

**Momentum Credit Union Limited**  
**Financial Statement**  
*December 31, 2019*

# MOMENTUM CREDIT UNION LIMITED

## TABLE OF CONTENTS

For the year ended December 31, 2019

	Page
Management's Responsibility.....	1
Independent Auditor's Report.....	2-3
Financial Statements	
Statement of Financial Position.....	4
Statement of Income and Comprehensive Income.....	5
Statement of Changes in Members' Equity.....	6
Statement of Cash Flows.....	7
Notes to the Financial Statements.....	8 - 44

## MANAGEMENT'S RESPONSIBILITY

To the Members of Momentum Credit Union Limited:

The accompanying financial statements of Momentum Credit Union Limited (the "Credit Union") are the responsibility of management and have been approved by the Board of Directors.


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

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

The Board of Directors are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board of Directors fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board of Directors is also responsible for recommending the appointment of the Credit Union's external auditor's.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditor's have full and free access to, and meet periodically and separately with, both the Board of Directors and management to discuss their audit findings.

April 29, 2020



---

Chief Executive Officer



---

Director of Finance

# **INDEPENDENT AUDITOR'S REPORT**

To the Members of Momentum Credit Union Limited:

## **Opinion**

We have audited the accompanying financial statements of Momentum Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statement of income and comprehensive income, changes in members' equity and cash flows for the year then ended, 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, 2019 and its financial performance and 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 Matter**

The financial statements of the Credit Union for the year ended December 31, 2018 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion on those financial statements dated March 11, 2019.

## **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.

## **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.

# MOMENTUM CREDIT UNION LIMITED

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 auditors' 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 auditors' 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.

*MNP LLP*

Burlington, Ontario

**Chartered Professional Accountants**


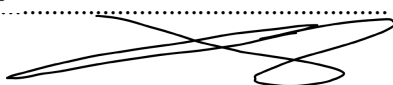
April 29, 2020

**Licensed Public Accountants**

# **MOMENTUM CREDIT UNION LIMITED** **STATEMENT OF FINANCIAL POSITION**

<b>As at December 31</b>	<b>2019</b>	<b>2018</b>
	\$	\$
<b>Assets</b>		
Cash and interest-bearing deposits	13,941,366	6,695,634
Investments (Note 6)	17,375,010	14,590,187
Derivatives (Note 7)	22,937	20,021
Loans to members (Note 8)	160,769,231	175,732,627
Accounts receivable	120,704	137,988
Prepaid expenses	68,381	59,475
Income taxes recoverable	-	66,621
Property, equipment and right-of-use asset (Note 10)	4,051,542	3,586,457
Intangible assets (Note 11)	294,152	343,750
Deferred income taxes (Note 20)	237,000	288,360
Defined benefit plan (Note 12)	94,400	28,800
<b>TOTAL ASSETS</b>	<b>196,974,723</b>	<b>201,549,920</b>
<b>Liabilities</b>		
Term loans (Note 13)	-	5,450,000
Members' deposits (Note 15)	184,718,517	184,348,490
Accounts payable and accrued liabilities	517,879	583,841
Lease liability (Note 14)	422,474	-
Derivatives (Note 7)	22,937	20,021
Obligation for post-retirement benefits (Note 12)	1,359,600	1,290,700
Shares (Note 16)	363,308	385,331
<b>TOTAL LIABILITIES</b>	<b>187,404,715</b>	<b>192,078,383</b>
<b>Members' Equity</b>		
Shares (Note 16)	2,900,467	3,084,907
Retained earnings	5,257,450	4,961,539
Accumulated other comprehensive income	(653,706)	(640,706)
Contributed surplus	2,065,797	2,065,797
<b>TOTAL MEMBERS' EQUITY</b>	<b>9,570,008</b>	<b>9,471,537</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>196,974,723</b>	<b>201,549,920</b>

*Approved on behalf of the Board of Directors:*

  
..... *Director*  
  
..... *per*  ..... *Director*

# MOMENTUM CREDIT UNION LIMITED

## STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the year ended December 31	2019 \$	2018 \$
Interest revenue (Note 18)	7,091,656	7,131,632
Interest expense (Note 19)	3,191,158	2,884,764
<b>Interest margin</b>	<b>3,900,498</b>	<b>4,246,868</b>
Other income	795,814	1,020,007
<b>Income before operating expenses</b>	<b>4,696,312</b>	<b>5,266,875</b>
<b>Operating expenses</b>		
Employee salaries and benefits	2,001,428	2,767,560
Data processing	434,384	425,983
Administration	822,820	793,346
Insurance	279,544	269,815
Collections and bad debts	138,650	2,241,192
Occupancy	247,276	357,817
Staff and director expenses (Note 22)	145,540	64,196
Depreciation and amortization	279,399	205,373
	<b>4,349,041</b>	<b>7,125,282</b>
<b>Income (loss) before income taxes</b>	<b>347,271</b>	<b>(1,858,407)</b>
Income taxes – current (Note 20)	-	(45,884)
Income taxes – deferred (Note 20)	51,360	(205,322)
<b>Net income (loss) for the year</b>	<b>295,911</b>	<b>(1,607,201)</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
Unrealized gain on derivative instruments designated as cash flow hedges	-	9,610
Tax effect of unrealized gains on cash flow hedges	-	(1,441)
Actuarial (loss) gain on defined benefit plan and post-retirement benefits	(13,000)	234,700
Tax effect of actuarial loss	-	(46,316)
<b>Other comprehensive (loss) income for the year</b>	<b>(13,000)</b>	<b>196,553</b>
<b>Comprehensive income (loss) for the year</b>	<b>282,911</b>	<b>(1,410,648)</b>

# MOMENTUM CREDIT UNION LIMITED

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended December 31

	<b>Accumulated other comprehensive income</b>					
	<b>Post-retirement benefits</b>	<b>Cash flow hedge</b>	<b>Shares</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at January 1, 2018</b>	<b>(829,090)</b>	<b>(8,169)</b>	<b>3,290,783</b>	<b>2,065,797</b>	<b>6,568,740</b>	<b>11,088,061</b>
Net loss	-	-	-	-	(1,607,201)	(1,607,201)
Distributions to members	-	-	31,408	-	-	31,408
Redemptions of shares, net	-	-	(237,284)	-	-	(237,284)
Actuarial gain on defined benefit plan and post-retirement benefits	188,384	-	-	-	-	188,384
Unrealized gain on derivative instruments	-	8,169	-	-	-	8,169
<b>Balance at December 31, 2018</b>	<b>(640,706)</b>	<b>-</b>	<b>3,084,907</b>	<b>2,065,797</b>	<b>4,961,539</b>	<b>9,471,537</b>
Net income	-	-	-	-	295,911	295,911
Redemptions of shares, net	-	-	(184,440)	-	-	(184,440)
Actuarial loss on defined benefit plan and post-retirement benefits	(13,000)	-	-	-	-	(13,000)
<b>Balance at December 31, 2019</b>	<b>(653,706)</b>	<b>-</b>	<b>2,900,467</b>	<b>2,065,797</b>	<b>5,257,450</b>	<b>9,570,008</b>

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



# MOMENTUM CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

For the year ended December 31,	2019 \$	2018 \$
<b>Cash flows from (used by) operating activities</b>		
Net income (loss)	295,911	(1,607,201)
Adjustments for:		
Interest revenue	(7,091,656)	(7,131,632)
Interest expense	3,191,158	2,884,764
Interest expense on lease liability	17,958	-
Interest received on member loans	6,456,941	6,649,919
Interest received on investments	526,887	414,400
Interest paid on member deposits	(2,985,289)	(2,925,613)
Depreciation and amortization	279,399	205,373
Deferred income taxes	51,360	(205,322)
Net change in non-cash working capital (Note 21)	(3,070)	93,542
Changes in members' activities:		
Net change in loans to members	15,076,039	(1,019,109)
Net change in members' deposits	164,158	(10,230,091)
	<u>15,979,796</u>	<u>(12,870,970)</u>
<b>Cash flows used by financing activities</b>		
Term loans	(5,450,000)	2,450,000
Shares	(206,463)	(230,484)
Payments on lease liability	(90,852)	-
	<u>(5,747,315)</u>	<u>2,219,516</u>
<b>Cash flows from investing activities</b>		
Purchase of property, equipment and intangibles	(199,518)	(380,932)
Investments	(2,787,231)	1,604,982
	<u>(2,986,749)</u>	<u>1,224,050</u>
<b>Net increase (decrease) in cash and interest-bearing deposits</b>	7,245,732	(9,427,404)
<b>Opening cash and interest-bearing deposits, beginning of year</b>	6,695,634	16,123,038
<b>Closing cash and interest-bearing deposits, end of year</b>	<u>13,941,366</u>	<u>6,695,634</u>

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 1. NATURE OF OPERATIONS

#### **Reporting Entity**

Momentum Credit Union Limited (the "Credit Union") is a company incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario. The Credit Union offers retail banking services to its members. The head office is located at 435 York Boulevard, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on April 29, 2020.

### 2. BASIS OF PRESENTATION

#### **Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2019.

#### **Basis of measurement**

These financial statements have been prepared on a going concern basis under a historical cost convention, except for derivatives and equity investments that have been measured at fair value.

#### **Functional and presentation currency**

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

#### **Use of estimates and judgments**

The preparation of financial statements requires management to make estimates and judgements that affect the application of the Credit Union's accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. 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 4.

### 3. CHANGE IN ACCOUNTING POLICY

#### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Credit Union adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Credit Union elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at January 1, 2019. Instead, the Credit Union applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 3. CHANGE IN ACCOUNTING POLICY (continued)

Upon adoption of IFRS 16, the Credit Union applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 5 *Leases* for the accounting policy beginning January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Credit Union.

The effect of adopting IFRS 16 as at January 1, 2019 results in the following increases:

#### **Assets**

Property, equipment and right-of-use asset	\$495,368
--	-----------

#### **Liabilities**

Lease liability	\$495,368
-----------------	-----------

The right-of-use assets will be reported with Property, equipment and right-of-use asset and the lease liabilities will be report with Lease liability for the Credit Union. The Credit Union has a lease contract for a branch and IT equipment. Before adoption of IFRS 16, the Credit Union classified each of its leases at the inception date as either a finance lease or an operating lease. The Credit Union does not have any leases that were initially classified as finance leases. Refer to Note 5 *Leases* for the accounting policy prior to January 1, 2019.

The Credit Union recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognized based on the present value of the remaining lease payments at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of 3.95% at the date of initial application.

The Credit Union also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of \$495,368 were recognized and included in property, equipment and right-of-use asset in the statement of financial position.
- Lease liabilities of \$495,368 were recognized and included in lease liability in the statement of financial position.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 3. CHANGE IN ACCOUNTING POLICY (continued)

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018	\$ 556,160
Discounted using the Credit Union's incremental borrowing rate as at January 1, 2019	\$ (60,792)
	<hr/>
Lease liabilities as at January 1, 2019	<hr/> <b>\$ 495,368</b>

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgement. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date 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. Management bases its assumptions on observable data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

#### **Classification of financial assets**

Classification of financial assets requires management to make judgements regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers supports the solely payments of principal and interest criteria because they represent reasonable additional compensation for early termination of the contract.

#### **Allowance for expected credit losses ("ECL")**

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Allowance for expected credit losses (“ECL”) (continued)

The Credit Union’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The key inputs in the measurement of ECL allowances are as follows;

- The probability of default (“PD”) is an estimate of the likelihood of default over a given time horizon;
- The loss given default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default (“EAD”) is an estimate of the exposure at a future default date

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Credit Union’s criteria for assessing if there has been a significant increase in credit risk and therefore allowances for financial assets should be measured on a lifetime ECL basis
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Credit Union’s policy to regularly review its models in the context of actual loss experience and adjust when necessary.

#### Estimating the incremental borrowing rate

The Credit Union cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (‘IBR’) to measure lease liabilities. The IBR is the rate of interest that the Credit Union would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Credit Union ‘would have to pay’, which requires estimation when no observable rates are available. The Credit Union estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific risk adjustments.

#### Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### **Obligation for post-retirement benefits**

The Credit Union sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

#### **Income taxes**

The Credit Union periodically assess 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.

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Cash and interest-bearing deposits**

Cash and interest-bearing deposits include cash on hand and operating deposits with financial institutions. Cash and interest-bearing deposits are classified as measured at fair value through profit or loss.

#### **Central 1 Deposits and Concentra Financial Investments**

Deposits with Central 1 are initially measured at fair value plus transaction costs, and are subsequently measured at amortized cost.

#### **Central 1 Credit Union and Concentra Financial Equity Instruments**

Equity instruments are classified at fair value through profit or loss.

#### **Other Equity Instruments**

Other equity instruments are classified as measured at fair value through profit or loss.

#### **Derivatives**

The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in fair value and interest rates. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the Credit Union determines, for each derivative, whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a cash flow hedge of a specifically identified group of assets or liabilities. The Credit Union formally assesses and documents whether these derivatives are effective in offsetting changes in cash flows of hedged assets or liabilities.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Derivatives (continued)**

These derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Gains and losses resulting from changes in fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income. The ineffective portion is recognized immediately in income as other income.

#### **Loans to members**

Loans to members are financial assets with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis have been classified as amortized cost. Loans to members are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any ECL. An ECL is deducted from the gross amount of the loans on the statement of financial position.

#### **Property, equipment and right-of-use asset**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in *Leases*.

Depreciation of assets is calculated over the estimated useful life of the assets, as follows:

Building	40	years straight-line
Right-of-use assets		Lesser of the lease term and useful life
Furniture and fixtures	20%	declining balance
Computer equipment	5	years straight-line
ATM machine	10	years straight-line

The useful lives of items of property, equipment and right-of-use asset are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, equipment and right-of-use asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income (loss).

#### **Intangible assets**

Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Amortization is provided using the straight-line basis over 10 years.

#### **Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Income taxes (continued)**

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 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.

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 income will be available to 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).

#### **Leases**

##### **Policy applicable before January 1, 2019**

Leases were classified in accordance with IAS 17 – *Leases*, whereby the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. In some cases, the lease transaction is not always conclusive, and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. If this determination is positive, the related asset is then recognized by the lessee at the inception of the lease at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A corresponding amount is recognized as a finance lease liability.

The Credit Union's lease agreements were classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

##### **Policy applicable as of January 1, 2019**

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



# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Leases (continued)**

The Credit Union applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Credit Union recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### ***Right-of-use assets***

The Credit Union recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lesser of the lease term and its useful life.

The right-of-use assets are presented within Property, equipment and right-of-use assets and are subject to impairment in line with the Credit Union's policy as described in *Impairment of non-financial assets*.

#### ***Lease liabilities***

At the commencement date of the lease, the Credit Union recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of an extension option reasonably certain to be exercised by the Credit Union and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. The lease term includes extension and termination options if reasonably certain to be exercised.

#### **Accounts payable and accrued liabilities**

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 are carried at amortized cost using the effective interest rate method.

#### **Members' deposits**

All members' 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 amortized cost, using the effective interest rate method.

#### **Members' shares**

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Obligation for post-retirement benefits**

The Credit Union has a defined benefit plan. The liability is recognized as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for any actuarial gains or losses and past service costs. Actuarial gains and losses have been recognized in other comprehensive income (loss) in the period in which they occur. Past service costs are recognized immediately in net income (loss). Contributions are recognized as employee benefit expense when they are due. Excess (shortfall) of contribution payments over the contribution due for service, is recorded as an asset (liability).

#### **Foreign currency translation**

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

#### **Financial instruments**

##### **Financial assets**

##### ***Recognition and initial measurement***

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transactions costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in net income (loss) when incurred.

##### ***Classification and subsequent measurement***

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

Debt instruments are classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in the income (loss). Financial assets measured at amortized cost are comprised of liquidity and term deposits, loans to members and accounts receivable.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Classification and subsequent measurement* (continued)

- Fair value through other comprehensive income – Assets that are held for collection of contractual cash flows and selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive is reclassified to net income (loss). The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss – Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and interest-bearing deposits, equity instruments and derivatives.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares in Central 1, Concentra and CU CUMIS Wealth Holdings LP Inc..

#### *Business model assessment*

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

#### *Contractual cash flow assessment*

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

#### *Reclassifications*

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

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment*

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

For loans to members, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition, which is defined as 30 plus days overdue from its contractual payment terms. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for its accounts receivable that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing covenants, 90 or more days delinquent, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses, with interest revenue calculated based on the net carrying value of the asset, rather than the gross amount.

Loss allowances for expected credit losses are presented in the statements of financial position as follows:

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

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

#### *Derecognition of financial assets*

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Derecognition of financial assets* (continued)

For this purpose, a financial asset is transferred if the Credit Union either:

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

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

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in net income (loss). Such transactions include the sale of loan pools.

#### *Modification of financial assets*

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

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

### **Financial liabilities**

#### *Recognition and initial measurement*

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

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Classification and subsequent measurement*

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in net income (loss).

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, accounts payable and accrued liabilities, and term loans and member shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

#### *Derecognition of financial liabilities*

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

#### **Revenue recognition**

The following describes the Credit Union's principal activities from which it generates revenue.

#### *Interest income*

Interest income and expense are recognized in net income (loss) using the effective interest method.

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

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

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

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Interest income* (continued)

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

#### *Other income*

The Credit Union generates revenue from other revenue streams including service charges, ATM surcharges, prepayment penalties, mutual fund commissions, and insurance commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

#### **Fair value measurements**

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgement, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

#### **Accounting Standards Issued But Not Yet Applied**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2020. The standards impacted that may be applicable to the Credit Union are as follows:

##### *Amendments to IAS 1 and IAS 8: Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Credit Union.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 6. INVESTMENTS

	2019 \$	2018 \$
<b>Liquidity and term deposits</b>		
Central 1 liquidity reserve deposit	12,090,060	12,270,240
Central 1 term deposit	3,000,000	-
Accrued interest	42,536	44,944
	<u>15,132,596</u>	<u>12,315,184</u>
<b>Equity instruments</b>		
Central 1 Credit Union – Class A	73,009	82,812
Central 1 Credit Union – Class E	534,600	534,600
Central 1 Credit Union – Class F	634,803	657,591
Concentra Financial – Class D	1,000,000	1,000,000
CU CUMIS Wealth Holdings LP Inc.	2	-
	<u>2,242,414</u>	<u>2,275,003</u>
	<u>17,375,010</u>	<u>14,590,187</u>

As a condition of membership in Central 1, the Credit Union is required to maintain an interest bearing "liquidity reserve deposit" equal to a minimum of 6% of its total assets at the end of each month. Except for possible refunds occasioned by future reductions in total assets, this deposit is refundable to the Credit Union only in the event of the Credit Union's dissolution or withdrawal from membership in Central 1.

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 Central 1's Board of Directors.

Central 1 Class A and F shares are subject to an annual rebalancing mechanism and are redeemable at the option of Central 1. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value.

Central 1 Class E shares are redeemable at \$100 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

Concentra Financial Class D shares are redeemable at \$25 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

During the year ended December 31, 2019, the Credit Union purchased one Class C and Class D unit of CU CUMIS Wealth Holdings LP for an aggregate subscription price of \$2.



# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 7. DERIVATIVES

The Credit Union has outstanding \$234,971 (2018 - \$437,459) in index linked term deposits to its members. The index linked term deposits are three-year and five-year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of \$22,937 (2018- \$20,021).

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 for the term of each index linked term deposit on the face value of the deposits sold. 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. As at December 31, 2019, the Credit Union had entered into such contracts on index linked term deposits for a total of \$254,671. The agreements are secured by a general security agreement covering all assets of the Credit Union.

From time to time, in the ordinary course of business, the Credit Union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. At December 31, 2019, the Credit Union was not party to any such agreement with Central 1 Credit Union.

	2019 \$	2018 \$
<b>Derivative assets</b>		
Index linked derivative receivable from Central 1	<u>22,937</u>	<u>20,021</u>
<b>Derivative liabilities</b>		
Index linked derivatives payable on member deposits	<u>22,937</u>	<u>20,021</u>

These derivatives have a fair value that varies based on the particular contract and changes in the underlying index. The purpose of the derivative asset is to mitigate exposure of the corresponding derivative owing to members on its index-linked deposits.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 8. LOANS TO MEMBERS

	2019			
	Personal Loans	Residential Mortgages	Commercial Loans	Total
Principal balance	5,047,243	129,816,956	26,859,173	161,723,372
Accrued interest	35,457	305,550	54,297	395,304
Gross carrying amount	5,082,700	130,122,506	26,913,470	162,118,676
Allowance for impaired loans (Note 9)	(139,731)	(1,168,396)	(41,318)	(1,349,445)
Net carrying amount	4,942,969	128,954,110	26,872,152	160,769,231

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Certain personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignment only. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 8.67% at December 31, 2019 (2018 - 9.08%).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.75% at December 31, 2019 (2018 - 3.74%).

Commercial loans consist of syndicated loans, commercial 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 personal guarantees. These loans have fixed or variable interest rates with an average rate of 4.53% at December 31, 2019 (2018 - 4.35%).

#### Concentration of Risk

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

As at December 31, 2019 there are 23 loans (2018 - 25 loans) that exceed 10% of members' equity. The combined total of these loans is \$36,144,732 (2018 - \$39,014,353).

	2019 \$	2018 \$
Syndicated commercial loans	9,750,673	10,263,496
Residential mortgages	25,328,612	27,662,065
Commercial loans	1,065,447	1,088,792
	<u>36,144,732</u>	<u>39,014,353</u>

All member loans are with members located in Ontario.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 9. ALLOWANCE FOR IMPAIRED LOANS

The allowance for impaired loans is broken down as follows:

	2019			
	Personal Loans	Residential Mortgages	Commercial Loans	Total
Stage 1	58,122	400,228	41,318	499,668
Stage 2	1,798	68,385	-	70,183
Stage 3	79,811	699,783	-	779,594
	139,731	1,168,396	41,318	1,349,445

Of the \$2,218,622 (2018 - \$2,469,208) of impaired loans, the Credit Union has security valued at \$3,005,000 (2018 - \$2,371,850).

Loans past due but not impaired is broken down as follows:

	1-29 days	30-59 days	60-89 days	Total
Residential mortgages	1,758,291	2,334,043	-	4,092,334
Personal loans	93,521	43,664	26,619	163,804
Commercial loans	303,311	-	-	303,311
	2,155,123	2,377,707	26,619	4,559,449

A loan is considered past due when a counterparty has not made a payment on the contractual date. The table above presents the carrying value of loans at year end that are past due but not classified as impaired because they either i) less than 90 days past due, and ii) no events have occurred that have a detrimental impact on the estimated future cash flows of the loan since its initial recognition.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) personal property, insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 9. ALLOWANCE FOR IMPAIRED LOANS (continued)

Movement in individual specific provision and collective provision for impairment:

	Stage 3	Stage 2	Stage 1	Total
Balance at January 1, 2019	388,294	130,448	1,089,319	1,608,061
Recoveries of loans previously written off	40,005	-	-	40,005
Provision charged to net income	742,168	(60,265)	(589,651)	92,252
	1,170,467	70,183	499,668	1,740,318
Loans written off	(390,873)	-	-	(390,873)
Balance at December 31, 2019	779,594	70,183	499,668	1,349,445

	Stage 3	Stage 2	Stage 1	Total
Balance at January 1, 2018	78,437	19,461	162,507	260,405
Recoveries of loans previously written off	37,767	-	-	37,767
Provision charged to net income	1,201,956	110,987	926,812	2,239,755
	1,318,160	130,448	1,089,319	2,537,927
Loans written off	(929,866)	-	-	(929,866)
Balance at December 31, 2018	388,294	130,448	1,089,319	1,608,061

### Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

All loans have a probability of default. The Credit Union uses historical loss ratios of loans with similar characteristics to estimate the probability and severity of loss on origination of new loans issued. At each reporting date, the Credit Union considers evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

For loans that have not increased in credit risk since origination, the Credit Union allows for 12 month expected credit losses (Stage 1 provision). For loans that have experienced significant increase in credit risk since origination, the Credit Union allows for lifetime expected credit losses (Stage 2 provision). Loans are considered to have significantly increased credit risk when payments are 30 days past due. Loans that are 90 days past due are specifically identified as impaired (Stage 3) and are evaluated individually for collateral and expected loss provision.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 10. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land	Building	Right-of-use assets	Furniture & fixtures	Computer equipment	ATM	Total
<b>Cost</b>							
Balance at December 31, 2017	1,044,882	2,776,085	-	589,943	840,141	102,919	5,353,970
Additions	68,477	289,746	-	-	22,709	-	380,932
Balance at December 31, 2018	1,113,359	3,065,831	-	589,943	862,850	102,919	5,734,902
IFRS 16 – January 1, 2019	-	-	495,368	-	-	-	495,368
Additions	-	107,548	-	7,883	79,289	-	194,720
Balance at December 31, 2019	1,113,359	3,173,379	495,368	597,826	942,139	102,919	6,424,990
<b>Depreciation</b>							
Balance at December 31, 2017	-	666,309	-	459,447	785,036	86,556	1,997,348
Depreciation	-	109,492	-	5,379	25,934	10,292	151,097
Balance at December 31, 2018	-	775,801	-	464,826	810,970	96,848	2,148,445
Depreciation	-	108,607	82,561	5,119	23,451	5,265	225,003
Balance at December 31, 2019	-	884,408	82,561	469,945	834,421	102,113	2,373,448
<b>Net book value</b>							
As at December 31, 2018	1,113,359	2,290,030	-	125,117	51,880	6,071	3,586,457
As at December 31, 2019	1,113,359	2,288,971	412,807	127,881	107,718	806	4,051,542

Depreciation for right-of-use assets was represented within depreciation within the statement of comprehensive income for the year.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 11. INTANGIBLES

	Software \$
<b>Cost</b>	
As at December 31, 2017	542,764
Additions	-
	<hr/>
As at December 31, 2018	542,764
Additions	4,798
	<hr/>
As at December 31, 2019	<u>547,562</u>
<b>Amortization</b>	
As at December 31, 2017	144,737
Depreciation	54,277
	<hr/>
As at December 31, 2018	199,014
Depreciation	54,396
	<hr/>
As at December 31, 2019	<u>253,410</u>
Net book value	
As at December 31, 2018	343,750
As at December 31, 2019	294,152

Remaining amortization of the carrying amounts as at December 31, 2019 is as follows:

	\$
Within 1 year	54,396
1 – 5 years	239,756
	<hr/>
	<u>294,152</u>

### 12. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS

The Credit Union sponsors a registered pension plan that has a defined benefit component and a defined contribution component. The defined benefit component is non-contributory and was closed to new participants on January 1, 2009. The plan was closed to existing participants on March 31, 2014. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

The Credit Union also pays certain medical and dental benefits on behalf of its eligible retired employees. Certain active employees prior to 2009 who retire from full-time employment after the attainment of age 55 years and completion of ten years of continuous service, will qualify for post-retirement medical and dental benefits under current provisions. Employees after 2009 who retire from full-time employment after the attainment of age 55 years and completion of 20 years of continuous service, will qualify for

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 12. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS (continued)

reimbursement of approved expenses to a maximum of \$1,500 per year. The Credit Union recognizes these post-employment costs in the period in which employees' service was rendered. There are no assets in this plan and therefore this plan is unfunded.

The changes in these defined benefit plans during the year are as follows:

<b>Reconciliation of funded status As of December 31,</b>	<b>Pension plans 2019</b>	<b>Pension plans 2018</b>	<b>Post retirement benefits 2019</b>	<b>Post retirement benefits 2018</b>	<b>Total 2019</b>	<b>Total 2018</b>
Fair value of plan assets	2,721,600	2,499,300	-	-	2,721,600	2,499,300
Present value of plan obligations	(2,627,200)	(2,470,500)	(1,359,600)	(1,290,700)	(3,986,800)	(3,761,200)
Net plan (surplus) obligations	94,400	28,800	(1,359,600)	(1,290,700)	(1,265,200)	(1,261,900)

Movement in the present value of defined benefit obligations:

<b>Actuarial Plan Obligation As of December 31,</b>	<b>Pension plans 2019</b>	<b>Pension plans 2018</b>	<b>Post retirement benefits 2019</b>	<b>Post retirement benefits 2018</b>	<b>Total 2019</b>	<b>Total 2018</b>
Opening defined benefit obligation	2,470,500	2,585,200	1,290,700	1,545,500	3,761,200	4,130,700
Current service cost	-	-	8,700	11,200	8,700	11,200
Interest cost	91,300	85,600	48,200	51,700	139,500	137,300
Actuarial (gain) loss	199,100	(66,600)	74,400	(243,100)	273,500	(309,700)
Benefits paid	(133,700)	(133,700)	(62,400)	(74,600)	(196,100)	(208,300)
Closing defined benefit obligation	2,627,200	2,470,500	1,359,600	1,290,700	3,986,800	3,761,200

Movement in the fair value of plan assets:

<b>Fair value of plan assets As of December 31,</b>	<b>Pension plans 2019</b>	<b>Pension plans 2018</b>	<b>Post retirement benefits 2019</b>	<b>Post retirement benefits 2018</b>	<b>Total 2019</b>	<b>Total 2018</b>
Opening fair value of plan assets	2,499,300	2,588,700	-	-	2,499,300	2,588,700
Expected return	92,500	86,300	-	-	92,500	86,300
Actuarial gains (losses)	260,500	(75,000)	-	-	260,500	(75,000)
Contributions by employer	3,000	33,000	-	-	3,000	33,000
Benefits paid	(133,700)	(133,700)	-	-	(133,700)	(133,700)
Closing fair value of plan assets	2,721,600	2,499,300	-	-	2,721,600	2,499,300

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 12. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS (continued)

Assets of the defined benefit pension plan are held by CUMIS and invested in pooled mutual funds. Investment funds are diversified across Canadian equities (9.2%), U.S. equities (11.6%), International equities (9.5%), and bonds (69.7%).

Expenses recognized in net income (loss) As of December 31,	Pension plans		Post retirement benefits		Total	Total
	2019	2018	2019	2018	2019	2018
Current service cost	-	-	8,700	11,200	8,700	11,200
Interest cost	91,300	85,600	48,200	51,700	139,500	137,300
Net plan obligations	91,300	85,600	56,900	62,900	148,200	148,500

These plans expose the Credit Union to actuarial risks, such as longevity risk, interest rate risk, a market (investment) risk.

#### Contributions

In 2020, the Credit Union expects to contribute \$Nil to the Defined Benefit Plan in accordance with normal funding policy. Additionally, the Credit Union does not anticipate having to make material special contributions to its pension plans in 2020.

#### Actuarial Assumptions

The weighted average actuarial assumptions were as follows:

	Pension plans		Post retirement benefits	
	2019	2018	2019	2018
Discount rate	3.00%	3.80%	3.00%	3.80%
Rate of increase in salaries	0.00%	0.00%	2.00%	2.00%
Rate of medical cost escalation	0.00%	0.00%	5.00%	5.00%
Rate of dental cost escalation	0.00%	0.00%	3.00%	3.00%
Expected rate of return on assets	3.00%	3.80%	0.00%	0.00%

#### Sensitivity Analysis

A 1% increase or decrease in the discount rate would cause the pension benefit obligation to decrease or increase approximately \$260,500 and \$289,200 respectively. A 1% increase or decrease in the discount rate would have resulted in a decrease and increase to the benefit obligation for post-retirement benefits of approximately \$153,000 and \$172,400 respectively. Changes in the salary rate growth will not impact the pension benefit obligation as the pension has been closed.

#### Medical Cost Trend

The medical cost trend is based on the Credit Union's actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 5% in 2018. The dental cost is expected to stay static at 3%. A 1% increase or decrease in the trend rate would have resulted in an increase or decrease in the benefit obligation for post retirement benefits of approximately \$113,600 and \$104,800 respectively at December 31, 2019.



# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 13. TERM LOANS

The Credit Union has authorized line of credit and term loan facilities with Central 1 Credit Union totaling \$8,300,000. Security given is a general security agreement covering all assets of the Credit Union.

Term loans matured and were repaid during the year ended December 31, 2019 as outlined in the following table:

	2019 \$	2018 \$
Term loan with interest at 2.60%, matured January 14, 2019	-	1,250,000
Term loan with interest at 2.66%, matured January 23, 2019	-	1,750,000
Term loan with interest at 2.73%, matured February 26, 2019	-	750,000
Term loan with interest at 2.769%, matured March 12, 2019	-	1,700,000
	<u>-</u>	<u>5,450,000</u>

### 14. LEASE LIABILITY

The Credit Union has a lease for a branch location. The rental contract is for seven years and includes no extension options. Contracts contain only lease and non-lease components. The Credit Union allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants other than the security interests in the lease asset that are held by the lessor. Leased asset may not be used as a security for borrowing purposes.

Prior to January 1, 2019, leases of property were classified as operating leases. From January 1, 2019 leases are recognized under IFRS 16 as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Credit Union.

			2019	January 1, 2019
	Future minimum lease payments \$	Interest \$	Present value of minimum lease payments \$	Present value of minimum lease payments \$
Less than one year	90,852	15,274	75,578	74,280
Between one and three years	183,521	21,273	162,248	154,195
More than three years	192,321	7,673	184,648	266,893
	<u>466,694</u>	<u>44,220</u>	<u>422,474</u>	<u>495,368</u>

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 14. LEASE LIABILITY (continued)

Additions to the lease liability during the 2019 financial year were \$nil. Interest expense for the lease liability was represented within occupancy costs within the statement of income and comprehensive income for the year. Interest expense on the lease liability was \$17,958 and has been included in interest expense. During the year the Credit Union made lease payments totaling \$90,852.

### 15. MEMBERS' DEPOSITS

	2019	2018
	\$	\$
Chequing accounts	42,045,312	39,881,713
Savings accounts	20,866,832	22,094,490
Term deposits	59,423,787	60,244,267
Tax-free savings accounts	14,315,831	12,517,679
Registered retirement savings plans	29,158,504	30,586,050
Registered retirement income funds	17,455,408	17,777,317
Accrued interest	1,452,843	1,246,974
	<u>184,718,517</u>	<u>184,348,490</u>

Chequing and savings accounts are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2019, the average interest rate on term deposits was 2.53% (2018 - 2.59%).

Registered retirement savings plans and tax-free savings accounts can be fixed or variable rate, or pay a return based on market indexes. Fixed rate deposits have similar terms and rates as the term deposits described above.

Registered retirement income fund accounts can be fixed or variable rate with terms similar to those of registered retirement savings plan accounts described above. Members may make withdrawals from RRIFs on a monthly or annual basis according to individual needs and statutory requirements.

#### Concentration of Risk

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

The total value of individual or related groups of members deposits which exceed 1% of member deposits is \$18,228,619 in 2019 (2018 - \$16,873,520). All member deposits are with members located in Ontario.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 16. SHARES

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Liability</b>	<b>Equity</b>	<b>Liability</b>	<b>Equity</b>
Class A shares	108,613	977,520	116,804	1,051,235
Class B shares	213,661	1,922,947	225,964	2,033,672
Membership shares, voting	41,034	-	42,563	-
	<u>363,308</u>	<u>2,900,467</u>	<u>385,331</u>	<u>3,084,907</u>

Class A shares are non-cumulative, non-voting and non-participating and rank in priority to Class B shares and membership shares. Class A shares are redeemable in any fiscal year after the first five years subsequent to issuance, to the extent of 10% of the total Class A shares outstanding at the end of the previous fiscal year, or at any time after the death of the shareholder, subject to approval from the Board of Directors.

Class B shares are non-cumulative, non-voting shares ranking in priority to membership shares. Class B shares are redeemable at the issue price after the first five years subsequent to issuance. Redemption in any fiscal year may not exceed 10% of the Class B shares outstanding at the end of the previous fiscal year, subject to approval from the Board of Directors.

Members are required to own one membership share with a par value of \$5 per share. Amounts paid for shares may be withdrawn upon termination of membership or after the death of the shareholder. As at December 31, 2019 the Credit Union had 11,121 members. During the year ended December 31, 2019, the Credit Union issued \$1,740 of membership shares and redeemed \$3,269 of membership shares.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 17. CAPITAL MANAGEMENT

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The Credit Union considers its capital to comprise cash, membership shares, retained earnings, interest-bearing deposit, investment shares, contributed surplus, AOCI and stage 1 and 2 expected credit losses.

The Credit Unions and Caisses Populaires Act, 1994 requires that the Credit Union maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value. The Credit Union has also approved an internal policy for capital requirements of 5% of total assets and 9% of risk weighted equivalent values. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

<b>Regulatory capital</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Tier 1 capital</b>		
Membership shares	41,034	42,563
Class A and B shares	2,900,467	3,084,907
Retained earnings	5,257,450	4,961,539
Contributed surplus	2,065,797	2,065,797
Defined benefit plan	(94,400)	(28,800)
<b>Tier 2 capital</b>		
Redeemable portion of Class A and B shares	322,274	342,768
Actuarial losses in accumulated other comprehensive income	(653,706)	(640,706)
Stage 1 and 2 expected credit losses	569,851	1,219,767
	<u>10,408,767</u>	<u>11,047,835</u>
Percentage of total assets	5.28%	5.48%
Risk weighted equivalent value	94,725,011	99,590,619
Percentages of risk weighted assets	10.99%	11.09%

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 17. CAPITAL MANAGEMENT (continued)

The Act also requires that the Credit Union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2019 \$	2018 \$
Cash and interest-bearing deposits	13,941,366	6,695,634
Liquidity deposits with Central 1 Credit Union	12,090,060	12,270,240
	<u>26,031,426</u>	<u>18,965,874</u>
 % of member deposits and borrowings	 14.09%	 10.06%

### 18. INTEREST REVENUE

	2019 \$	2018 \$
Personal loans	444,926	457,159
Mortgages	4,877,699	4,998,851
Commercial and syndicated loans	1,246,959	1,252,304
Investments	522,072	423,318
	<u>7,091,656</u>	<u>7,131,632</u>

### 19. INTEREST EXPENSE

	2019 \$	2018 \$
Chequing and savings accounts	229,079	243,924
Term deposits	1,745,642	1,495,116
Tax-free savings accounts	244,091	208,259
Registered retirement savings plans	609,905	610,368
Registered retirement income funds	362,441	327,097
	<u>3,191,158</u>	<u>2,884,764</u>

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 20. INCOME TAX

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2019	2018
Combined federal and provincial statutory income tax rates	26.5%	26.5%
Small business deduction and rate reduction for credit unions	(13.0%)	(13.0%)
Other	1.3%	-
	<u>14.8%</u>	<u>13.5%</u>

The current provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2019	2018
Combined federal and provincial statutory income tax rates	26.5%	26.5%
Small business deduction and rate reduction for credit unions	(13.0%)	(13.0%)
Impact of tax losses	(14.8%)	(11.0%)
Other	1.3%	-
	<u>-</u>	<u>2.5%</u>

The tax effects of temporary differences which give rise to the deferred tax asset is from differences between amounts deducted for accounting and income tax purposes. The net deferred income tax assets is comprised of the following:

	2019	2018
Allowance for impaired loans	(87,454)	(7,491)
Property and equipment	97,369	95,780
Non-capital losses & tax credits	(73,545)	(207,996)
Defined benefit plans	(172,557)	(170,357)
Other	(813)	1,704
	<u>(237,000)</u>	<u>(288,360)</u>

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 21. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital consists of:

	2019 \$	2019 \$
Accounts receivable	17,284	(95,514)
Prepaid expenses	(8,906)	98,028
Income taxes recoverable	66,621	(66,621)
Accounts payable	(65,962)	285,821
Income taxes payable	-	(42,364)
Other changes in non-cash working capital	(12,107)	(85,808)
	<u>(3,070)</u>	<u>93,542</u>

### 22. RELATED PARTY TRANSACTIONS

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 senior management.

	2019 \$	2018 \$
<b>Compensation</b>		
Salaries and other short-term employee benefits	557,943	758,326
Total pension and other post-employment benefits	80,330	39,899
	<u>638,273</u>	<u>798,225</u>

	2019 \$	2018 \$
<b>Loans to key management personnel and directors</b>		
Aggregate value of loans and lines of credit approved	1,256,000	1,120,400
Total value of mortgage loans outstanding at year-end	659,921	1,092,595
Interest received on loans advanced	9,625	12,976
Total value of lines of credit outstanding at year-end	1,910,349	1,834,860
Interest received on lines of credit advanced	35,884	46,718
Unused value of lines of credit	155,861	238,550

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same conditions which apply to members, with discounted interest rates being offered up to defined thresholds.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 22. RELATED PARTY TRANSACTIONS (continued)

	2019	2018
<b>Deposits from key management personnel and directors</b>	\$	\$
Aggregate value of term and savings deposits	551,540	610,899
Total interest paid on term and savings deposits	4,453	11,544

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.

Included in staff and director expenses are honoraria totaling \$70,274 (2018 - \$54,680).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds \$150,000.

	Base Salary	Variable Compensation	Value of Benefits
Robert Kirby, CEO	146,615	6,779	21,999



# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 23. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2019	2018
<b>Assets at Fair Value Through Profit and Loss:</b>		
Cash and interest-bearing deposits	13,941,366	6,695,634
Derivatives	22,937	20,021
Equity investments	2,242,412	2,275,003
	<u>16,206,715</u>	<u>8,990,658</u>
<b>Assets at Amortized Cost:</b>		
Liquidity and term deposits	15,132,596	12,315,184
Loans to members	160,769,231	175,732,627
Accounts receivable	120,704	137,988
	<u>176,022,531</u>	<u>188,185,799</u>
<b>Liabilities at Fair Value Through Profit or Loss:</b>		
Derivatives	22,937	20,021
<b>Liabilities at Amortized Cost:</b>		
Members' deposits	184,718,517	184,348,490
Shares	41,034	42,563
Accounts payable	517,879	583,841
	<u>185,277,430</u>	<u>184,974,894</u>

The amounts set out below represent the fair values of the Credit Union's financial instruments carried at amortized cost, where fair value differs from carrying cost. Accounts receivable, members shares and accounts payable carrying values are considered to approximate their fair values since these instruments reprice to market frequently and due to their short term nature.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits repriced to market on a periodic basis.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 23. FINANCIAL INSTRUMENTS (continued)

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

<b>December 31, 2019</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value Over (Under) Book Value</b>
<b>Assets</b>			
Central 1 liquidity and term deposits	15,121,635	15,132,596	(10,961)
Loans to members	162,719,341	160,769,231	1,950,110
<b>Liabilities</b>			
Members' deposits	183,942,818	184,718,517	(775,699)

<b>December 31, 2018</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value Over (Under) Book Value</b>
<b>Assets</b>			
Central 1 liquidity and term deposits	12,363,828	12,315,184	48,644
Loans to members	174,242,442	175,732,627	(1,490,185)
<b>Liabilities</b>			
Members' deposits	186,335,237	184,348,490	1,986,747

#### Financial Instruments Measured At Fair Value

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, 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).

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 23. FINANCIAL INSTRUMENTS (continued)

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

#### December 31, 2019

#### Financial Instruments Measured at Fair Value

	Level 1	Level 2	Level 3	Total
Cash and interest-bearing deposits	13,941,366	-	-	13,941,366
Derivatives	-	-	22,937	22,937
Equity instruments	-	2,242,414	-	2,242,414
Total assets	13,941,366	2,242,414	22,937	16,206,717

Derivatives	-	-	22,937	22,937
-------------	---	---	--------	--------

#### December 31, 2018

#### Financial Instruments Measured at Fair Value

	Level 1	Level 2	Level 3	Total
Cash and interest-bearing deposits	6,695,634	-	-	6,695,634
Derivatives	-	-	20,021	20,021
Equity instruments	-	2,275,003	-	2,275,003
Total assets	6,695,634	2,275,003	20,021	8,990,658

Derivatives	-	-	20,021	20,021
-------------	---	---	--------	--------

#### Reconciliation of Level 3 financial instruments

	2019	2018
Balance January 1	-	(4,550)
Gains (losses) included in the statement of income as investment income	-	4,550
Balance December 31	-	-

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

---

### 24. RISK MANAGEMENT

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 reports, at least quarterly, from senior management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

#### **Credit Risk**

The Credit Union is exposed to the risk of loss related to loans to members. The Credit Union invests in loans as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

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 monthly.

A sizeable portfolio of the loan book is secured by residential property in Hamilton, Oakville, and Brampton, Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) coverage should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

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 consists of the risk that the Credit Union is unable to generate sufficient cash to meet commitments as they come due. The Credit Union maintains a liquidity reserve with Central 1 Credit Union as described in Note 6. The Credit Union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, is described in the chart under Interest Rate Risk below. 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.

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.

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 24. RISK MANAGEMENT (continued)

The Credit Union's foreign exchange risk is related to deposits and investments denominated in United States dollars. The Credit Union limits its holdings in foreign currency to a maximum net open position of \$300,000 in that same currency in accordance with its investment policy. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

#### Interest Rate Risk

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

The Credit Union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the Credit Union's net income (loss) before income taxes are not impacted by an amount greater than 0.15% of the Credit Union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The Credit Union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The Credit Union is exposed to interest rate price risk as a result of fixed rate financial instruments. The Credit Union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

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.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.0% could result in an increase to net income of \$284,000 while a decrease in interest rate of 0.5% could result in a decrease to net income of \$124,000.

The tables below identifies the maturity dates of interest rate sensitive financial instruments, excluding accrued interest and ECLs.

2019						
	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
<b>Assets</b>						
Cash	13,941,366	-	-	-	-	13,941,366
effective rate %	1.40	-	-	-	-	
Loans to members	36,580,872	3,974,953	9,207,752	111,959,795	-	161,723,372
effective rate %	5.38	3.48	3.50	3.72	-	
Investments	-	294,210	9,300,000	5,495,850	2,242,414	17,332,474
effective rate %	-	1.70	2.04	1.69	-	
<b>Liabilities</b>						
Members' deposits	73,183,868	15,687,827	39,517,969	54,200,548	675,462	183,265,674
effective rate %	0.46	2.06	2.37	2.78	-	

# MOMENTUM CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 24. RISK MANAGEMENT (continued)

	Variable	2018				Total
		Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	
<b>Assets</b>						
Cash	5,523,726	-	-	-	1,171,908	6,695,634
effective rate %	1.90	-	-	-	-	
Loans to members	38,268,181	905,275	4,955,046	132,218,259	624,863	176,971,624
effective rate %	5.41	3.66	3.39	3.61	-	
Investments	-	474,390	4,245,850	7,550,000	2,275,003	14,545,243
effective rate %	-	1.70	1.89	2.28	-	
<b>Liabilities</b>						
Members' deposits	71,638,307	10,529,343	39,379,365	60,694,116	860,385	183,101,516
effective rate %	0.24	1.74	2.14	2.60	-	

### 25. COMMITMENTS

#### Mortgages and Loans

Outstanding commitments for future advances on mortgages and loans are \$5,137,135 (2018 - \$6,270,611).

#### Credit Lines

Unused lines of credit available to members are \$20,125,889 (2018 - \$21,130,527).

#### Credit Letters

Outstanding letters of credit are \$283,525 (2018 - \$497,716).

### 26. CONTINGENT LIABILITY

The Credit Union has been named in a statement of claim related to employment matters. This matter is being vigorously defended, and the outcome cannot be determined at this time.

### 27. SUBSEQUENT EVENT

Subsequent to year end, the COVID-19 pandemic is causing significant economic and social dislocation. The situation is dynamic with various organizations and governments responding in different ways to address the outbreak. The Credit Union has a comprehensive business continuity plan that ensures its readiness to appropriately address and mitigate regulatory and business risks as they arise. As part of this plan, the Credit Union continues to monitor the situation to assess the impact the pandemic may have on its operations and the value of its financial assets, including its members' ability to repay loans. As part of the response to the pandemic, the Credit Union has adopted the deferral of mortgage loan payments to members' who meet the eligibility criteria and has continued to serve its members' through modified branch hours and through remote operations. Given the nature of the pandemic, the ultimate extent of the effect of the COVID-19 pandemic on the Credit Union is uncertain.

### 28. COMPARATIVES

Certain comparative figures have been reclassified to conform with the current year presentation.