impaired loans	1,390	468
Property and equipment	(284)	(176)
Intangibles	(536)	(564)
Members deposits	110	130
Employment benefit and other liabilities	657	746
Unused tax losses	-	64
Deferred income tax asset	**1,384**	**729**

19 Members' shares

Members' shares as at December 31, 2018 and 2017 are as follows:

($ Thousands)	Authorized amount	2018 Liability	2018 Equity	2017 Liability	2017 Equity
Membership shares	unlimited	$ -	$7,745	$ -	$7,023
Class A profit shares	unlimited	-	4,790	479	4,309
Class B investment shares, Series 3	unlimited	-	7,094	709	6,385
Class B investment shares, Series 4	unlimited	-	2,462	246	2,215
Class B investment shares, Series 5	unlimited	-	636	63	573
Class B investment shares, Series 1	unlimited	-	1,299	130	1,170
Class B investment shares, Series 2	unlimited	-	612	62	550
		-	**24,638**	**1,689**	**22,225**

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 Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If the shares are classified as equity, they are recorded at cost. If the shares are recognized as a liability, they are initially measured at fair value and subsequently recorded at amortized cost using the effective interest method.

As at the end of December 31, 2018, due to the discretion of the Board and the limitations relating to the capital ratio, the Board has not approved any redemption and therefore there is no liability of shares relating to Class A profit shares and Class B investment shares.

a) 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 which are set out in governing legislation.

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 eighteen years of age must hold at least two shares, while all other members must hold 35 shares.

As at December 31, 2018, there were 39,170 members (2017 – 37,465 members) and 1,548,983 (2017 – 1,404,535) membership shares outstanding. Shares may be withdrawn subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors, who may require notice.

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, 2018, the number of outstanding shares is 4,789,712 (2017 : 4,787,864)

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, 2018, the number of outstanding shares is 12,103,420 (2017 : 12,103,749).

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.

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.

b) Dividends

The holders of Class A profit shares and Class B investment shares are entitled to receive dividends when declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory requirements of the Act, which is described in note 3.

20 Interest income

($ Thousands)	2018	2017
Mortgages	$ 13,706	$ 11,160
Personal	3,296	3,116
Commercial	25,254	20,057
	42,256	**34,333**

Included within the various line items under interest income for the year ended December 31, 2018 is a total of $1,842 (2017 – $1,313) accrued interest on impaired financial assets.

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

21 Interest expense

($ Thousands)	2018	2017
Personal chequing accounts	$ 25	$ 23
Savings accounts	2,654	2,516
Term deposits	10,478	6,821
Registered retirement savings plans	1,524	1,409
Registered retirement income funds	1,230	1,185
Tax free savings accounts	1,170	949
Interest on borrowings	85	25
	17,166	**12,928**

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

($ Thousands)	2018	2017
Commissions and fees	$ 1,326	1,286
Service charges	566	660
Rental income	126	147
Administration charges	544	704
Foreign exchange gains	281	290
Prepaid card program	962	1,200
Investment company revenue and trading income[9]	8,220	3,988
	12,025	**8,275**

Except for rental income and administration charges, 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.

23 Components of other comprehensive income

($ Thousands)	2018	2017
Items that may be reclassified subsequently in net income		
Unrealized loss on available-for-sale investment arising during the year (net of taxes $ 0 , 2017 – $271)	-	$ (1,119)
Items that may not be reclassified subsequently in net income		
Actuarial gain on employee benefits (net of taxes $ 0 , 2017 – $84)	-	348
Other comprehensive loss, net of income taxes	**-**	**(771)**

[9] Investment company revenue include Income from assets held by investment companies (subsidiaries of the Credit Union). The revenue includes interest income on investments, net realized and unrealized gain/ loss on investment and net change in unrealized depreciation/appreciation of investments.

24 Capital adequacy

Capital management

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

The Act requires credit unions to maintain regulatory capital of at least 4% of total assets (denoted as leverage ratio below) and 8% of risk-weighted assets. The risk weighting of assets is specified in the Regulations to the Act. The Credit Union is in compliance with its policies and the Act regarding regulatory capital as at December 31 as outlined in the table below.

($ Thousands)	**2018**	**2017**[10]
Tier 1 capital		
Retained earnings	$ 21,709	$ 28,856
Contributed surplus	3,544	3,544
Membership shares	7,745	7,023
Class A profit shares, qualifying as Tier 1 capital	4,790	2,052
Class B investment shares, qualifying as Tier 1 capital	12,103	10,332
	49,891	51,807
Tier 2 capital		
Class A profit shares, qualifying as Tier 2 capital	-	2,735
Class B investment shares, qualifying as Tier 2 capital	-	1,772
Collective loan provision (stage 1 and stage 2 allowance for credit loses -note 10)	5,464	2,399
Accumulated net after tax unrealized gain on FVOCI debt and equity securities reported in other comprehensive income	1,657	1,657
	7,109	8,564
	57,012	**60,370**
	%	**%**
Leverage ratio	5.07	5.62
Risk weighted assets ratio	8.32	8.85

[10] See note 34 for prior year adjustments

25 Related party transactions

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

($ Thousands)	2018		2017	
	Maximum balance	**Closing balance**	**Maximum balance**	**Closing balance**
Loans to members	$ 11,957	$ 9,569	$ 38,267	$ 36,142
Member deposits	n/a	15,445	n/a	19,709
Membership share	n/a	39	n/a	1,561
	11,957	**25,053**	**38,267**	**57,412**

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 mortgages balances are secured as per the Credit Union lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2018 and 2017.

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

($ Thousands)	**2018**	**2017**
Salaries and other short-term employee benefits	$ 2,897	$ 2,883
Post-retirement benefits	-	189
	2,897	**3,072**

Directors received the following amounts for serving the Credit Union:

($ Thousands)	**2018**	**2017**
Director fees	$ 26	$ 9
Expenses reimbursement	66	65

26 Deposit insurance premium and DICO administration costs

As noted in note 1, on September 28, 2018 the Credit Union was placed under administration by DICO, and DICO assumed control of Credit Union. Deposit insurance premium of $1,082 were paid to DICO in the year ended December 31, 2018.

The Credit Union incurred costs related to the DICO Administration process entered into on September 28, 2018. These costs totalled $2,724, including costs related to legal, consulting and administration agent authorized by DICO in the year ended December 31, 2018.

The Credit Union's subsidiary Pace Securities (the Company) has been designated Discretionary Early Warning Level One since October 3, 2018 due to the fact that the Company's parent company has been placed under the control and management of Deposit Insurance Corporation per the Administration Order issued on September 28, 2018.

27 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, 2018, information regarding the reumneration of the five (5) most highly paid officers and employees is listed below. Subject to the note below, the remuneration listed as a dollar amounts include base salary, bonus and short incentive, employment benefit and other short term compensations according to employment contracts directly with the Credit Union.

($ Thousands)	**2018**
L. Smith	Note a
P. Smith	Note a
M. Benincasa	$ 281
K. Colacicco	270
S. Johnson	234

Note a: Through its ongoing investigations, the Administrator has determined that Larry Smith, the former president of the Credit Union, and Philip Smith, the former CEO of the Credit Union, received various amounts directly or indirectly from the Credit Union through various purported employment and consulting agreements and other means, and that Larry Smith made payments in 2018 from one or more of his companies directly or indirectly to certain Credit Union employees. The nature and the propriety of these payments are the subject of ongoing and anticipated litigation.

28 Commitments

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

($ Thousands)

2019	$ 685
2020	689
2021	708
2022	714
2023	719
2024 and after	1,545

The Credit Union has entered into an agreement to purchase retail space and parking spaces in Stouffville for $3,000. The scheduled closing date was May 27, 2019.

29 Contingencies

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

30 Other information

The total fees paid to Central 1 for the year ended December 31, 2018 amounted to $373 (2017 – $359). These fees were primarily related to banking functions, educational training courses and consulting fees.

31 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. We determine 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 associates, intangible assets, investment property, 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 financial statements approximate their fair values.

(in thousands of dollars)	2018		2017	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Investments	$ 229,110	$ 229,110	$ 158,542	$ 158,542
Loans to members	876,699	859,256	803,569	810,420
Deposits				
Deposits from members	1,108,289	1,066,328	971,806	956,577

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

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

b. The fair value of investments is based on quoted market values where available. Where no quoted market price is available, the following assumptions were used to determine the fair value, which was completed as at the statement of financial position date:

   i. CUCO Co-op – Class B investment shares – an independent valuation was completed on the underlying investments of CUCO Co-op, utilizing valuation techniques based on discounting expected future cash flows.

   ii. Derivative financial instruments – fair value was calculated using a discounted cash flow approach, with the discount rate being the estimated receive and pay rates over the term of the swap.

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

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

Fair value hierarchy

Financial instruments recorded at fair value on the 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.

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy. Balances for 2018 are presented according to their classification under IFRS 9. Balances for 2017 are presented according to their classification under IAS 39.

($ Thousands)				**2018**
	Level 1	**Level 2**	**Level 3**	**Assets at fair value**
Assets				
Index-linked derivative contracts	$ -	$ 47	$ -	$ 47
Debt securities at amortized cost	-	153,135	-	153,135
CUCO Co-op – Class B investment shares	-	-	152	152
Debt securities at FVTPL	-	63,440	-	63,440
Equity securities at FVTOCI Shares	-	-	6,182	6,182
Equity securities at quoted prices	1,034	-	-	1,034
Lora Bay Corporation			4,000	4,000
Loans to members	-	-	876,699	876,699
	1,034	**216,622**	**887,033**	**1,104,689**
Liability				
Deposits from members	-	1,018,289	-	1,018,289

($ thousands)				**2017**
	Level 1	**Level 2**	**Level 3**	**Assets at fair value**
Assets				
Index-linked derivative contracts	$ -	$ 90	$ -	$ 90
Investments – debt securities	-	138,792	6,015	144,807
CUCO Co-op – Class B investment shares	-	-	46	46
Central 1 – Class A Shares	-	-	3,241	3,241
Central 1 – Class E Shares	-	-	2,814	2,814
Other shares	500	2,929	4,973	8,402
Loans to members	-	-	803,569	803,569
	500	**141,811**	**820,658**	**962,969**
Liability				
Deposits from members	**-**	**971,806**	**-**	**971,806**

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

The Credit Union is re-evaluating its underwriting parameters in response to DICO's review. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

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

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

Liquidity risk

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

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

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

The 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 Statements 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 note 29.

Additional details are outlined in the Credit Union's internal policy manual.

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.

	2018	**2017**
Cash and cash equivalents	$ 18,345	$ 29,810
Investments – Central 1 term deposits	80,000	18,000
Investments – Central 1 liquidity reserve deposits	70,697	62,392
Investments – Other financial institutions	250	1,188
Total assets held for liquidity	**169,292**	**111,390**

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. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are to be reported to the Board.

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

- Interest rate risk

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

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.

					2018		2017	
	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	$ 15,765	$ -	$ -	$ 2,580	$ 18,345	1.77%	$ 29,810	0.49%
Investment	-	103,479	55,178	70,452	229,109	2.11%	158,542	0.7%
Loans to members	273,846	310,422	287,840	-	872,108	4.37%	812,311	4.46%
	289,611	413,901	343,018	73,032	1,119,562	3.84%	1,000,663	3.74%
Deposit from members	328,791	304,234	323,400	109,904	1,066,328	1.72%	956,577	1.47%
On-balance sheet gap	(39,180)	109,667	19,618	(39,172)	53,234		44,086	

An analysis of the Credit Union's risk due to changes in interest rates determined that a 100bp increase in interest rates, with all other variables held constant, would result in an increase in net income of $851 (2017 - $429) while a 100bp decrease in interest rates, with all other variables held constant, would result in a decrease in net income of $851 (2017 - $557).

- 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 $190 (2017 – $290) have been included in other operating income on the consolidated statement of income and comprehensive income for the year ended December 31, 2018.

33 Business combination

The Credit Union has not entered any agreement with any third party on business combination. During fiscal year 2017, the Credit Union merged with Durham Educational Employees' Credit Union Limited and London Fire Fighters Credit Union Limited.

34 Prior Year Adjustments

The Credit Union identified a number of accounting errors related to prior years transactions. The errors have been corrected as shown in the table below:

($ Thousands)	**2017 balance as previously reported**	**Adjustments**	**Adjusted 2017 Balance**	**Reference**
Investments	$ 159,223	$ (681)	$ 158,542	a & b
Other assets	35,141	(8,219)	26,922	c & d
Other liabilities	(59,846)	1,780	(58,066)	e
Investment income	(4,656)	681	(3,975)	a & b
General and administrative	9,415	3,235	12,650	c
Impairment loss on investment property and other assets	-	1,842	1,842	d
Income tax expense	1,420	(1,152)	268	e
2017 opening Retained earnings	(30,788)	2,513	(28,275)	f

The nature of the prior year adjustments reference above are explained below:

a. Reversal of accrued interest of derecognized debt instruments
b. Impairment of investment
c. Capitalizing of operating expenses as prepaid expense
d. Impairment loss on foreclosed property
e. Income tax impact of the above adjustments
f. Net impact of 2015 and 2016 adjustments of the above on retained earnings

35 Subsequent Events

DICO filed an affidavit on behalf of the Credit Union in December 2018. The litigation was against certain former senior management employees. The court froze the bank accounts owned by the individuals at the Credit Union. Subsequently the funds were released to the Credit Union in accordance with Credit Union Act. The recovery amount was $3.8 million after netting the administration fees, taxes, and legal cost. The recovered amount was recorded as the Credit Union’s incomes or expenses in 2019. It would have increased the capital ratio from 8.32% to 8.87% and leverage ratio from 5.07% to 5.41% as at December 31, 2018.