

The Police Credit Union Limited

Financial Statements

For the year ended December 31, 2019

The Police Credit Union Limited

Financial Statements

For the year ended December 31, 2019

Contents

Independent Auditor's Report	2
Financial Statements	
Balance Sheet	4
Statement of Changes in Members' Equity	5
Statement of Operations and Comprehensive Income	6
Statement of Cash Flows	7
Notes to Financial Statements	8

Independent Auditor's Report

To the Members of The Police Credit Union Limited

Opinion

We have audited the financial statements of **The Police Credit Union Limited** ("the Credit Union"), which comprise the balance sheet as at December 31, 2019, and the statement of changes in members' equity, statement of operations and comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and 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 it 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As a part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 a 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 of the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or condition 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.

Jones & O'Connell LLP

Jones & O'Connell LLP
Chartered Professional Accountants
Licensed Public Accountants

St. Catharines, Ontario
February 24, 2020

The Police Credit Union Limited
Balance Sheet

December 31	2019	2018
Assets		
Cash	\$ 14,723,164	\$ 3,083,028
Investments (Note 5)	22,286,987	22,452,465
Loans to members (Note 6)	300,968,499	294,410,163
Other assets (Note 7)	650,477	740,205
Property and equipment (Note 8)	2,138,829	2,469,942
Right of use assets (Note 9)	1,330,841	-
	<u>\$ 342,098,797</u>	<u>\$ 323,155,803</u>

Liabilities and Members' Equity

Members' deposits (Note 10)	\$ 295,073,046	\$ 277,533,822
Borrowings - liquidity (Note 11)	-	8,423,264
Securitization liabilities (Note 12)	23,051,956	15,528,196
Other current liabilities	1,231,035	1,482,523
Provisions (Note 13)	353,400	367,400
Lease liabilities (Note 14)	1,911,503	-
Membership shares qualifying as liabilities (Note 15)	1,212,073	1,234,370
	<u>322,833,013</u>	<u>304,569,575</u>

Members' Equity

Investment shares qualifying as equity (Note 15)	4,914,385	4,894,079
Undivided earnings	14,351,399	13,692,149
	<u>19,265,784</u>	<u>18,586,228</u>
	<u>\$ 342,098,797</u>	<u>\$ 323,155,803</u>

Commitments (Note 18)

On behalf of the Board:


 _____ Director


 _____ Director

The Police Credit Union Limited
Statement of Changes in Members' Equity

	Investment Shares Qualifying as Equity	Undivided earnings	Members' Equity
Balance, December 31, 2017	\$ -	\$ 13,041,641	\$ 13,041,641
Issuance of investment shares	5,000,000	-	5,000,000
Cost of issuance of investment shares (net of amortization)	(105,921)	-	(105,921)
Dividends declared on investment shares	-	(21,658)	(21,658)
Comprehensive income	-	672,166	672,166
Balance, December 31, 2018	4,894,079	13,692,149	18,586,228
Cost of issuance of investment shares	(1,515)	-	(1,515)
Amortization cost of issuance of investment shares	21,821	-	21,821
Dividends declared on investment shares	-	(231,500)	(231,500)
Comprehensive income	-	890,750	890,750
Balance, December 31, 2019	\$ 4,914,385	\$ 14,351,399	\$ 19,265,784

The Police Credit Union Limited

Statement of Operations and Comprehensive Income

For the year ended December 31	2019	2018
Operating Revenue		
Interest on loans (Note 6)	\$ 10,482,948	\$ 9,306,169
Investment income	636,008	459,514
	<u>11,118,956</u>	<u>9,765,683</u>
Interest Expense		
Interest on members' deposits (Note 10)	3,980,557	3,203,067
Member rebates	39,300	32,004
Interest on borrowings	118,131	226,628
Interest on securitization liabilities	619,841	246,146
	<u>4,757,829</u>	<u>3,707,845</u>
Financial Margin	6,361,127	6,057,838
Other Operating Items		
(Provision for) Recovery of losses on loans (Note 6)	(26,349)	15,531
Other income	1,405,691	1,344,850
	<u>7,740,469</u>	<u>7,418,219</u>
Operating Margin	7,740,469	7,418,219
Operating Expenses		
Administrative	2,347,817	2,648,645
Amortization of property and equipment	428,387	418,541
Amortization of right of use assets	225,962	-
DICO insurance	223,741	239,488
Salaries and benefits	3,478,409	3,304,261
	<u>6,704,316</u>	<u>6,610,935</u>
Income Before Income Tax Expense	1,036,153	807,284
Income Tax Expense (Note 16)		
Current	(145,403)	(135,118)
Net Income and Comprehensive Income for the Year	\$ 890,750	\$ 672,166

The Police Credit Union Limited

Statement of Cash Flows

For the year ended December 31	2019	2018
Cash Provided By (Used In)		
Operating Activities		
Net income for the year	\$ 890,750	\$ 672,166
Adjustments for:		
Operating revenue	(11,118,956)	(9,765,683)
Interest expense	4,757,829	3,707,845
Interest expense on lease liabilities	51,849	-
Provision for (recovery) of losses on loans	26,349	(15,531)
Amortization of property and equipment	428,387	418,541
Amortization of right of use assets	225,962	-
Amortization of issuance cost on investment shares	21,821	1,795
Loss on disposal of property and equipment	-	5,082
Current income tax expense	145,403	135,118
	(4,570,606)	(4,840,667)
Change in other assets, other current liabilities and provision	353,484	193,670
Increase in loans to members	(6,556,370)	(30,690,993)
Increase in members' deposits	16,963,159	7,763,603
	10,406,789	(22,927,390)
Interest received on loans to members	10,454,633	9,255,398
Interest paid on members' deposits and member rebates	(3,443,792)	(3,091,471)
Income taxes received	91,948	-
Income taxes paid	(144,746)	(303,955)
	6,958,043	5,859,972
Cash provided by (used in) operating activities	13,147,710	(21,714,415)
Investing Activities		
Decrease (increase) in investments	158,156	(1,241,058)
Interest received on investments	643,330	442,550
Purchase of property and equipment	(97,274)	(869,569)
Net cash received from (used in) investing activities	704,212	(1,668,077)
Financing Activities		
Increase (decrease) in borrowings	(8,423,264)	1,423,264
Interest paid on borrowings	(118,131)	(226,628)
Increase in securitization liabilities	7,523,760	15,528,196
Interest paid on securitization liabilities	(619,841)	(246,146)
Decrease in lease liabilities	(267,149)	-
Interest paid on lease liabilities	(51,849)	-
Increase (decrease) in membership shares	(22,297)	21,290
Issuance of investment shares	-	5,000,000
Issuance cost of investment shares	(1,515)	(107,716)
Dividends declared on investment shares	(231,500)	(21,658)
Net cash provided by (used in) financing activities	(2,211,786)	21,370,602
Increase (Decrease) in Cash	11,640,136	(2,011,890)
Cash, beginning of year	3,083,028	5,094,918
Cash, end of year	\$ 14,723,164	\$ 3,083,028

The accompanying notes are an integral part of these financial statements

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

1. Nature of Operations

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") and is a member of Central 1 Credit Union ("Central"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include residential mortgages, personal loans, commercial mortgages and loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated teller machines ("ATMs"), debit and credit cards, internet banking and mobile banking.

The head office of the Credit Union is 105 Gordon Baker Road, Suite 222, Toronto, Ontario, M2H 3P8.

2. Basis of Presentation

The Credit Union's financial statements have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The financial statements for the year ended December 31, 2019 have been approved for issue by the Board of Directors on February 24, 2020.

The Credit Union's financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3. The financial statements are presented in Canadian dollars, which is the Credit Union's functional and presentation currency.

3. Significant Accounting Policies

Financial Instruments

Financial Assets

The Credit Union classifies its financial assets into one of the categories discussed below, depending on the business purpose for which the asset was acquired and the contractual cash flow characteristics of the financial asset. The Credit Union's accounting policy for each category is as follows:

Financial assets recorded at fair value through other comprehensive income

This category comprises US dollar denominated cash, Class A Shares - Central, Class E Shares - Central and Class F Shares - Central. US dollar denominated cash has been classified at fair value through other comprehensive income because the Credit Union both holds US dollar denominated cash to collect contractual cash flows and to sell. The Credit Union has elected to classify Class A Shares - Central, Class E Shares - Central and Class F Shares - Central at fair value through other comprehensive income as such equity investments are not held for trading.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets recorded at fair value through other comprehensive income (Continued)

These financial assets are carried at fair value with changes in fair value recognized in other comprehensive income and accumulated in accumulated other comprehensive income. Upon disposal, any amounts included in other comprehensive income are reclassified directly to undivided earnings and is not reclassified to net income. Purchases and sales of financial assets recorded at fair value through other comprehensive income are recognized on the settlement date with any change in fair value between the trade date and settlement date being recognized in other comprehensive income.

The fair value of Class A Shares - Central, Class E Shares - Central and Class F Shares - Central cannot be reliably determined and as such these financial assets are carried at cost, which approximates market. The cost of these financial assets can be found in Note 20.

Financial assets recorded at amortized cost

This category comprises Canadian dollar denominated cash, Liquidity reserve - discount deposits - Central, loans to members and accounts receivable. The business objective is to hold these financial assets in order to collect contractual cash flows made solely of payments of principal and interest. These financial assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less any provision for impairment.

Impairment provisions for financial assets recorded at amortized cost are recognized based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those financial assets where the credit risk has not increased significantly since initial recognition, a twelve month expected credit loss amount is recognized. For those for which credit risk has increased significantly, lifetime expected credit losses are recognized. The amount of the credit loss is measured as the difference between the carrying amount and the present value of the expected cash flows discounted at the ordinal effective interest rate. Such credit losses are recorded in a separate provision account with the loss being recognized in net income. Loans to members are written off as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the loan to member is unlikely. Loans to members are written off against the allowance for impaired loans if a provision for impairment has been previously recognized. If no provision had been recognized, the write off is recognized within provision (recovery) of losses on loans in the statement of operation.

The fair value of Canadian dollar denominated cash approximates its cost given its short-term maturity as it is expected to be recovered in one year. The fair value of Liquidity reserve - discount deposits - Central is calculated using a discounted cash flow approach, with the discount rate being the market rate, at or near year end, for an investment with a similar maturity. The fair value of fixed rate mortgages is calculated using a discounted present value cash flow approach on each fixed rate mortgage, based on individual maturity date, payment terms, with no early repayments and no credit losses.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets recorded at amortized cost (Continued)

The discount rate is the interest rate of each individual fixed rate mortgage plus the difference between the average bond rate as of the funding or renewal date of the loan and the average bond rate at the end of the reporting period. The average bond rate used at period end is based on the remaining loan maturity. The fair value of fixed rate loans is calculated using a discounted cash flow approach on each fixed rate loan, based on individual maturity date, payment terms, with no early repayments and no credit losses. The discount rate is the interest rate of each individual fixed rate loan plus the difference between the prime rate as of the fund/renewal date and the prime rate at the end of the reporting period. The fair value of accounts receivable approximates its cost given its short-term maturity as it is expected to be recovered in one year. The fair value of these financial assets can be found in Note 20.

Financial Liabilities

The Credit Union classifies its financial liabilities into one of the categories discussed below, depending on the business purpose for which the liability was incurred and the contractual cash flow characteristics of the financial liability. The Credit Union's accounting policy for each category is as follows:

Financial liabilities recorded at amortized cost

This category comprises members' deposits, borrowings - liquidity, securitization liabilities, other current liabilities, lease liabilities and membership shares qualifying as liabilities. These financial liabilities are initially recognized at fair value, net of any transaction costs directly attributable to the issue of the instrument. These financial liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that interest expense is recognized over the period to repayment at a constant rate on the balance of the liability carried in the statement of financial position.

The fair value of demand deposits approximates their recorded values as they can be withdrawn at any time without penalty or notice. The fair value of each individual fixed maturity deposit is calculated using a discounted cash flow approach, with the discount rate applied being the highest market rate noted being offered, at or near year end, for a deposit with a similar maturity date, by other financial institutions. The fair value of borrowings - liquidity approximates its cost due to its short-term maturity. The fair value for securitization liabilities is calculated using a discounted cash flow approach on each securitization pool, based on individual maturity date, payment terms, with no early repayments. The discount rate is the interest rate of each individual fixed rate pool plus the difference between the bond rate as of the funding date of the pool and the bond rate at the end of the reporting period. The bond rate used at period end is based on the remaining pool maturity. The fair value of other current liabilities approximates their cost due to their short-term maturities. The fair value of lease liabilities is calculated using a discounted cash flow approach on each lease liability, based on individual maturity date, payment terms, with no early repayments. The fair value of membership shares qualifying as liabilities approximates their recorded values as they can be withdrawn at any time without penalty or notice. The fair value of these financial liabilities can be found in Note 20.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

3. Significant Accounting Policies (Continued)

Membership Shares

Membership shares are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

Loan Securitizations

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Property and Equipment

The Credit Union provides amortization on its property and equipment using the straight line method at the rates set out below, designed to amortize costs over the expected useful life of the respective assets. Annual amortization on additions is prorated based on the month of addition. Amortization is not taken on items not in use.

Leasehold and capital improvements	8% to 10%
Furniture and equipment	5% to 30%
Computer, telephone and ATM equipment	20% to 33%

Right of Use Assets and Lease Liabilities

The Credit Union recognizes a right-of-use asset and a lease liability when the lessor makes the leased asset available for use by the Credit Union.

Lease liabilities are initially recorded at the net present value of fixed payment amounts expected to be payable by the Credit Union. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate.

Lease terms applied are the contractual non-cancelable periods of the lease, plus periods covered by renewal options or termination options, if the Credit Union is reasonably certain to exercise those options. Lease liabilities are remeasured when there is a change in lease term, a change in the assessment of an option to purchase the leased asset or a change in future lease payments.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

3. Significant Accounting Policies (Continued)

Right of Use Assets and Lease Liabilities (Continued)

Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the amount of the initial measurement of the related lease liability, plus any lease payments made at or before the commencement date and any initial direct costs and future restoration costs, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis from the date that the underlying asset is available for use over the lease term.

Total lease payments for assets that are exempt through the short-term exemption and leases of low value assets continue to be recognized in administrative expense.

Plan 24 Life Savings Provision

A provision for Plan 24 Savings Life Insurance Program is for those eligible members that maintain a minimum required balance. The provision is based on current eligible members, discount rate and a weighting of all possible outcomes against their associated probabilities. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

Investment income relating to dividends on shares is recognized when declared by the related company and when ultimate collection is reasonably assured.

Other income is recognized as earned when the related service is performed by the Credit Union as follows: immediately through the servicing of specific requests made by members, immediately through the electronic facilitating of transactions performed by the member, or at the end of a designated period for services provided over a designated time period.

Foreign Exchange Translation

Assets and liabilities denominated in foreign currencies (US dollars), are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses arising on the translation of monetary items are reported under other operating items for the year.

Income Tax

The Credit Union follows the liability method of income tax allocation. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

3. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

Allowance for Impaired Loans

In determining whether an impairment loss should be recorded, the Credit Union makes judgments on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine impairment loss. In determining the collective allowance, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment.

Plan 24 Life Savings Insurance Provision

The Credit Union determines its provision for Plan 24 Life Savings Insurance Program through the application of actuarial techniques, which are significantly affected by assumptions used, including discount rates and estimates of members' mortality and maintenance of eligibility in the program. The derived provision amount may not necessarily be indicative of what the true cost of the program will be in the long-term and may vary by a material amount.

4. Change in Accounting Policy

Leases

On January 1, 2019, the Credit Union implemented IFRS 16: Leases. The standard introduces an on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases for lessees. The lessee recognizes a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. The Credit Union has elected to adopt this standard using the modified retrospective approach, with no restatement of the prior comparative period.

Substantially all of the Credit Union's material leases are for branches and corporate head office, which were classified as operating leases prior to adoption of IFRS 16, which saw lease payments recognized in administrative expenses. On January 1, 2019, the Credit Union recognized right-of-use assets of \$1,556,803, reduced other assets - prepaid expenses of \$39,875, reduced other liabilities by \$661,725 and recorded lease liabilities of \$2,178,653 for these leases using a discount rate of 2.52%.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

5. Investments

	2019		2018	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
Maturing within one year				
Liquidity reserve - discount deposits - Central	\$ 10,978,612	1.85 %	\$ 10,203,623	1.73 %
Maturing at various dates beyond one year				
Liquidity reserve- discount deposits - Central	<u>9,313,088</u>	2.06 %	<u>8,791,357</u>	2.22 %
Total liquid investments	20,291,700	1.95 %	18,994,980	1.96 %
Accrued interest receivable	171,867		179,189	
Non-liquid investments				
Class A Shares - Central	116,484		114,186	
Class E Shares - Central	664,700		664,700	
Class F Shares - Central	1,042,236		984,986	
CUCO Co-operative Association Class B investment shares	-		14,424	
Co-operators Group Limited preference shares	<u>-</u>	- %	<u>1,500,000</u>	6.00 %
	<u>\$ 22,286,987</u>		<u>\$ 22,452,465</u>	

Accrued interest receivable is expected to be recovered within one year. All of the non-liquid investments are expected to be recovered at dates beyond one year.

As a condition of membership in Central, a liquidity reserve deposit with Central must be maintained at 6% of the Credit Union's total assets revised each calendar quarter. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's own member shares and deposits or upon withdrawal of membership from Central. At maturity, these deposits are re-invested at market rates for various terms as determined by management.

Central rebalances the shareholdings of its Class A members quarterly based on the proportion of each Credit Union's assets to the total assets of all of Central's Class A members as reported in their most recent audited financial statements. Dividends on these shares are at the discretion of the Board of Directors of Central.

Class E shares have a redemption value of \$100 per share. Dividends on these shares are at the discretion of the Board of Directors of Central.

Class F shares have a par value of \$1 per share. Dividends on these shares are at the discretion of the Board of Directors of Central.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

6. Loans to Members

	2019	2018
Residential mortgages	\$ 272,983,144	\$ 270,139,878
Personal loans	23,233,494	18,831,217
Commercial mortgages and loans	4,615,898	5,309,764
	300,832,536	294,280,859
Accrued interest receivable	227,540	199,225
Allowance for impaired loans	(91,577)	(69,921)
Net loans to members	\$ 300,968,499	\$ 294,410,163

Accrued interest receivable is expected to be recovered within one year.

Loans to members can have either a variable or fixed rate of interest and have terms up to ten years.

Variable rate loans are based on a "prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of security offered, the purpose of the loan and the member's credit worthiness. The Credit Union's prime rate at December 31, 2019 is 3.95%. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of security offered, the purpose of the loan, the member's credit worthiness and the loan term. The Credit Union accepts security on member loans in the form of registered mortgage charges on real property, registered assignments of personal property and member deposits with the Credit Union.

Residential mortgage loans are secured by residential property and have various repayment terms. Included under residential mortgage loans are \$39,831,663 of loans insured by the Canadian Mortgage and Housing Insurance Corporation, Canada Guaranty First Mortgage and Genworth First Mortgage. (\$46,909,253 in 2018).

The term to maturity and yield ranges of the loan portfolio are as follows:

	2019		2018	
	Principal	Yield	Principal	Yield
Variable rate due less than one year	\$ 40,905,994	5.17 %	\$ 40,271,221	5.25 %
Variable rate due more than one year	7,887,182	3.41 %	13,438,542	3.38 %
Fixed rate due less than one year	24,344,950	3.01 %	14,745,164	3.34 %
Fixed rate due more than one year	227,694,410	3.25 %	225,825,932	3.17 %
	\$ 300,832,536		\$ 294,280,859	

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

6. Loans to Members (Continued)

Interest on Loans to Members	2019	2018
Residential mortgages	\$ 9,021,035	\$ 8,145,994
Personal loans	1,279,935	1,096,216
Commercial mortgages and loans	181,978	63,959
	\$ 10,482,948	\$ 9,306,169

Allowance for Impaired Loans

2019	Commercial Mortgages and Loans	Residential Mortgages	Personal Loans	Total
Opening balance	\$ -	\$ -	\$ 69,921	\$ 69,921
Recoveries on loans previously written off	-	-	10,990	10,990
Provision charged to operations	-	-	26,349	26,349
Loans written off	-	-	(15,683)	(15,683)
Ending balance	\$ -	\$ -	\$ 91,577	\$ 91,577
Gross principal balance of impaired loans	\$ -	\$ 626,723	\$ 57,441	\$ 684,164

2018	Commercial Mortgages and Loans	Residential Mortgages	Personal Loans	Total
Opening balance	\$ -	\$ -	\$ 69,407	\$ 69,407
Recoveries on loans previously written off	-	-	36,449	36,449
Recovery received from operations	-	-	(15,531)	(15,531)
Loans written off	-	-	(20,404)	(20,404)
Ending balance	\$ -	\$ -	\$ 69,921	\$ 69,921
Gross principal balance of impaired loans	\$ -	\$ 127,500	\$ 13,421	\$ 140,921

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

7. Other Assets

	2019	2018
Accounts receivable	\$ 261,516	\$ 296,693
Prepaid expenses	154,398	208,949
Deferred income taxes recoverable (Note 16)	234,563	234,563
	\$ 650,477	\$ 740,205

Accounts receivable and prepaid expenses are expected to be recovered within the next year. Deferred income taxes recoverable are expected to be recovered in accordance with Note 16.

8. Property and Equipment

	Leasehold and Capital improvements	Furniture and Equipment	Computer, Telephone and ATM Equipment	Total
Cost				
Balance as at December 31, 2017	\$ 2,758,858	\$ 1,046,796	\$ 1,909,931	\$ 5,715,585
Additions	550,465	87,701	231,403	869,569
Disposals	(174,376)	(116,842)	(500,397)	(791,615)
Balance as at December 31, 2018	3,134,947	1,017,655	1,640,937	5,793,539
Additions	10,173	17,705	69,396	97,274
Balance as at December 31, 2019	\$ 3,145,120	\$ 1,035,360	\$ 1,710,333	\$ 5,890,813
Accumulated Amortization				
Balance as at December 31, 2017	\$ 1,180,932	\$ 755,368	\$ 1,755,289	\$ 3,691,589
Amortization	229,251	76,649	112,641	418,541
Disposals	(174,376)	(114,659)	(497,498)	(786,533)
Balance as at December 31, 2018	1,235,807	717,358	1,370,432	3,323,597
Amortization	250,174	72,421	105,792	428,387
Balance as at December 31, 2019	\$ 1,485,981	\$ 789,779	\$ 1,476,224	\$ 3,751,984
Net Book Value				
Balance as at December 31, 2018	\$ 1,899,140	\$ 300,297	\$ 270,505	\$ 2,469,942
Balance as at December 31, 2019	\$ 1,659,139	\$ 245,581	\$ 234,109	\$ 2,138,829

The benefits from property and equipment are expected to be received at dates greater than one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

9. Right of Use Assets

Cost	Real estate leases - branches and head office
Balance as at January 1, 2019	\$ 1,556,803
Addition during the year	-
Disposals during the year	-
Balance as at December 31, 2019	\$ 1,556,803
Accumulated Depreciation	
Balance as at January 1, 2019	\$ -
Depreciation during the year	225,962
Balance as at December 31, 2019	\$ 225,962
Net Book Value	
Net book value as at December 31, 2019	\$ 1,330,841

10. Members' Deposits

	2019	2018
Chequing	\$ 49,717,577	\$ 49,028,677
Demand	51,978,340	47,443,390
Term	103,491,682	96,443,825
Registered retirement savings plans	44,944,653	44,356,173
Registered retirement income funds	17,496,506	17,305,623
Tax free savings accounts	25,317,933	21,405,844
	292,946,691	275,983,532
Accrued interest payable	2,126,355	1,550,290
	\$ 295,073,046	\$ 277,533,822

Accrued interest payable is expected to be settled within one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

10. Members' Deposits (Continued)

The term to maturity and yield ranges of the members's deposits are as follows:

	2019		2018	
	Principal	Yield	Principal	Yield
Variable rate due less than one year	\$118,164,928	0.30 %	\$112,278,482	0.30 %
Fixed rate due less than one year	84,262,998	2.02 %	66,298,894	1.90 %
Fixed rate due more than one year	90,518,765	2.13 %	97,406,156	1.94 %
	\$292,946,691		\$275,983,532	

Interest on Members' Deposits

	2019	2018
Chequing and demand	\$ 224,624	\$ 214,016
Term	2,097,901	1,602,214
Registered retirement savings plans	865,585	753,094
Registered retirement income funds	363,041	302,570
Tax free savings accounts	429,406	331,173
	\$ 3,980,557	\$ 3,203,067

11. Borrowings - Liquidity

	2019	2018
Central term loan, interest at 2.52%, payable by January 7, 2019, security as described in Note 18.	\$ -	\$ 7,500,000
Central operating line of credit, interest at overnight bank rate plus 75 basis point (equating to 2.5%) interest payable monthly, principal payable on demand, security as described in Note 18.	-	923,264
	\$ -	\$ 8,423,264

Borrowings - liquidity are to be settled within one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

12. Securitization Liabilities

	<u>2019</u>	<u>2018</u>
CMHC mortgage securitization pool, interest at approximately 2.14%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$12,941 per month at December 31, 2019, maturity September 1, 2020, secured by residential mortgages totaling \$1,841,047	\$ 1,836,250	\$ 1,985,012
CMHC mortgage securitization pool, interest at approximately 1.65%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$18,313 per month at December 31, 2019, maturity February 1, 2021, secured by residential mortgages totaling \$3,535,926	3,518,560	-
CMHC mortgage securitization pool, interest at approximately 1.94%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$15,341 per month at December 31, 2019, maturity September 1, 2021, secured by residential mortgages totaling \$3,300,284	3,262,700	3,736,617
CMHC mortgage securitization pool, interest at approximately 1.94%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$11,464 per month at December 31, 2019, maturity January 1, 2022, secured by residential mortgages totaling \$2,375,245	2,327,243	2,623,885
CMHC mortgage securitization pool, interest at approximately 2.04%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$9,586 per month at December 31, 2019, maturity November 1, 2022, secured by residential mortgages totaling \$2,078,468	2,010,742	3,624,531
CMHC mortgage securitization pool, interest at approximately 1.93%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$9,320 per month at December 31, 2019, maturity January 1, 2023, secured by residential mortgages totaling \$1,961,836	1,946,869	-
Balance carried forward to next page	\$ 14,902,364	\$ 11,970,045

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

12. Securitization Liabilities (Continued)

	2019	2018
Balance carried forward from previous page	\$ 14,902,364	\$ 11,970,045
CMHC mortgage securitization pool, interest at approximately 2.59%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$15,154 per month at December 31, 2019, maturity July 1, 2023, secured by residential mortgages totaling \$3,250,402	3,218,800	3,558,151
CMHC mortgage securitization pool, interest at approximately 2.34%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$21,583 per month at December 31, 2019, maturity January 1, 2024, secured by residential mortgages totaling \$4,966,600	4,930,792	-
	\$ 23,051,956	\$ 15,528,196

Securitization Liabilities are expected to mostly be settled in more than one year.

13. Provisions

Plan 24 Savings Insurance Program

Balance as at December 31, 2017	\$ 371,400
Provision made during the year	-
Provision used during the year	(4,000)
Effect of change in discount rate	-
	367,400
Balance as at December 31, 2018	367,400
Provision made during the year	12,200
Provision used during the year	(14,000)
Effect of change in discount rate	(12,200)
	353,400
Balance as at December 31, 2019	\$ 353,400

The provision for the Plan 24 savings life insurance program consists of two plans and are paid out based on the following criteria:

Plan A – The face value of the insurance policy is \$5,000. Members in this program must maintain a minimum of \$5,000 in their plan 24 savings account to qualify for the insurance. Members who fall below the minimum savings balance of \$5,000 are eligible to be included in Plan B as noted below.

Plan B – The face value of the insurance policy is \$2,000. Those members in this program must maintain a minimum of \$2,000 in their plan 24 savings account to qualify for the insurance.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

13. Provisions (Continued)

Under both plans, members who fail to maintain the minimum \$2,000 balance are removed from the program. The Credit Union expects to settle most of the liability in more than one year. The obligations are discounted based on projected payments made in the future.

14. Lease Liabilities

	2019	2018
Real estate leases - branches and head office	\$ 1,911,503	\$ -

The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
2019							
Lease payments	\$ 317,866	\$ 284,996	\$ 285,630	\$ 291,241	\$ 292,061	\$ 618,705	\$ 2,090,499
Finance charges	44,998	38,465	32,167	25,648	18,860	18,858	178,996
Net present value	\$ 272,868	\$ 246,531	\$ 253,463	\$ 265,593	\$ 273,201	\$ 599,847	\$ 1,911,503

For the year ended December 31, 2019, total interest expense on lease liabilities included in administrative expense was \$51,849.

For the year ended December 31, 2019, total lease payments for assets that are exempt through the short-term exemption was \$50,686 and are recognized in administrative expense.

15. Membership Shares

Authorized

Membership shares qualifying as liabilities - As a condition of membership, each member is required to hold twenty membership shares with an issue price of \$5 each. The withdrawal of membership shares are subject to certain restrictions as provided by the Credit Union's bylaws and by the Credit Union maintaining adequate regulatory capital (see Note 17), as is the payment of any dividends on these shares.

Investment shares qualifying as equity - The Credit Union is authorized to issue an unlimited number of investment shares which pay dividends annually provided all regulatory capital regulations are met, at the discretion of the directors in the form of cash or additional shares. These shares are non-voting and non-participating. These shares are not redeemable in the first five years from the date of issuance (up to December 1, 2023) and are subsequently redeemable to a maximum of 10% of the issued shares in one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

15. Membership Shares (Continued)

Issued	2019		2018	
	Membership shares qualifying as liabilities	Membership shares qualifying as equity	Membership shares qualifying as liabilities	Membership shares qualifying as equity
Membership shares	\$ 1,212,073	\$ -	\$ 1,234,370	\$ -
Investment shares	-	5,000,000	-	5,000,000
Unamortized share issuance costs	-	(85,615)	-	(105,921)
Total	\$ 1,212,073	\$ 4,914,385	\$ 1,234,370	\$ 4,894,079

Membership shares and investment shares are expected to be settled at dates greater than one year. Funds invested in membership shares and investment shares are not insured by DICO.

16. Income Tax Disclosures

	Opening Balance at December 31, 2018	Recognized in Net Income	Recognized in Other Comprehensive Income	Closing Balance at December 31, 2019
Deferred Tax Assets				
Allowance on impaired loans	\$ 10,696	\$ 2,757	\$ -	\$ 13,453
Depreciable property and equipment	56,904	(3,534)	-	53,370
Right of use assets and lease liabilities	94,644	4,888	-	99,532
Obligation for employee future benefits	4,350	(461)	-	3,889
Obligation for plan 24 savings insurance program	67,969	(3,650)	-	64,319
Total Deferred Tax Assets	\$ 234,563	\$ -	\$ -	\$ 234,563

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2019

16. Income Tax Disclosures (Continued)

	Opening Balance at December 31, 2017	Recognized in Net Income	Recognized in Other Comprehensive Income	Closing Balance at December 31, 2018
Deferred Tax Assets				
Allowances on impaired loans \$	12,453	\$ (1,757)	\$ -	\$ 10,696
Depreciable property and equipment	49,863	7,041	-	56,904
Obligation for employee future benefits	4,917	(567)	-	4,350
Obligation for plan 24 savings insurance program	68,709	(740)	-	67,969
Non-deductible reserves related to leases	98,621	(3,977)	-	94,644
Total Deferred Tax Assets	\$ 234,563	\$ -	\$ -	\$ 234,563

	2019	2018
Net Deferred Tax Assets		
To be recovered within 12 months	\$ 13,453	\$ 10,696
To be recovered after 12 months	221,110	223,867
Net Deferred Tax Assets	\$ 234,563	\$ 234,563

The following is an explanation of the relationship between income tax expense and accounting income.

	2019	2018
Income before income tax expense	\$ 1,036,153	\$ 807,284
Income tax expense on accounting income at applicable statutory rate (2019 - 18.50% 2018 - 18.50%)	\$ 191,688	\$ 149,348
Effect of expenses that relate to permanent differences	9,232	16,089
Effect of expenses that relate to temporary differences	(55,517)	(30,319)
Income tax expense	\$ 145,403	\$ 135,118
Income tax expense consists of:		
Current	\$ 145,403	\$ 135,118

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

17. Regulatory Capital

The Credit Union's objective is to maintain the appropriate quantity, quality and composition of capital needed to: reflect the inherent risks of the Credit Union, support current and planned operations and support the distribution of dividends and redemption of membership shares. The Credit Union's capital is derived from Tier I and Tier II capital. Tier I capital is derived at maximum 25% equity in the form of minimum share requirements or other share proceeds as allowed by the Credit Union's by-laws, as described in Note 15, and minimum 75% of undivided earnings including unencumbered reserves as well as any accumulated other comprehensive loss. Tier II capital is derived from accumulated other comprehensive income and the collective allowance for impaired loans. The Credit Union policy is to maintain a minimum percentage for Tier 1 capital in comparison to total capital of 70%. The Credit Union's policy is to maintain regulatory capital at 5% of total assets and 11% of risk weighted assets. The Act requires Credit Unions to maintain regulatory capital at 4% of total assets and 8% of risk weighted assets. The Credit Union calculates and reports its regulatory capital to the Board of Directors on a monthly basis to ensure both the requirements of the Credit Union's policies and the requirements of the Act are met.

The Credit Union is in compliance with its policies and the Act regarding regulatory capital as at December 31, 2019 as outlined in the table below.

	2019	2018
Membership shares qualifying as liabilities	\$ 1,212,073	\$ 1,234,370
Investment shares, qualifying as equity	4,914,385	4,894,079
Undivided earnings	14,351,399	13,692,149
Total Tier 1 Capital	20,477,857	19,820,598
Collective allowance for impaired loans	71,957	56,726
Total Tier 2 Capital	71,957	56,726
Total Regulatory Capital	\$ 20,549,814	\$ 19,877,324

As at December 31, 2019, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of **6.01%** (2018 - 6.15%) and a risk weighted asset ratio of **14.74%** (2018 - 14.77%).

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

18. Commitments

Credit Facilities

The Credit Union has authorized credit facilities with Central totaling \$10,000,000. These credit facilities would be interest bearing at the market rates in place at the time of usage of such facilities and would have varying payment terms and maturities as negotiated between the Credit Union and Central. These credit facilities are secured by a registered assignment of book debts with a carrying amount of \$300,968,499 and a general security agreement covering all assets of the Credit Union, which includes a further \$37,010,151 of financial assets. The balance outstanding on these credit facilities as of December 31, 2019 was \$Nil (2018 - \$8,423,264).

Contractual Obligations

The Credit Union is under contract for its banking system until December 31, 2025. Future minimum payments, as calculated at December 31, 2019, per year are \$449,000.

Loans to Members

The Credit Union has the following commitments outstanding at year end:

Personal loans	\$	624,963
Residential mortgages		10,098,340
Unused personal lines of credit		21,097,232
Unused meritline/property line lines of credit		47,766,587
Unused commercial property lines of credit		300,000

19. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, which are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

	2019		2018	
Compensation				
Salaries and other short-term employee benefits	\$	710,488	\$	713,954
Remunerations to directors		52,800		51,257
Total pension and other post-employment benefits		44,215		43,143
Expenses of the board		58,626		63,904
	\$	866,129	\$	872,258

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

19. Related Party Transactions (Continued)

The Act requires Credit Unions to disclose remuneration paid during the year to officers and employees of the Credit Union whose total remuneration for the year exceeded \$150,000. Andy Doak, the chief executive officer was paid \$178,644 in salary, \$21,932 in bonuses and \$33,538 in benefits for the fiscal year ended December 31, 2019. There were no other officers or employees of the Credit Union who had remuneration greater than \$150,000 during the year.

	2019	2018
Loans to key management personnel		
Aggregate value of loans advanced	\$ 677,918	\$ 449,030
Interest received on loans advanced	25,876	17,805
Aggregate value of unadvanced loans	596,165	713,586

All loans were made in the normal course of business in accordance with the provisions of the Act. The allowance for impairment of these loans at December 31, 2019 was \$nil.

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.

	2019	2018
Deposits from key management personnel		
Aggregate value of deposits	\$ 1,901,160	\$ 1,785,153
Total interest and dividends paid on deposits	25,501	20,431

20. Financial Instruments

Fair Values

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Financial assets recorded at fair value through other comprehensive income	\$ 4,672,580	\$ 4,672,580	\$ 5,973,299	\$ 5,972,572
Financial assets recorded at amortized cost	333,567,587	333,689,924	314,269,777	312,664,981
Financial liabilities recorded at amortized cost	320,568,110	320,293,971	304,202,175	300,393,184

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

20. Financial Instruments (Continued)

Fair Value Hierarchy

A fair value hierarchy establishes three levels to classify valuation techniques used to measure fair value. Level 1 items are quoted prices in active markets for identical assets or liabilities. Level 2 items are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable and supported by little or no market activity. The fair value hierarchy gives the highest priority to Level 1 items and the lowest priority to Level 3 items.

2019

	Level One	Level Two	Level Three	Total
Financial Assets				
US denominated cash	\$ 2,787,360	\$ -	\$ -	\$ 2,787,360
Class A Shares - Central	-	-	116,484	116,484
Class E Shares - Central	-	-	664,700	664,700
Class F Shares - Central	-	-	1,042,236	1,042,236
Other	-	-	61,800	61,800
	\$ 2,787,360	\$ -	\$ 1,885,220	\$ 4,672,580

2018

	Level One	Level Two	Level Three	Total
Financial Assets				
US denominated cash	\$ 2,634,794	\$ -	\$ -	\$ 2,634,794
Class A Shares - Central	-	-	114,186	114,186
Class E Shares - Central	-	-	664,700	664,700
ABCP 2008 Limited Partnership Units	-	-	984,986	984,986
CUCO Co-operative Association Class B investment shares	-	-	14,424	14,424
Co-operators Group Limited preference shares	-	-	1,500,000	1,500,000
Other	-	-	59,482	59,482
	\$ 2,634,794	\$ -	\$ 3,337,778	\$ 5,972,572

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

20. Financial Instruments (Continued)

Fair Value Hierarchy (Continued)

The following table presents a reconciliation of each level of the fair value hierarchy:

	2019			2018		
	Level One	Level Two	Level Three	Level One	Level Two	Level Three
Balance, beginning of the year	\$ 2,634,794	\$ -	\$ 3,337,778	\$ 2,602,706	\$ -	\$ 3,462,333
Gain (loss) recognized in other comprehensive income	-	-	(384)	-	-	-
Gain (loss) recognized in net income	-	-	61,800	-	-	2,207
Purchase	-	-	59,548	-	-	763,986
Redemption	-	-	(1,573,522)	-	-	(890,748)
Transfer in (out)	152,566	-	-	32,088	-	-
Balance, end of the year	\$ 2,787,360	\$ -	\$ 1,885,220	\$ 2,634,794	\$ -	\$ 3,337,778

Financial Risks

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's Chief Executive Officer. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer 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 business of the Credit Union necessitates the management of credit risk. Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

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

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

20. Financial Instruments (Continued)

Financial Risks (Continued)

Credit Risk (Continued)

The Credit Union's objective is to provide creditworthy members with appropriate borrowing opportunities using appropriate and prudent lending policies. It is the policy of the Credit Union to keep the exposure to credit risk within the limits set by the Board of Directors and the Act, through its detailed credit granting policies and procedures.

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

- ◆ General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- ◆ Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- ◆ Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- ◆ Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations and
- ◆ Loan delinquency controls regarding procedures followed for loans in arrears.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization.

The following table presents loans with repayments past due but not regarded as individually impaired as at December 31, 2019:

Personal loans	\$	42,111
Residential mortgages		1,381,134

A sizeable portfolio of the loan book is secured by properties in the Greater Toronto Area, Peel Region, York Region and Durham Region. 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 has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

20. Financial Instruments (Continued)

Financial Risks (Continued)

Liquidity Risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet anticipated daily financial obligations, including member needs with respect to the funding of member loans or withdrawal of member deposits. The Credit Union's objective is to ensure that it faces limited risk exposure in this area through requirements placed on the sources, quality and amount of liquid assets that are required to be maintained to meet normal operational requirements, significant deposit withdrawals, loan campaign plans and regulatory requirements. The Credit Union achieves these objectives through the diversification of its liquid investment portfolio with reputable financial institutions, the placement of withdrawal restrictions on large deposits held by individual members or connected groups of members and the matching of the maturities of members' deposits to the maturities of liquid investments and loans to members. A summary of the maturities of members' deposits can be found in Note 10. The related maturities of liquid investments and loans to members are found in Notes 5 and 6. The Credit Unions and Caisses Populaires Act, 1994 and related Section 21 of Ontario Regulation 237/09 require a Credit Union to establish and maintain prudent levels and forms of liquidity that are sufficient to meet cash flow needs, including depositor withdrawals and all other obligations as they come due.

The Credit Union manages liquidity risk by:

- ◆ Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- ◆ Monitoring the maturity profiles of financial assets and liabilities;
- ◆ Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- ◆ Monitoring the liquidity ratios monthly; and
- ◆ Maintaining a minimum liquidity of 7% of members' deposits and borrowings.

There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year.

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

As at December 31, 2019, the liquidity position of the Credit Union as a percentage of member deposits and borrowings was 12.22%.

As at December 31, 2019, the liquidity position of the Credit Union is as follows:

	<u>2019</u>
Qualifying Liquid Assets on Hand	
Cash	\$ 15,504,828
Liquid investments	<u>20,291,700</u>
Total Assets Eligible for Liquidity	<u>\$ 35,796,528</u>

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

20. Financial Instruments (Continued)

Financial Risks (Continued)

Interest Rate Risk

The business of the Credit Union necessitates the management of interest rate risk. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when financial liabilities are not properly matched with financial assets with respect to maturities and interest rate variability. The Credit Union's objective is ensure that the Credit Union faces limited exposure in this area and manages its risk as required by the Act. The Credit Unions and Caisses Populaires Act, 1994 and related Section 71 of Ontario Regulation 237/09 requires a Credit Union to establish and maintain a prudent interest rate risk management policy.

It is the policy of the Credit Union to keep the exposure to interest rate risk within the limits set by the Board of Directors through its detailed structural risk management policies and procedures. The Credit Union assesses and reports its interest rate risk to the Board of Directors on a monthly basis through the use of a sophisticated income simulation model. Through this model, the Credit Union runs various scenarios based upon expected interest rate levels and the Credit Union manages a risk tolerance level based upon a pre-determined shock to those rates. The process and procedures surrounding this are governed by the Act and Board of Directors. The Credit Union's policy is to have no more than a maximum reduction of \$250,000 of earnings on an upward or downward rate shock. The prudent shock test used is 1.00% upward and 0.50% downward. In the prior year, the limit was to have no more than \$200,000 maximum reduction of earnings on an upward or downward rate shock and the prudent shock tested was 1% upward and 0.25% downward. There has been no other change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2019, the Credit Union has a negative impact on income of \$199,000 for a 0.50% decrease in interest rates and a positive impact from a 1% increase in interest rates, both in compliance with policy.

Currency Risk

Currency risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings where US dollar denominated financial liabilities are not matched with US dollar denominated financial assets with respect to maturities. The Credit Union's objective is to ensure that the Credit Union faces limited exposure in this area and manages its risk as required by the Act. The Credit Union's policy is to manage its net foreign exchange position to a net position of not greater than a positive or negative \$100,000 at the close of each business day. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2019, total unhedged US currency is 0.01% of total assets or \$38,210, which is within the Credit Union's policy limit with respect to unhedged US currency.

A \$0.05 change in the US foreign exchange rate, keeping the unhedged US liability position constant at the amount as of December 31, 2019 noted above, would have an inverse proportional effect on the Credit Union's net income of \$1,911.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2019

21. Loan Securitizations - Disclosure

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as financial assets recorded at amortized cost.

Securitization Pools	Carrying Amount		For liabilities with recourse only to the transferred assets		
	Assets	Associated Liabilities	Fair Value of Assets	Fair value of Associated Liabilities	Net Position
April 30, 2018	\$ 2,078,468	\$ 2,010,742	\$ 2,065,443	\$ 2,108,217	\$ (42,774)
April 30, 2018	3,300,284	3,262,700	3,256,222	3,319,189	(62,967)
August 14, 2018	2,375,245	2,327,243	2,343,733	2,394,829	(51,096)
August 14, 2018	3,250,402	3,218,800	3,286,262	3,314,247	(27,985)
August 14, 2018	1,841,047	1,836,250	1,833,402	1,847,964	(14,562)
February 19, 2019	4,966,600	4,930,792	5,065,681	4,994,271	71,410
May 23, 2019	3,535,926	3,518,560	3,510,319	3,532,260	(21,941)
May 23, 2019	1,961,836	1,946,869	1,985,409	1,952,106	33,303
Total	\$ 23,309,808	\$ 23,051,956	\$ 23,346,471	\$ 23,463,083	\$ (116,612)

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

22. Comparative Figures

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