bakertilly

MAINSTREET CREDIT UNION LIMITED

AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

DECEMBER 31, 2020

Baker Tilly CK, LLP
62 Keil Drive South
Chatham, ON
Canada N7M 3G8

T: 519.351.2024
F: 519.351.8831

chatham@bakertilly.ca
www.bakertilly.ca

Independent Auditor's Report

To the Members of Mainstreet Credit Union Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mainstreet Credit Union Limited, which comprise the balance sheet as at December 31, 2020 and the statement of earnings, comprehensive income and members' equity, cash flows and the notes to the financial statements for the year ended December 31, 2020 and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the preparation and fair presentation of the annual report. Our audit opinion does not express an audit opinion or any form of assurance on such other information prepared by management. We have reviewed the annual report and nothing has come to our attention that is inconsistent with the information contained in these financial statements.

Baker Tilly CK, LLP is a member of Baker Tilly Canada Cooperative, which is a member of the global network of Baker Tilly International Limited. All members of Baker Tilly Canada Cooperative and Baker Tilly International Limited are separate and independent legal entities.

Independent Auditor's Report (cont'd)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Baker Tilly CK, LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Chatham, Ontario
March 17, 2021

MAINSTREET CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2020

bakertilly

MAINSTREET CREDIT UNION LIMITED

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 2020

	2020	2019
INTEREST REVENUE		
Interest revenue (note 7)	$ 24,644,092	$ 24,868,716
Investment income	1,426,469	1,399,510
	26,070,561	26,268,226
INTEREST AND LOAN RELATED EXPENSES (note 13)	10,045,431	10,011,694
FINANCIAL MARGIN	16,025,130	16,256,532
OTHER INCOME (note 20)	4,714,877	4,167,822
PROVISION FOR DOUBTFUL ACCOUNTS (note 7)	(1,799,763)	(298,806)
	18,940,244	20,125,548
EXPENSES		
Administrative (note 21)	4,559,095	4,926,351
Deposit insurance	601,354	575,591
Distributions to members (note 18)	518,287	661,700
Employee salaries and benefits	10,656,028	10,966,199
Occupancy (note 21)	1,699,642	1,681,801
	18,034,406	18,811,642
	905,838	1,313,906
OTHER INCOME		
Rental income	171,577	190,462
Loss on disposal of assets	-	(62,783)
	171,577	127,679
NET INCOME BEFORE INCOME TAXES	1,077,415	1,441,585
INCOME TAXES (note 17)		
Current	465,314	299,495
Deferred	(345,280)	(29,834)
	120,034	269,661
NET EARNINGS	$ 957,381	$ 1,171,924

MAINSTREET CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2020

	2020	2019
Net earnings for the year	$ 957,381	$ 1,171,924
Other comprehensive income (loss):		
Unrealized gains (losses) on cash flow hedges arising in the year	343,105	(52,607)
Income tax effect	(13,433)	13,862
Other comprehensive income (loss)	329,672	(38,745)
Comprehensive income	$ 1,287,053	$ 1,133,179
CONTINGENCY RESERVE		
Balance, beginning of the year	$ 45,958,412	$ 44,786,488
Net earnings for the year	957,381	1,171,924
Reclassification adjustment for realized gains and losses previously included in accumulated other comprehensive income	326,836	-
Balance, end of the year	$ 47,242,629	$ 45,958,412
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	$ 34,738	$ 73,483
Other comprehensive income (loss) for the year	329,672	(38,745)
Reclassification adjustment for realized gains and losses previously included in accumulated other comprehensive income	(326,836)	-
Balance, end of year	$ 37,574	$ 34,738

MAINSTREET CREDIT UNION LIMITED

BALANCE SHEET

DECEMBER 31, 2020

	2020	2019
ASSETS		
Cash resources (note 4)	$ 90,012,486	$ 33,577,167
Investments (note 5)	63,043,576	52,266,290
Derivative financial instruments (note 6)	49,436	-
Investment property (note 11)	1,008,983	1,056,510
Loans to members and accrued interest receivable (note 7)	722,560,845	679,578,089
Capital assets (note 9)	13,452,118	13,629,038
Assets under capital lease (note 10)	185,939	278,570
Deferred tax asset (note 17)	797,629	220,086
Other assets (note 8)	1,314,321	922,282
	$ 892,425,333	$ 781,528,032
LIABILITIES		
Members' deposits and accrued interest payable (note 13)	$ 795,020,872	$ 692,319,249
Derivative financial instruments (note 6)	-	225,060
Current portion of capital lease (note 15)	95,744	93,529
Other liabilities (note 14)	4,900,577	3,095,385
Deferred tax liability (note 17)	443,377	197,670
Membership shares (note 18)	10,444,229	9,906,871
Securitization (note 19)	34,149,623	29,510,667
	845,054,422	735,348,431
CAPITAL LEASE OBLIGATIONS (note 15)	90,708	186,451
	845,145,130	735,534,882
MEMBERS' EQUITY		
CONTINGENCY RESERVE	47,242,629	45,958,412
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	37,574	34,738
	47,280,203	45,993,150
	$ 892,425,333	$ 781,528,032

SIGNIFICANT EVENT (note 28)

SUBSEQUENT EVENTS (note 29)

ON BEHALF OF THE BOARD

Director **Director**

MAINSTREET CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	2020	2019
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	$ 957,381	$ 1,171,924
Other comprehensive income (loss)	329,672	(38,745)
	1,287,053	1,133,179
Items not requiring cash:		
Unrealized (gains) losses on cash flow hedges and interest rate swaps	(274,496)	283,479
Depreciation of capital assets and investment property	1,017,818	1,013,272
Loss on disposal of capital assets	-	62,783
Deferred income taxes	(331,836)	(29,834)
	1,698,539	2,462,879
Change in non-cash working capital items:		
Decrease (increase) in other assets	(392,040)	(50,254)
Increase (decrease) other liabilities	1,805,189	(135,444)
Increase in loan loss provision	1,785,480	301,932
	4,897,168	2,579,113
FINANCING ACTIVITIES		
Increase in member loans	(44,768,236)	(40,873,467)
Increase in member deposits	103,234,003	48,018,631
Subscription to member shares	168,092	373,099
Redemption of member shares	(163,113)	(394,458)
Repayment of capital lease obligations	(93,528)	-
Proceeds of securitization liabilities	8,876,366	27,179,677
Repayment of securitization liabilities	(4,237,410)	(2,330,783)
	63,016,174	31,972,699
INVESTING ACTIVITIES		
Purchase of capital assets	(700,737)	(600,307)
Purchase of investments	(114,911,384)	(26,042,904)
Proceeds on maturity of investments	104,134,098	20,267,048
	(11,478,023)	(6,376,163)
INCREASE IN CASH RESOURCES	56,435,319	28,175,649
CASH RESOURCES, BEGINNING	33,577,167	5,401,518
CASH RESOURCES, ENDING (note 4)	$ 90,012,486	$ 33,577,167

1. NATURE OF ACTIVITIES

Mainstreet Credit Union Limited, ("Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated banking machines ("ABMs"), safety deposit boxes, debit and credit cards and Internet banking. The Credit Union's head office is located at 1295 London Road, Sarnia, Ontario.

These financial statements have been authorized for issue by the Audit Committee on March 17, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

These financial statements were prepared under the historical cost convention, as modified by the revaluation of fair value through profit or loss of financial assets measured at fair value. Assets and liabilities classified as current have also been measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits with banks; and for the purpose of the statement of cash flows, short-term loans that are repayable on demand.

Cash and cash equivalents are classified as amortized cost and measured at cost.

INVESTMENTS

Central 1 Deposits
These deposit instruments are classified as fair value through profit and loss and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortised cost, which approximates fair value.

Other Investments
These instruments are classified as fair value through profit and loss and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value.

Equity Instruments
These instruments are classified as fair value through other comprehensive income and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

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

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from accumulated other comprehensive income and recognized in net income.

Derivative Financial Instruments and Hedging

Hedges
The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, shown in both cases on the balance sheet.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a monthly basis.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

Cash flow hedges modify exposure to variability in cash flows associated with variable rate interest bearing instruments for the forecasted assurance of fixed rate liabilities. The Credit union's cash flow hedges are primarily hedges for floating rate deposits and floating rate member loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

If the Credit Union closes out its hedge position early, the cumulative gains and (losses) recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest rate method. The ineffective portion of gains and (losses) on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

Other non-hedge derivatives
The Credit Union designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives related to index-linked term deposits and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MEMBER LOANS

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortised cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

Impairment is measured under an expected credit loss ("ECL") model. The ECL model will result in an allowance for credit losses being recorded on member loans regardless of whether there has been an actual loss event.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). The determination of a significant increase in credit risk takes into account many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires lifetime losses for all credit impaired assets.

The credit union considers past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. In considering the lifetime of an instrument, the credit union uses the contractual period including pre-payment, extension and other options. For revolving instruments that may not have a defined contractual period, lifetime is based on the historical behaviour.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BAD DEBTS WRITTEN OFF

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision has been recognized, the write offs are recognized as expenses in net income.

CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

Capital assets and assets under capital lease are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses). Land is not depreciated. Depreciation is recognized in net income and is provided for on a straight-line basis using the following useful lives of the assets:

Buildings	10 to 40 years
Furniture and fixtures	5 to 20 years
Computer equipment	5 to 10 years
Leasehold improvements	5 to 10 years

Assets under capital lease are depreciated over the expected term of the lease.

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

Assets not in use are recorded as capital assets and are not amortized until they are available for use.

INVESTMENT PROPERTY

The Credit Union's investment property consists of land and a building held to earn rental income. Investment property is recorded at fair market value. Land is not depreciated.

Rent receivable is recognized in net income on a straight-line basis over the period of the lease. Where an incentive, such as a rent free period is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has two cash-generating units consisting of the branch network (capital assets) and investment property, for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse revaluation gains on investment property previously recognized in other comprehensive income.

TRANSACTION COSTS

Transaction costs, including loan origination costs are applied against the financial instrument to which they apply at the time of initial measurement.

INCOME TAXES

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

INCOME TAXES (cont'd)

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

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

MEMBER DEPOSITS

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortised cost, using the effective interest rate method.

GROUP SAVINGS PLAN

The Credit Union participates in a multi-employer defined-contribution savings plan. The Credit Union recognizes matching contributions as an expense in the year to which they relate.

ACCOUNTS PAYABLE AND OTHER PAYABLES

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

PROVISIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MEMBERS' SHARES

Members' shares issued by the Credit Union are classified as a financial liability as the shares meet the definition of a financial instrument.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

PATRONAGE DISTRIBUTIONS

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation which there is little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

REVENUE RECOGNITION

Interest income from loans is recorded on the accrual basis.

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

Investment income is recognized as earned on interest bearing investments.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

LEASED ASSETS

Where the contract does not contain an identified asset, the Credit Union does not have the right to obtain substantially all of the economic benefits from the use of the identified asset and the Credit Union does not have the right to direct the use of the identified asset throughout the period of use or the identified asset is insignificant in value, the total rentals payable under the lease are charged to the statement of earnings on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

FOREIGN CURRENCY TRANSLATION

Foreign currency accounts are translated into Canadian dollars as follows:

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

USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 5.

MEMBER LOAN LOSS PROVISION

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The assessment of significant increase in credit risk requires experienced credit judgment.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the credit union must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the loan loss provision.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. The credit union has used a model incorporating specific macroeconomic variables that are relevant to each specific portfolio. The credit union exercises experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive in both economic forecast and the probability-weigh assigned to each forecast scenario.

A number of significant judgments and estimates are also required in applying the accounting requirements for measuring ECL, such as:

- determining the criteria for credit impairment;
- determining the value and timing of receipts from collateral and other credit risk enhancements;
- determining the criteria for a significant increase in credit risk;
- establishing appropriate levels of aggregation for products and business lines for the purposes of expected credit loss modelling;
- choosing appropriate models and assumptions for the measurement of ECL; and establishing the number, design and relative weightings of forward-looking scenarios to be incorporated into the measurement of ECL.

Further details on the estimates used to determine the allowance for impaired loans are provided in Note 7.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

INCOME TAXES

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

Deferred tax assets and liabilities are measured at the tax rate expected to be in effect when the timing difference reverses. Where the expected tax rate changes, the actual income tax effect may differ from the accrual.

4. CASH RESOURCES

	2020	2019
Cash	$ 36,050,727	$ 32,708,626
U.S. dollar term deposits, bearing interest at 1.85%	636,600	649,400
Liquid investments, bearing interest from 0.20%-1.83%	53,325,159	219,141
	90,012,486	33,577,167
Bank overdraft and short-term loan (note 12)	-	-
	$ 90,012,486	$ 33,577,167

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2020 is 0.57%, (2019 - 1.61%). Cash includes $1,135,016, (2019 - $1,430,221) denominated in U.S. dollars.

5. INVESTMENTS

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

	2020	2019
Liquidity reserve deposits bearing interest from 0.20% - 1.83%, maturing January 2021 - May 2023	$ 59,359,545	$ 48,472,910
Accrued interest receivable	49,932	205,414
	$ 59,409,477	$ 48,678,324

The liquidity reserve deposit with Central 1 must be maintained at 6% of the Credit Union's total assets at each month. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. At maturity, these deposits are re-invested at market rates for various terms. The Credit Union has classified its liquidity reserve deposit as fair value through profit or loss. See Note 29 for subsequent liquidation occurring on January 4, 2021.

The deposits at Central 1 are recorded at cost. These costs approximate fair value due to having similar characteristics as cash and cash equivalents.

	2020	2019
Central 1 shares - class A	$ 261,105	$ 256,006
Central 1 shares - class E	902,800	902,800
Central 1 shares - class F	2,457,716	2,416,682
Concentra shares	12,478	12,478
CUCO Co-operative Association units	-	-
	$ 3,634,099	$ 3,587,966

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

5. INVESTMENTS (cont'd)

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

Class E Central 1 shares are issued with a par value of $0.01 per share; however, they are redeemable at $100 per share at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably, as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonable assured. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Class F shares were redeemed by Central 1 subsequent to year end, see Note 29

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

The Credit Union previously maintained a membership in Credit Union Central of Ontario (CUCO). As of July 31, 2008, CUCO sold substantially all of its net assets to Credit Union Central of British Columbia (CUCBC) to form a new financial services entity named Central 1.

As a condition of the sale of net assets of CUCO to CUCBC, CUCO was required to divest itself of investments in certain non-bank sponsored asset-backed commercial paper (ABCP). A resolution was approved to facilitate the sale, which created a limited partnership (ABCP 2008 LP) to acquire these investments funded by member credit unions in proportion to their share of investments in CUCO. CUCO discontinued as a regulated financial institution and continued as a co-operative known as CUCO Co-operative Association (CUCO Co-op).

During the prior year, the operations and investments of CUCO Co-op were discontinued with all remaining proceeds distributed in the current year.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union does not hold or issue derivative financial instruments for trading or speculative purposes and controls are in place to prevent and detect these activities.

The Credit Union has $399,640, (2019 - $592,391) in Index-linked term deposits issued to its members. The Index-linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of the S&P TSX 60. The embedded derivative associated with these deposits are presented as derivative financial instruments (asset). The fair value of the embedded derivative is not material at the balance sheet date.

i) Cash flow hedges of interest rate risk
The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest at the commencement of the agreement on the face value of the products sold for the term of each Index-linked term deposit. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices.

The Credit Union has entered into two interest rate swap contracts for a total of $40,000,000, (2019 - $80,000,000) of notional principal, whereby it has agreed to pay at variable interest rates based on the Canadian Dealer Offered Rate for 30 days, and receive at fixed interest rates. The interest rate swap contracts commenced July 9, 2019, and January 15, 2020, respectively, have fixed interest rates of 1.93% and 1.60%, and mature January 11 and July 15, 2021, respectively. These contracts are measured at fair value.

The net position of the swap is included in derivative financial instruments. During the year, hedge ineffectiveness of $nil was recognized in the statement of earnings, (2019 - $nil) and hedge ineffectiveness of $nil was recognized in other comprehensive income, (2019 - $nil).

6. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

ii) Cash flow hedges of foreign currency risk

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to foreign currency risk. The Credit Union assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in foreign currency rates.

Under the Credit Union's policy, in order to conclude that the hedging relationship is effective, all of the following criteria should be met:

- The fair value or cash flow of the hedged item and the hedging derivative offset each other to a significant extent, within 75% to 125% of the hedging policy.

The Credit Union has implemented a maximum unhedged USD fund policy of $250,000.

In these hedge relationships, the main source of ineffectiveness is fluctuations in the USD/CAD foreign exchange rates during the year.

The Credit Union has entered into one CDN/USD swap contracts for a total of $3,000,000, (2019 - $3,000,000) of notional USD currency whereby the Credit Union purchased $3,898,028 CDN for $3,000,000 USD and agrees to buy $3,000,000 USD for $3,898,028 CDN on January 29, 2021. These contracts are measured at fair value. The net position of the hedge is included in Derivative financial instruments. During the year, hedge ineffectiveness of $nil was recognized in the statement of earnings, (2019 - $nil) and hedge ineffectiveness of $nil was recognized in other comprehensive income, (2019 - $nil).

7. LOANS TO MEMBERS

	2020	2019
Residential mortgages and HELOC	$ 491,876,191	$ 453,761,820
Personal loans	25,687,020	29,659,533
Agricultural loans	62,041,681	55,957,523
Commercial loans	144,956,060	140,542,507
	724,560,952	679,921,383
Accrued interest receivable	1,000,694	872,028
	725,561,646	680,793,411
Allowance for impaired loans	(3,000,801)	(1,215,322)
Net loans to members	$ 722,560,845	$ 679,578,089

TERMS AND CONDITIONS

Member loans can have either a variable or fixed rate of interest and generally are repayable in monthly blended payments of principal and interest.

Variable rate loans are based on a "prime rate plus" formula, ranging from prime minus 0.35% to prime plus 11.65%. The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2020 was 2.45%, (2019 - 3.95%).

The interest rate offered on fixed rate loans being advanced at December 31, 2020 ranges from 1.79% to 13.49%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

7. LOANS TO MEMBERS (cont'd)

Agricultural loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships, and corporations for agricultural purposes and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, assignments of crops and livestock, investments, and personal guarantees.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, and charges on specific equipment, investments, and personal guarantees.

The aggregate balance of syndicated loans as at December 31, 2020 was $20,139,785, (2019 - $20,996,182).

7. LOANS TO MEMBERS (cont'd)

AVERAGE YIELDS TO MATURITY

Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2020 Yield	Principal	2019 Yield
Variable rate with maturities within one year	$ 23,080,145	4.5 %	$ 20,600,796	5.9 %
Variable rate with maturities between one and five years	38,557,891	3.6	42,251,835	5.3
Variable rate with maturities greater than five years	1,471,753	3.8	1,200,637	5.2
Fixed rate with maturities within one year	80,932,922	3.2	71,545,288	3.3
Fixed rate with maturities between one and five years	535,163,754	3.3	490,318,691	3.5
Fixed rate with maturities greater than five years	32,272	5.0	104,955	4.5
Overdrafts	51,145	19.9	230,757	19.9
Lines of credit	45,271,070	3.8	53,668,424	5.4
	$ 724,560,952		$ 679,921,383	

7. LOANS TO MEMBERS (cont'd)

The fair value of fixed rate loans are estimated by discounted cash flow techniques using interest rates currently offered for loans with similar risk characteristics and terms to maturity. Fair value is measured at level 2 of the fair value hierarchy.

Accordingly, the estimated fair values of member loans at December 31, are as follows:

	2020	2019
Residential mortgages and HELOC	$ 499,145,000	$ 453,762,012
Personal loans	25,750,000	29,659,910
Agricultural loans	62,937,000	55,958,489
Commercial loans	146,570,000	140,541,826
	$ 734,402,000	$ 679,922,237

	2020	2019
Interest revenue:		
Residential mortgages and HELOC	$ 15,039,478	$ 14,656,914
Personal loans	1,494,866	2,029,411
Agricultural loans	2,299,336	2,203,365
Commercial loans	5,810,412	5,979,026
	$ 24,644,092	$ 24,868,716

7. LOANS TO MEMBERS (cont'd)

CONCENTRATION OF RISK

The Credit Union has a material exposure to concentration risk relating to its loan portfolio. The Agricultural sector of the commercial loan portfolio constitutes more than 10% of the overall commercial loan portfolio. The Credit Union mitigates this exposure by holding agricultural land as collateral when other mitigants are determined to be insufficient.

All member loans are with members located in and around southwestern Ontario.

ALLOWANCE FOR IMPAIRED LOANS

The analysis of loans, by class, together with related allowances for doubtful loans is as follows:

	Balance of Doubtful Loans	2020 Allowance	2019 Allowance
Residential mortgages	$ 110,997	$ 442,493	$ 42,094
HELOC	-	32,873	2,798
Personal	68,431	246,309	223,848
Agricultural	-	812,589	272,737
Commercial	200,001	1,466,537	673,845
	$ 379,429	$ 3,000,801	$ 1,215,322

7. LOANS TO MEMBERS (cont'd)

ALLOWANCE FOR IMPAIRED LOANS (cont'd)

The continuity of allowance for doubtful loans is as follows:

2020

	Opening Balance	Balance Recovered	Accounts Written Off	Provision for Doubtful Accounts	Closing Balance
Residential mortgages	$ 42,094	$ 1,481	$ -	$ 398,918	$ 442,493
HELOC	2,798	-	-	30,075	32,873
Personal	223,848	14,655	(30,420)	38,226	246,309
Agricultural	272,737	-	-	539,852	812,589
Commercial	673,845	-	-	792,692	1,466,537
	$1,215,322	$ 16,136	$ (30,420)	$1,799,763	$3,000,801

2019

	Opening Balance	Balance Recovered	Accounts Written Off	Provision for Doubtful Accounts	Closing Balance
Residential mortgages	$ 44,182	$ -	$ (17,282)	$ 15,194	$ 42,094
HELOC	52,472	-	-	(49,674)	2,798
Personal	215,500	39,727	(19,695)	(11,684)	223,848
Agricultural	209,638	-	-	63,099	272,737
Commercial	391,598	376	-	281,871	673,845
	$ 913,390	$ 40,103	$ (36,977)	$ 298,806	$1,215,322

As at December 31, 2020, the Credit Union has $4,034,586, (2019 - $4,627,146) of loans delinquent under 30 days, $612,177, (2019 - $646,958) in loans delinquent 30-90 days, and $226,580, (2019 - $491,505) in loans delinquent over 90 days.

7. LOANS TO MEMBERS (cont'd)

KEY ASSUMPTIONS IN DETERMINING THE ALLOWANCE FOR IMPAIRED LOANS

ECL is a function of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment to reflect factors not captured in ECL models.

The PD represents 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.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is 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.

The credit union considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In assessing information about possible future economic conditions, the credit union utilized multiple economic scenarios including our base case, which represents the most probable outcome and is consistent with its strategic plan, as well as benign and adverse forecasts. Key economic variables used in the determination of the allowance for credit losses reflect the geography of our portfolios, where appropriate.

In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used. For revolving instruments which may not have a defined contractual period, the lifetime is based on historical behaviour. The ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

7. LOANS TO MEMBERS (cont'd)

The credit union maintains an allowance for impaired loans (Stage 3) to reduce their carrying value to the expected recoverable amount. These allowances are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. The credit union reviews its loans on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. The review of individually significant problem loans is conducted at least quarterly by the account managers, each of whom assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan.

The following table shows the continuity in the loan allowance by each product type.

Residential mortgages

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	$ 30,009	$ 12,085	$ -	$ 42,094
Transfer to Stage 1	4,851	(4,851)	-	-
Transfer to Stage 2	(647)	647	-	-
Transfer to Stage 3	(19)	-	19	-
Net remeasurement of allowance	111,069	64,919	109,497	285,485
Loan originations	90,281	30,102	-	120,383
Derecognitions and maturities	(5,669)	(1,281)	-	(6,950)
Recoveries of previous write-offs	-	-	1,481	1,481
Balance, December 31, 2020	$ 229,875	$ 101,621	$ 110,997	$ 442,493

7. LOANS TO MEMBERS (cont'd)

HELOC

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	$ 2,447	$ 351	$ -	$ 2,798
Transfer to Stage 1	169	(169)	-	-
Transfer to Stage 2	(44)	44	-	-
Net remeasurement of allowance	15,145	4,975	-	20,120
Loan originations	9,925	461	-	10,386
Derecognitions and maturities	(340)	(91)	-	(431)
Balance, December 31, 2020	$ 27,302	$ 5,571	$ -	$ 32,873

Agricultural

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	$ 117,652	$ 155,085	$ -	$ 272,737
Transfer to Stage 2	(8,199)	8,199	-	-
Net remeasurement of allowance	130,206	254,818	-	385,024
Loan originations	202,014	-	-	202,014
Derecognitions and maturities	(15,177)	(32,009)	-	(47,186)
Balance, December 31, 2020	$ 426,496	$ 386,093	$ -	$ 812,589

7. LOANS TO MEMBERS (cont'd)

Personal

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	$ 116,304	$ 23,164	$ 84,380	$ 223,848
Transfer to Stage 1	9,840	(9,840)	-	-
Transfer to Stage 2	(1,121)	1,121	-	-
Transfer to Stage 3	(1,819)	-	1,819	-
Net remeasurement of allowance	6,521	10,363	(30,593)	(13,709)
Loan originations	47,803	7,555	3,583	58,941
Derecognitions and maturities	(23,684)	(8,329)	(35,462)	(67,475)
Write-offs	-	-	30,420	30,420
Recoveries of previous write-offs	-	-	14,284	14,284
Balance, December 31, 2020	$ 153,844	$ 24,034	$ 68,431	$ 246,309

Commercial

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	$ 259,103	$ 211,844	$ 202,898	$ 673,845
Transfer to Stage 2	(5,452)	5,452	-	-
Net remeasurement of allowance	388,764	210,169	-	598,933
Loan originations	332,154	19,033	-	351,187
Derecognitions and maturities	(79,956)	(74,575)	(2,897)	(157,428)
Balance, December 31, 2020	$ 894,613	$ 371,923	$ 200,001	$ 1,466,537
Total balance, December 31, 2020	$ 1,732,130	$ 889,242	$ 379,429	$ 3,000,801

7. LOANS TO MEMBERS (cont'd)

Residential mortgages

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	$ 31,553	$ 12,629	$ -	$ 44,182
Transfer to Stage 1	5,051	(5,051)	-	-
Transfer to Stage 2	(793)	793	-	-
Transfer to Stage 3	(90)	-	90	-
Net remeasurement of allowance	(15,347)	1,817	(90)	(13,620)
Loan originations	14,392	2,802	-	17,194
Derecognitions and maturities	(4,757)	(905)	17,282	11,620
Write-offs	-	-	(17,282)	(17,282)
Balance, December 31, 2019	$ 30,009	$ 12,085	$ -	$ 42,094

HELOC

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	$ 2,119	$ 353	$ 50,000	$ 52,472
Transfer to Stage 1	12	(12)	-	-
Transfer to Stage 2	(6)	6	-	-
Net remeasurement of allowance	343	60	-	403
Loan originations	598	134	-	732
Derecognitions and maturities	(619)	(190)	(50,000)	(50,809)
Balance, December 31, 2019	$ 2,447	$ 351	$ -	$ 2,798

7. LOANS TO MEMBERS (cont'd)

Agricultural

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	$ 204,970	$ 4,668	$ -	$ 209,638
Transfer to Stage 1	(88,627)	88,627	-	-
Net remeasurement of allowance	(9,785)	65,755	-	55,970
Loan originations	54,423	702	-	55,125
Derecognitions and maturities	(43,329)	(4,667)	-	(47,996)
Balance, December 31, 2019	$ 117,652	$ 155,085	$ -	$ 272,737

Personal

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	$ 106,196	$ 9,188	$ 100,116	$ 215,500
Transfer to Stage 1	1,431	(1,431)	-	-
Transfer to Stage 2	(2,884)	2,884	-	-
Transfer to Stage 3	(466)	-	466	-
Net remeasurement of allowance	(3,455)	10,164	14,519	21,228
Loan originations	41,835	6,720	6,301	54,856
Derecognitions and maturities	(26,353)	(4,361)	(16,990)	(47,704)
Write-offs	-	-	(19,695)	(19,695)
Recoveries of previous write-offs	-	-	(337)	(337)
Balance, December 31, 2019	$ 116,304	$ 23,164	$ 84,380	$ 223,848

7. LOANS TO MEMBERS (cont'd)

Commercial

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2019	$ 383,546	$ 530	$ 7,522	$ 391,598
Transfer to Stage 1	62	(62)	-	-
Transfer to Stage 2	(80,651)	80,651	-	-
Transfer to Stage 3	(6,113)	-	6,113	-
Net remeasurement of allowance	(23,519)	128,554	190,475	295,510
Loan originations	85,060	2,640	-	87,700
Derecognitions and maturities	(99,282)	(469)	(836)	(100,587)
Recoveries of previous write-offs	-	-	(376)	(376)
Balance, December 31, 2019	$ 259,103	$ 211,844	$ 202,898	$ 673,845
Total balance, December 31, 2019	$ 525,515	$ 402,529	$ 287,278	$ 1,215,322

CREDIT AND COUNTERPARTY RISK

Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or couterparty to repay a loan. Credit risk arises predominantly with respect to loans. This is the most significant measurable risk that the Credit Union faces.

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

7. LOANS TO MEMBERS (cont'd)

Residential mortgages - 2020

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 218,718,828	$ 159,625	$ 221,852	$ 219,100,305
Low	71,342,316	153,610	-	71,495,926
Medium	84,761,609	83,152	646,264	85,491,025
High	44,393,772	12,305,008	2,958,728	59,657,508
Not rated	4,719,230	191,412	-	4,910,642
Allowance for credit losses	(229,875)	(101,621)	(110,997)	(442,493)
Carrying amount	$ 423,705,880	$ 12,791,186	$ 3,715,847	$ 440,212,913

HELOC - 2020

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 30,118,488	$ -	$ -	$ 30,118,488
Low	7,348,569	-	-	7,348,569
Medium	8,574,524	-	-	8,574,524
High	4,503,129	336,762	127,248	4,967,139
Not rated	212,065	-	-	212,065
Allowance for credit losses	(27,302)	(5,571)	-	(32,873)
Carrying amount	$ 50,729,473	$ 331,191	$ 127,248	$ 51,187,912

Agricultural - 2020

	Stage 1	Stage 2	Stage 3	Total
Low	$ 1,793,791	$ -	$ -	$ 1,793,791
Medium	48,266,498	326,394	-	48,592,892
High	3,685,046	7,969,952	-	11,654,998
Allowance for credit losses	(426,496)	(386,093)	-	(812,589)
Carrying amount	$ 53,318,839	$ 7,910,253	$ -	$ 61,229,092

7. LOANS TO MEMBERS (cont'd)

Personal - 2020

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 11,855,679	$ -	$ 3,575	$ 11,859,254
Low	4,010,883	-	-	4,010,883
Medium	5,603,767	3,329	15,082	5,622,178
High	3,525,157	303,006	80,434	3,908,597
Not rated	286,086	-	22	286,108
Allowance for credit losses	(153,844)	(24,034)	(68,431)	(246,309)
Carrying amount	$ 25,127,728	$ 282,301	$ 30,682	$ 25,440,711

Commercial - 2020

	Stage 1	Stage 2	Stage 3	Total
Low	$ 5,405,581	$ -	$ -	$ 5,405,581
Medium	130,084,602	278,936	131,597	130,495,135
High	1,138,519	7,362,612	554,213	9,055,344
Allowance for credit losses	(894,613)	(371,923)	(200,001)	(1,466,537)
Carrying amount	$ 135,734,089	$ 7,269,625	$ 485,809	$ 143,489,523
Total balance, December 31, 2020	$ 688,616,009	$ 28,584,556	$ 4,359,586	$ 721,560,151

7. LOANS TO MEMBERS (cont'd)

Residential mortgages - 2019

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 193,562,846	$ 166,278	$ -	$ 193,729,124
Low	55,586,708	42,233	-	55,628,941
Medium	81,167,823	241,520	765,908	82,175,251
High	50,892,539	10,881,332	2,698,105	64,471,976
Not rated	5,669,319	127,861	146,718	5,943,898
Allowance for credit losses	(30,009)	(12,085)	-	(42,094)
Carrying amount	$ 386,849,226	$ 11,447,139	$ 3,610,731	$ 401,907,096

HELOC - 2019

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 31,304,798	$ -	$ -	$ 31,304,798
Low	7,717,956	-	-	7,717,956
Medium	7,513,696	-	-	7,513,696
High	4,535,860	443,632	129,606	5,109,098
Not rated	167,083	-	-	167,083
Allowance for credit losses	(2,447)	(351)	-	(2,798)
Carrying amount	$ 51,236,946	$ 443,281	$ 129,606	$ 51,809,833

Agricultural - 2019

	Stage 1	Stage 2	Stage 3	Total
Low	$ 2,417,006	$ -	$ -	$ 2,417,006
Medium	45,777,563	345,717	-	46,123,280
High	1,736,031	5,681,205	-	7,417,236
Allowance for credit losses	(117,652)	(155,085)	-	(272,737)
Carrying amount	$ 49,812,948	$ 5,871,837	$ -	$ 55,684,785

7. LOANS TO MEMBERS (cont'd)

Personal - 2019

	Stage 1	Stage 2	Stage 3	Total
Exceptionally low	$ 12,091,288	$ -	$ 12,387	$ 12,103,675
Low	4,940,860	-	2,902	4,943,762
Medium	6,985,749	-	-	6,985,749
High	4,827,963	423,338	69,476	5,320,777
Not rated	305,560	-	-	305,560
Allowance for credit losses	(116,304)	(23,164)	(84,380)	(223,848)
Carrying amount	$ 29,035,116	$ 400,174	$ 385	$ 29,435,675

Commercial - 2019

	Stage 1	Stage 2	Stage 3	Total
Very low	$ 509,926	$ -	$ -	$ 509,926
Low	5,661,421	-	-	5,661,421
Medium	125,264,794	88,732	-	125,353,526
High	429,071	8,315,833	272,739	9,017,643
Allowance for credit losses	(259,102)	(211,844)	(202,899)	(673,845)
Carrying amount	$ 131,606,110	$ 8,192,721	$ 69,840	$ 139,868,671
Total balance, December 31, 2019	$ 648,540,346	$ 26,355,152	$ 3,810,562	$ 678,706,060

7. LOANS TO MEMBERS (cont'd)

ECONOMIC VARIABLE ASSUMPTIONS

The most significant assumptions used for the estimated credit losses are as follows:

	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Base case:				
Unemployment rate	9.00	8.24	7.61	7.25
House price index	$ 254	$ 256	$ 257	$ 259
Domestic GDP (billions)	$ 2,025	$ 2,060	$ 2,105	$ 2,131
Best case:				
Unemployment rate	7.80	7.10	6.70	6.40
House price index	$ 259	$ 262	$ 263	$ 265
Domestic GDP (billions)	$ 2,046	$ 2,083	$ 2,130	$ 2,159
Worst case:				
Unemployment rate	10.35	9.44	8.71	8.24
House price index	$ 248	$ 250	$ 250	$ 252
Domestic GDP (billions)	$ 2,005	$ 2,037	$ 2,080	$ 2,103

8. OTHER ASSETS

	2020	2019
Prepaids	$ 961,552	$ 560,036
Income taxes recoverable	123,612	292,811
Accrued interest on foreign exchange hedge	236,065	61,635
Other receivables	(6,908)	7,800
	$ 1,314,321	$ 922,282

For financial instrument purposes, other assets, as applicable, have been classified as amortized cost.

9. CAPITAL ASSETS

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Cost - 2020					
Land	$ 3,721,122	$ -	$ -	$ -	$ 3,721,122
Buildings	13,484,425	-	95,066	-	13,579,491
Furniture and fixtures	2,785,595	-	53,109	-	2,838,704
Computer equipment	4,796,171	-	297,870	-	5,094,041
Leasehold improvements	837,749	-	216,833	-	1,054,582
Assets not in use	24,378	-	773,744	(714,566)	83,556
	$ 25,649,440	$ -	$ 1,436,622	$ (714,566)	$ 26,371,496

As at December 31, 2020, the assets not in use were not yet available to the branches for use. These assets were not subject to depreciation in the year.

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Accumulated Depreciation 2020					
Land	$ -	$ -	$ -	$ -	$ -
Buildings	5,040,226	-	371,648	-	5,411,874
Furniture and fixtures	2,270,702	-	147,478	-	2,418,180
Computer equipment	4,136,453	-	325,187	-	4,461,640
Leasehold improvements	573,021	-	54,663	-	627,684
	$ 12,020,402	$ -	$ 898,976	$ -	$ 12,919,378

9. CAPITAL ASSETS (cont'd)

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Cost - 2019					
Land	$ 3,721,122	$ -	$ -	$ -	$ 3,721,122
Buildings	13,403,109	-	81,316	-	13,484,425
Furniture and fixtures	2,796,545	-	1,490	(12,440)	2,785,595
Computer equipment	4,489,006	-	316,880	(9,715)	4,796,171
Leasehold improvements	973,952	-	-	(136,203)	837,749
Assets not in use	25,568	-	583,484	(584,674)	24,378
	$ 25,409,302	$ -	$ 983,170	$ (743,032)	$ 25,649,440

As at December 31, 2019, the assets not in use were not yet available to the branches for use. These assets were not subject to depreciation in the year.

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Accumulated Depreciation 2019					
Land	$ -	$ -	$ -	$ -	$ -
Buildings	4,669,449	-	370,777	-	5,040,226
Furniture and fixtures	2,125,781	-	150,924	(6,003)	2,270,702
Computer equipment	3,782,014	-	358,674	(4,235)	4,136,453
Leasehold improvements	607,640	-	45,151	(79,770)	573,021
	$ 11,184,884	$ -	$ 925,526	$ (90,008)	$ 12,020,402

9. CAPITAL ASSETS (cont'd)

Net Book Value

	2020	2019
Land	$ 3,721,122	$ 3,721,122
Buildings	8,167,617	8,444,199
Furniture and fixtures	420,524	514,893
Computer equipment	632,401	659,718
Leasehold improvements	426,898	264,728
Assets not in use	83,556	24,378
	$ 13,452,118	$ 13,629,038

10. ASSETS UNDER CAPITAL LEASE

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Cost - 2020					
Buildings	$ 371,201	-	$ -	$ -	$ 371,201
Accumulated Depreciation 2020					
Buildings	$ 92,631	-	$ 92,631	$ -	$ 185,262

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Cost - 2019					
Buildings	$ -	-	$ 371,201	$ -	$ 371,201
Accumulated Depreciation 2019					
Buildings	$ -	-	$ 92,631	$ -	$ 92,631

Net Book Value

	2020	2019
Land	$ -	$ -
Buildings	185,939	278,570
	$ 185,939	$ 278,570

11. INVESTMENT PROPERTY

	Balance open	Balance Acquired	Additions	Adjustments	Balance close
Cost - 2020					
Land	$ 297,500	$ -	$ -	$ -	$ 297,500
Building	923,033	-	-	(21,316)	901,717
	$ 1,220,533	$ -	$ -	$ (21,316)	$ 1,199,217

	Balance open	Balance Acquired	Additions	Disposals	Balance close
Accumulated Depreciation 2020					
Land	$ -	$ -	$ -	$ -	$ -
Building	164,023	-	26,211	-	190,234
	$ 164,023	$ -	$ 26,211	$ -	$ 190,234

11. INVESTMENT PROPERTY (cont'd)

	Balance open	Balance Acquired	Additions	Adjustments	Balance close
Cost - 2019					
Land	$ 297,500	$ -	$ -	$ -	$ 297,500
Building	718,394	-	204,639	-	923,033
	$ 1,015,894	$ -	$ 204,639	$ -	$ 1,220,533

	Balance open	Balance Acquired	Additions	Adjustments	Balance close
Accumulated Depreciation 2019					
Land	$ -	$ -	$ -	$ -	$ -
Building	142,063	-	21,960	-	164,023
	$ 142,063	$ -	$ 21,960	$ -	$ 164,023

Net Book Value

	2020	2019
Land	$ 297,500	$ 297,500
Building	711,483	759,010
	$ 1,008,983	$ 1,056,510

The fair value of investment property is determined by discounting the expected cash flows of the property based upon internal plans and assumptions and comparable market transactions. An appraisal was performed at the date of the acquisition of Lambton Financial Credit Union in 2014. The property is carried at the fair value at that amalgamation date, which is believed to be the best estimate of fair value as at December 31, 2020.

11. INVESTMENT PROPERTY (cont'd)

Investment property held by the Credit Union is leased out under operating leases. The future minimum lease payments under non-cancelable leases are as follows:

	2020	2019
Less than 1 year	$ 131,313	$ 161,137
Between 1 and 5 years	59,395	135,214
More than 5 years	-	-
	$ 190,708	$ 296,351

12. SHORT-TERM LOANS

Central 1 has authorized the Credit Union a clearing facility of $21,000,000 consisting of a $9,800,000 Canadian dollar facility, (2019 - $9,500,000), a $200,000 U.S. dollar facility, (2019 - $500,000) and a $11,000,000, (2019 - $11,000,000) demand facility expiring March 31, 2021 with the option to renew. The Credit Union also has a capital market line capacity of $100,000, (2019 - $200,000). At December 31, 2020, the Credit Union utilized $nil, (2019 - $nil) of the U.S. dollar facility and $nil, (2019 - $nil) of the demand facility. The Canadian dollar facility and market line capacity were both $nil, (2019 - $nil). The demand facility is repayable at a rate of prime plus 2.00%. The facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

13. MEMBERS' DEPOSITS

	2020	2019
Chequing	$ 182,811,881	$ 134,313,984
Savings	229,687,776	188,795,838
Term	161,053,023	153,466,829
Registered savings plans	217,152,685	211,460,837
Accrued interest	4,315,507	4,281,761
	$ 795,020,872	$ 692,319,249
Interest expense:		
Savings	$ 1,019,871	$ 1,552,695
Term	3,843,474	3,568,904
Registered savings plans	5,176,153	4,858,085
Other	5,933	32,010
	$ 10,045,431	$ 10,011,694

Terms and Conditions

Chequing and savings deposits are due on demand and bear interest at variable rates ranging from 0% to 1.19% at December 31, 2020. Interest is calculated daily and paid on the accounts monthly, semi-annually or annually.

13. MEMBERS' DEPOSITS (cont'd)

Terms and Conditions (cont'd)

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2020 range from 0% to 4.00%.

Registered savings plans consist primarily of registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs). These accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rates range from 0% to 1.10% at December 31, 2020.

Registered income funds consist primarily of registered retirement income funds (RRIFs) at both fixed and variable rates with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The Credit Union previously offered its members Index-linked term and RRSP deposits. These products pay interest to the depositor, at the end of their fixed terms, based on the performance of the S&P TSC 60. As at December 31, 2020, the Credit Union has $399,640, (2019 - $592,391) remaining of these products to its members for terms of three and five years.

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to fluctuation in the indices associated with this product. Under the agreement, the Credit Union pays Central 1 a fixed rate of interest at the commencement of the agreement on the face value of the products sold for the corresponding terms of three or five years. At the end of the term, Central 1 pays the Credit Union an amount equal to the amount that will be paid to the member based on the performance of the particular index.

13. MEMBERS' DEPOSITS (cont'd)

Fair Value

The fair value of member deposits and accrued interest at December 31, 2020 was $802,109,874, (2019 - $694,853,249).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits are repriced to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

Average Yields to Maturity

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

	Principal	2020 Yield	Principal	2019 Yield
Demand deposits	$ 447,956,449	0.2 %	$ 352,580,034	0.5 %
Fixed rate due in less than one year	$ 194,723,200	2.0 %	$ 151,453,531	2.3 %
Fixed rate due between 1 and 5 years	$ 148,025,716	2.4 %	$ 182,361,943	2.6 %

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

Credit Union policy states that any deposits being held by an individual or their connected persons that will have a significant impact on required operational liquidity if withdrawn, requires 60 days notice for withdrawal. Management will define "large deposits" for these purposes and advise the Board of Directors.

The Credit Union was not exposed to any individual or related groups of members that would have significant impact on required operational liquidity at December 31, 2020, (2019 - $nil).

Most members deposits are with members located in and around southwestern Ontario.

14. OTHER LIABILITIES

	2020	2019
Accounts payable	$ 3,996,696	$ 2,046,447
Certified cheques	372,577	383,645
Accrued investment share dividend	193,281	223,945
Accrued patronage return	338,023	441,348
	$ 4,900,577	$ 3,095,385

The accrued patronage return represents an estimated patronage to be paid to members in the form of patronage shares in the first quarter of 2021. The patronage return will be calculated based on a member's usage of Credit Union services during 2020.

15. CAPITAL LEASE OBLIGATIONS

	2020	2019
2.50% lease payable in monthly instalments of $2,260, secured by real property with a carrying value of $71,134, maturing September 2023	$ 72,002	$ 96,982
2.50% lease payable in monthly instalments of $2,058, secured by real property with a carrying value of $51,692, maturing February 2023	52,040	75,125
2.50% lease payable in monthly instalments of $3,970, secured by real property with a carrying value of $71,134, maturing April 2022	62,410	107,873
	186,452	279,980
Current portion	95,744	93,529
	$ 90,708	$ 186,451

15. CAPITAL LEASE OBLIGATIONS (cont'd)

Minimum future lease payments including interest of $5,166 are as follows:

2021	$	99,461
2022		67,700
2023		24,457
	$	191,618

16. GROUP SAVINGS PLAN

The Credit Union contributes to a defined-contribution group savings plan for its employees. Employees can contribute up to 5% of their gross salary, which is matched by the Credit Union. The amount contributed during the year was $401,007, (2019 - $397,009).

17. INCOME TAXES

	2020	2019

Reasons for the difference between tax expense for the year and the expected income taxes are as follows:

	2020	2019
Income tax expense per financial statements	$ 120,034	$ 269,661
Tax effect of prior year over accrual	380	(50,510)
Tax effect of credit union rate reduction	212,377	106,618
Tax effect of general tax rate reduction	332,638	173,255
Tax effect of other items	(112,318)	49,622
Income tax expense at statutory rate of 39.5%, (2019 - 39.5%)	$ 553,111	$ 548,646

The tax effect of differences between book and tax basis is accounted for in the deferred tax expense (recovery). These differences consist of the difference between depreciation expense and capital cost allowance, in the deductibility of the allowance for impaired loans, and in the inclusion of unrealized gains and losses on available-for-sale investments in income.

	2020	2019
Deferred tax expense:		
Origination and reversal of temporary differences	$ (331,836)	$ (29,834)

18. MEMBERSHIP SHARES

	2020	2019
Membership shares	$ 1,031,780	$ 1,026,800
Class A special patronage shares	2,757,629	2,419,615
Class B special investment shares	6,654,820	6,460,456
	$ 10,444,229	$ 9,906,871

Patronage or membership shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments. If they are recognized as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortised cost using the effective interest rate method. The fair value of the membership shares approximates their carrying value.

During the year, 33,618, (2019 - 74,620) membership shares were issued for proceeds of $168,092, (2019 - $373,099). During the year, 32,623, (2019 - 78,892) membership shares were redeemed for $163,113, (2019 - $394,460).

TERMS AND CONDITIONS

Membership shares

Membership shares are subscribed for at an issue price of $5 per share. Each adult member is entitled to one vote. The minimum number of shares required as a condition of membership for adults and businesses is 10 shares. These membership shares are redeemable at cost only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see note 22), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

18. MEMBERSHIP SHARES (cont'd)

Patronage shares
Class A patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any distributions on these shares. Patronage shares that are available for redemption are classified as a liability. Patronage rebates are at the discretion of the Board of Directors.

Investment shares
Class B investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares, initially issued in two offerings: Series 1 in March 1997 and Series 2 in July 2002 are redeemable subject to board approval and the Credit Union maintaining adequate regulatory capital.

Where the Credit Union has met its regulatory capital requirements, through subordinate classes of shares, the investment shares are deemed to be a compound instrument. The liability component is measured at the present value of the amount redeemable and the equity component which represents the discretionary dividends, is measured as the residual.

DISTRIBUTION TO MEMBERS	2020	2019
Patronage distributions	$ 318,170	$ 438,482
Dividends on investment shares	200,117	223,218
	$ 518,287	$ 661,700

19. SECURITIZATION

The Credit Union periodically may securitize mortgages through the transfer of mortgage loans to a special purpose entity as described below through programs sponsored by the Canada Mortgage and Housing Corporation (CMHC).

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. These arrangements allow the Credit Union to transfer fully insured residential mortgages to unrelated third parties, generally through the transfer of these assets to multi-seller conduits which issue securities to investors.

These transactions are derecognized from the balance sheet when the transaction meets the derecognition criteria below:

1. The Credit Union derecognizes financial assets when contractual rights to the cash flows from the asset have expired, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transfer nor retained substantially all of the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset.

2. The Credit Union derecognizes financial liabilities when it is extinguished, discharged, cancelled or expired.

During the year, the Credit Union has outstanding mortgage securitization liabilities pertaining to the use of a securitization vehicle to access liquidity.

Under the securitization vehicle, the Credit Union packages insured mortgage loan receivables into NHA Mortgage-Backed Securities (MBS) and in turn sells the MBS to Canada Housing Trust (CHT) directly through the Canada Mortgage Bonds (CMB) Program. CHT is financed through the issuance of government-guaranteed mortgage bonds, which are sold to third party investors. Proceeds of the issuances are used by CHT to purchase the government-guaranteed MBS from approved issuers.

19. SECURITIZATION (cont'd)

The Credit Union issues MBS to CHT under the terms of the CMB Program. Central 1, on behalf of the Credit Union, acts as counterparty to interest rate swap agreements under which Central 1 pays CHT the interest due to investors on the government-guaranteed mortgage bonds and received the interest on the MBS sold to CHT. The terms of the interest rate swap agreements are mirrored back exactly between Central 1 and the Credit Union, resulting in the Credit Union ultimately paying CHT the interest due to investors on the government-guaranteed mortgage bonds and receiving the interest on the MBS sold to CHT. Accordingly, because they prevent derecognition of MBS liabilities as per their amortization profiles, these interest rate swap agreements are not recognized.

As all mortgages securitized by the Credit Union are required to be fully insured prior to sale, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. The Credit Union remains exposed to interest rate and timely payment risks associated with the underlying assets.

As such, securitized residential mortgages generally do not meet the derecognition requirements of IFRS 9 and as a result, all loans are classified as loans and receivables and measured at amortised cost in the balance sheet. The securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortised cost, using the effective interest rate method. The Credit Union retains mortgage serving responsibilities but does not receive an explicit servicing fee. Furthermore, revenues and expenses have not been derecognized and the transactions are accounted for as financing transactions in the Credit Unions statement of comprehensive income.

(a) Securitization Activity

The following table summarizes the Credit Union's securitization activity in the year:

	2020	2019
Residential mortgages securitized	$ 8,946,929	$ 27,383,968
Net cash proceeds received	$ 8,876,365	$ 27,179,677
Outstanding balance of securitized mortgages	$ 34,417,237	$ 29,789,680
Unscheduled principal payment (UPP) reserve	$ 373,432	$ 207,625

19. SECURITIZATION (cont'd)

At December 31, 2020, the aggregate value of securitized loans outstanding amounted to $34,417,237, (2019 - $29,789,680). There were no mortgage loans that were delinquent as at December 31, 2020. In addition, there were no credit losses incurred on the mortgages transferred in 2020. No mortgages were transferred in 2019.

(b) Securitization Liabilities

	2020	2019
Current portion	$ 4,378,722	$ 991,729
Non-current portion	30,038,514	28,797,950
Discount on securitization	(267,613)	(279,012)
	$ 34,149,623	$ 29,510,667

The Credit Union retains a securitization liability for mortgages transferred. The liability bears an average fixed interest rate of 2.01%, (2019 - 2.27%) and bears a weighted average maturity date of 2023, (2018 - 2021). As at December 31, 2020, the liability was $34,417,237, (2019 - 29,789,680).

A discount of $352,633, (2019 - $328,168) on the securitization of mortgages in the current year is to be amortized over the life of the securitization liability. During the current year $85,020, (2019 - $49,154) of this expense was recognized. The ending balance at December 31, 2020 of the deferred discount is $267,613, (2019 - $279,012).

20. OTHER INCOME

	2020	2019
Other operating revenue	$ 331,387	$ 320,896
Service charge revenue	4,383,490	3,846,926
	$ 4,714,877	$ 4,167,822

21. ADMINISTRATIVE AND OCCUPANCY EXPENSES

	2020	2019
ADMINISTRATIVE EXPENSES		
Administrative assessment	$ 299,225	$ 275,251
Advertising and promotion	178,681	199,997
Board and committee	83,967	124,352
Data processing	1,533,350	1,575,007
Depreciation of office equipment	449,399	483,631
Education and conferences	128,065	186,569
Equipment maintenance	113,305	97,909
Insurance	237,584	231,947
League dues	101,348	101,946
Miscellaneous	31,653	35,672
Office	314,264	400,282
Professional services	176,190	245,984
Service charges	645,273	482,378
Strategic initiatives	103,568	224,535
Telephone	99,143	101,114
Travel	64,080	159,777
	$ 4,559,095	$ 4,926,351
OCCUPANCY		
Depreciation of buildings	$ 545,152	$ 529,641
Maintenance and repairs	524,341	514,402
Municipal taxes	230,256	204,815
Rent	73,950	92,044
Utilities	325,943	340,899
	$ 1,699,642	$ 1,681,801

22. CAPITAL MANAGEMENT

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

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

a) Capital shall not be less than 4% of the book value of assets; and
b) Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union considers its capital to include membership shares (member shares, patronage shares, investment shares), contingency reserve and accumulated other comprehensive income. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2020 was $423,381,758, (2019 - $387,511,820).

As at December 31, 2020, the Credit Union met the capital requirements of the Act with a calculated additional risk weighted capital ratio of 6.24%, (2019 - 7.27%) and a risk weighted capital ratio of 14.24% (2019 - 14.66%).

Regulatory capital consists of the following:	2020	2019
Tier 1 capital		
Membership shares	$ 1,031,780	$ 1,026,802
Other membership shares - non-redeemable portion	8,471,204	7,992,063
Contingency reserve	47,242,629	45,958,411
	56,745,613	54,977,276
Tier 2 capital		
Loan provision for stage 1 and stage 2 loans	2,621,373	928,044
Other membership shares - redeemable portion	941,245	888,008
	3,562,618	1,816,052
Total regulatory capital	$ 60,308,231	$ 56,793,328

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

General Objectives, Policies and Processes

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

Credit Risk

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

Risk Measurement

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

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

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

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

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Risk Measurement (cont'd)

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

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly. For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is $nil, (2019 - $nil).

A sizeable portfolio of the loan book is secured by residential property in Strathroy, Goderich, Lambton County and Chatham-Kent in the province of Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

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

Risk Measurement

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

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions. Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 6%.

The Credit Union manages liquidity risk by:

a) Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
b) Monitoring the maturity profiles of financial assets and liabilities;
c) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
d) Monitoring the liquidity ratios weekly.

The Board of Directors receives quarterly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at December 31, 2020, the position of the Credit Union is as follows:

Qualifying liquid assets on hand:	**Maximum exposure**
Cash	$ 90,012,486
Deposits in Central 1 or a financial institution	59,359,545
	149,372,031
Total liquidity required	53,545,520
Excess liquidity	$ 95,826,511

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

The maturities of liabilities are shown below under market 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.

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

Market Risk

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

Interest Rate Risk

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

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

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Objectives, Policies and Procedures (cont'd)

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Financial Services Regulatory Authority of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Financial Services Regulatory Authority of Ontario as required by Credit Union regulations. For the year ended 2020, the Credit Union was in compliance with this policy.

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

Maturity dates

	Assets	Yield (%)	Liabilities	Cost (%)
Non-interest Sensitive				
Variable rates	$ 98,347,036		$ 448,871,075	
Interest Sensitive				
0-3 months	75,872,565	1.3	63,994,979	2.6
4-12 months	110,164,233	2.8	134,080,851	1.8
1-2 years	114,885,661	3.2	71,232,231	2.1
2-5 years	470,430,020	3.4	115,727,965	2.7
More than 5 years	1,504,025	3.8	-	-
Total Interest Sensitive	772,856,504		385,036,026	
Total	$ 871,203,540		$ 833,907,101	

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Objectives, Policies and Procedures (cont'd)

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.00% could result in an increase to net income of $139,000 while a decrease in interest rates of 1.00% could result in a decrease to net income of $106,000.

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

Currency Risk

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

The Credit Union's foreign exchange risk is related to United States dollar deposits and investments. Foreign currency changes are continually monitored by management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Risk Measurement

The Credit Union's position is measured weekly. Measurement of risk is based on the level of foreign currency assets versus liabilities and the current exchange rates available.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $250,000 in U.S. funds.

For the year ended December 31, 2020, the Credit Union's exposure to foreign exchange risk is within policy.

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

24. FINANCIAL INSTRUMENTS

The credit union's financial instruments consist of liquid assets, investments, loans to members, other assets excluding income taxes and prepaids, member deposits, other liabilities, and foreign exchange and interest rate swaps.

The credit union's major source of income is financial margin, which is the difference between interest earned on investments and loans and interest paid on deposits and borrowings. The credit union has established policies and related reporting processes to manage its exposure to fluctuating interest rates, (interest rate risk) and exposure to financial loss resulting from the failure of a party to honour its financial or contractual obligations, (credit risk).

The differences between the book value and estimated fair value of the Credit Union's loans, deposits and other financial instruments are due primarily to changes in interest rates. The fair value of the financial assets and the financial liabilities has not been determined due to the cost and timeliness associated in determining this information with any degree of reliability. The carrying value of the credit union's financial instruments is not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is the credit union's intention to realize their value over time by holding them to maturity.

25. COMMITMENTS

Member Loans

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

	2020
Unadvanced loans	$83,343,702
Unused lines of credit	$86,432,231
Letters of credit	$ 1,226,848

Contractual Obligations

The Credit Union has the following contractual obligations at December 31, 2020 relating to lease and maintenance service obligations:

2021	$ 87,460
2022	59,353
2023	21,825
	$ 168,638

The Credit Union also has an agreement with CDSL Canada Limited, referred to as CGI, regarding technology and banking system fees. The Credit Union is required to pay a monthly fee per member which ranged from $1.83 to $2.08 per member as at December 31, 2020. The Credit Union is also responsible for paying monthly fees based on additional services used. These additional fees are not included in the above per member fee.

26. RELATED PARTY TRANSACTIONS

	2020	2019
Compensation		
Salaries and other short-term employee benefits	$ 1,700,738	$ 1,617,197
Total pension and other post employment benefits	108,532	195,807
	$ 1,809,270	$ 1,813,004

	2020	2019
Loans to key management personnel and restricted parties		
Aggregate value of loans advanced	$ 3,474,822	$ 983,371
Interest received on loans advanced	$ 74,753	$ 26,941
Total value of lines of credit advanced	$ 15,971	$ 407,621
Interest received on lines of credit advanced	$ 83	$ 15,452
Unused value of lines of credit	$ 1,830,651	$ 222,285

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

	2020	2019
Deposits from key management personnel and restricted parties		
Aggregate value of term and savings deposits	$ 1,567,153	$ 2,103,041
Interest paid on term and savings deposits	$ 8,848	$ 15,765

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

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

26. RELATED PARTY TRANSACTIONS (cont'd)

Remuneration of Officers and Employees

2020

	Salary	Benefits	Total
Janet Grantham, CEO	$336,820	$ 22,524	$359,344
Kevin Boersma, Senior Vice President	$204,281	$ 14,183	$218,464
Holly Gawne, Senior Vice President	$201,194	$ 14,154	$215,348
Matt Goss, Senior Vice President	$180,081	$ 12,636	$192,717
Sandra Ferguson, Senior Vice President	$172,845	$ 8,786	$181,631

2019

	Salary	Benefits	Total
Janet Grantham, CEO	$306,592	$ 30,522	$337,114
Shawn Bustin, Executive Vice President	$276,625	$ 23,280	$299,905
Kevin Boersma, Senior Vice President	$184,277	$ 22,606	$206,883
Holly Gawne, Senior Vice President	$172,546	$ 21,335	$193,881
Matt Goss, Senior Vice President	$156,409	$ 20,619	$177,028

27. FINANCIAL INSTRUMENTS CLASSIFICATION AND FAIR VALUE

2020	Amortized Cost	Fair value through profit or loss	Cash Flow Hedges	Fair value Hedges	Loans Amortized Cost	Liabilities Amortized Cost	Total
Cash	$ 90,012,486	$ -	$ -	$ -	$ -	$ -	$ 90,012,486
Investments	-	63,127,649	-	-	-	-	63,127,649
Derivative financial instruments	-	-	(78,428)	127,864	-	-	49,436
Loans to members	-	-	-	-	722,560,845	-	722,560,845
Other assets	-	-	-	-	1,314,321	-	1,314,321
Member deposits	-	-	-	-	-	795,020,872	795,020,872
Securitization	-	-	-	-	-	34,149,623	34,149,623
Member shares	-	-	-	-	-	10,444,229	10,444,229
Other liabilities	-	-	-	-	-	4,900,577	4,900,577
	$ 90,012,486	$ 63,127,649	$ (78,428)	$ 127,864	$ 723,875,166	844,515,301	$ 1,721,580,038

bakertilly

27. FINANCIAL INSTRUMENTS CLASSIFICATION AND FAIR VALUE (cont'd)

	Amortized Cost	Fair value through profit or loss	Cash Flow Hedges	Fair Value Hedges	Loans Amortized Cost	Liabilities Amortized Cost	Total
2019							
Cash	$ 33,577,167	$ -	$ -	$ -	$ -	$ -	$ 33,577,167
Investments	-	53,147,301	-	-	-	-	53,147,301
Derivative financial instruments	-	-	(51,285)	(173,775)	-	-	(225,060)
Loans to members	-	-	-	-	679,578,089	-	679,578,089
Other assets	-	-	-	-	922,282	-	922,282
Member deposits	-	-	-	-	-	692,319,249	692,319,249
Securitization	-	-	-	-	-	29,510,667	29,510,667
Member shares	-	-	-	-	-	9,906,871	9,906,871
Other liabilities	-	-	-	-	-	3,095,385	3,095,385
	$ 33,577,167	$ 53,147,301	$ (51,285)	$ (173,775)	$ 680,500,371	$ 734,832,172	$ 1,501,831,951

bakertilly

27. FINANCIAL INSTRUMENTS CLASSIFICATION AND FAIR VALUE (cont'd)

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

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

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

	Level 1	Level 2	Level 3	Total
2020				
Derivative financial instruments	$ -	$ (49,436)	$ -	$ (49,436)
Investments	59,359,545	-	-	59,359,545
	$ 59,359,545	$ (49,436)	$ -	$ 59,310,109

	Level 1	Level 2	Level 3	Total
2019				
Derivative financial instruments	$ -	$ (225,060)	$ -	$ (225,060)
Investments	48,472,910	-	-	48,472,910
	$ 48,472,910	$ (225,060)	$ -	$ 48,247,850

28. SIGNIFICANT EVENT

Before year end, there was a global outbreak of a novel strain of coronavirus known as COVID-19, which has had significant impacts on Credit Unions through the restrictions put in place by the Canadian and United States governments regarding travel, business operations and isolation/quarantine orders. The extent of of the impact the COVID-19 outbreak may have on the Credit Union will depend on future developments that are highly uncertain, and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, the duration of the outbreak, including the length of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are, or may, be put in place by Canada, United States or other countries to fight the virus.

Mainstreet has responded to the COVID-19 pandemic in a variety of ways:

- Members were able to defer loan payments for up to six months, at its peak, deferrals reached 9.47% of our total loan portfolio or $65,508,427, while there are some costs related to the deferral of loan interest, the recovery of those funds was in large part complete by year end.

- Commercial members were able to obtain Canadian Emergency Business Account loans through the credit union. Balance of these loans as of December 31st, 2020 was $11,370,000. These loans are held off-balance.

- The allowance for doubtful loans ended the year at $3,000,000 versus a budget of $1,350,000, the difference of $1,650,000 was expensed in 2020 and had a profound impact on net income.

29. SUBSEQUENT EVENT

In the Fall of 2019, Central 1's Board of Directors approved a plan to segregate the mandatory liquidity pool (MLP) held by its members to meet regulator requirements to ensure these assets are bankruptcy remote and creditor-proof. This plan involves restructuring the MLP such that each credit union will hold its MLP assets individually effective January 1, 2021. Effective January 4, 2021 the Credit Union has elected to set up a trust account with Central 's Credential platform. In doing this Mainstreet Credit Union received assets in exchange for the Liquidity Reserve Deposits held with Central 1, as well as redeeming 2,457,716 Central 1 Class F shares at $1 per share. The Credit Union recognized a gain of $213,561 subsequent to yearend as a result of this transaction.