Growth through Innovation and *Transformation*

ATLANTIC CENTRAL
ANNUAL REPORT 2019

Contents

Innovation

Translating an idea or invention into a good or service that creates value and satisfies the needs and expectations of customers.*

Transformation

Fundamentally changing the systems, processes, people and technology across a whole business to achieve improved efficiency, effectiveness and stakeholder satisfaction.*

Growth in today's market means leaders must continuously evaluate their strategic plans, goals and objectives, and even their business models. That means making adjustments to meet members and consumers where they are and providing the products, services and experience they want and expect.

We must be innovative in our approach to ensure our business strategies align with changing member and consumer behaviour and trends in the financial services industry. The work we do together for the benefit of the Atlantic credit union system is innovative. This has enabled us to access products and services at competitive prices that would, at the very least, be difficult for us to achieve individually.

The transformative work we're doing to increase our digital capabilities and sharing services will allow us to provide better service, achieve efficiencies and focus more attention on growing our businesses. In addition, building alliances with like-minded partners is a key factor in our ability to compete for business.

Innovation and transformation are more than buzz words – they are integral for us to remain relevant and sustainable. Members expect it. It is our responsibility to deliver. We will continue to build on our strength as a system and make decisions together for the collective benefit of credit unions in Atlantic Canada.

*Source: The Balance: Small Business

CHAIR'S MESSAGE

One year into a three-year strategy many would consider bold and ambitious, the board is pleased with Atlantic Central's progress. Throughout 2019, your central created and expanded on opportunities designed to help credit unions compete for business in their communities and to grow the Atlantic credit union system.

The success of any strategy depends on active participation in the process and belief in the value of the outcomes. Our plan was developed to align with the goals and objectives of the Atlantic Credit Union System Strategy, and Atlantic Central regularly evaluates our progress to ensure we meet the changing needs of our credit unions and their members. Credit union leaders from around the region participate in our annual planning session, sharing valuable feedback and providing information on the challenges and opportunities they face in the financial services industry. This collaborative approach is one of our greatest strengths, and we thank you for taking the time to join us.

The board is pleased with our 2019 results and the progress in supporting the Atlantic regional strategy. Our collective objectives are ambitious, and our approach is drawing attention from across the country. Our growing reputation for collaboration has opened many doors for us with national partners, including Concentra Bank, Aviso Wealth, Central1 and CCUA. As we expand our sphere of influence these relationships create value for the entire Atlantic system.

We reached a significant milestone in 2019 with the implementation of our first shared service for the benefit of Atlantic credit unions. The Board is extremely pleased with the number of credit unions participating in the Risk Management and Compliance shared service. Planning is underway for our second shared service.

Professional development is a cornerstone of effective board governance. Recently, we invested in a review of the skills and competencies required to lead and oversee your central in the years ahead. We will continue to evolve our governance practices and Atlantic Central looks forward to supporting credit unions in doing the same.

Our collective objectives are ambitious, and our approach is drawing attention from across the country.

This past year, the board also decided to evolve and expand our approach to Co-operative Social Responsibility (CSR) beyond traditional sponsorships and donations. We see a direct link between our values as an organization and the credit union brand. A structured program that helps us collectively direct and measure our contributions to the communities we serve will help us tell a strong, clear story about the value of doing business with credit unions. We expect to launch the new program in 2020.

I am proud to represent the Atlantic credit union system at the national credit union system level. It is a welcome opportunity to draw attention to the work our region is doing and learn from the experiences – positive and otherwise – in other parts of the country. Our region's ability and willingness to work together toward common goals remains a source of admiration among our credit union friends, and Mike Leonard is consistently recognized as a leader among his peers.

On behalf of the Board of Directors, I want to thank the management and staff of Atlantic Central. Their tireless commitment to achieving key initiatives and their belief in the work they do to support credit unions helps create stronger, more successful communities.

As I look toward 2020, I am confident credit unions will continue to receive significant value from Atlantic Central, both as a leader and a partner in the successful evolution of the Atlantic credit union system.

Pat Duffield
Chair
Atlantic Central Board of Directors

CEO'S MESSAGE

For several years now, we have been hearing that our industry is ripe for disruption. Reports of fin-techs pillaging our members and our balance sheets, big banks investing billions in artificial intelligence and machine learning, branches becoming obsolete, and consumers comparing our customer experience to Apple and Uber.

As it turns out – at least for now – customers still want and value branches, and fin-techs need credit unions and banks to scale their business models. With the alarm being sounded for so many years I worry that we will become complacent and think we have plenty of time to adapt.

While change in financial services has been slower than most had originally predicted, the prognosticators were not wrong. Consumers are expecting more from their banking providers and we need to step up our game. We need more innovation and more transformation. In 2019 we began to execute on our journey.

Leveraging the regional strategy work done over the past two years, and working with CEOs from all four provinces, we launched our new multi-year strategy. Through it, we are squarely focused on two main priorities to support the growth of business in your credit unions: improving awareness and understanding of credit unions; and building or partnering with strong platforms.

With respect to credit union awareness and understanding, in addition to executing on our award-winning regional marketing program, we launched two new significant initiatives designed to increase the profile of credit unions. We partnered with Jonathan Torrens' Canadianity Content Studios to launch Your Two Cents, a financial literacy and consumer awareness digital series. The 24 episodes prominently displayed our brand, and featured credit union staff. The series generated over 800,000 video views, far surpassing our expectations. We were also the presenting sponsor for the November visit of President Barack Obama, which was recognized as one of the biggest stories of the year in Atlantic Canada. Again, the credit union brand was everywhere.

Our efforts to improve awareness and understanding of credit unions have resulted in more consumers joining credit unions every year, from 12,055 in 2013 to a new high of 16,988 in 2019. We will continue to focus on increasing awareness and understanding of credit unions and improving our brand in 2020 and beyond.

Also related to our brand work, we launched a new initiative in 2019 related to Co-operative Social Responsibility (CSR). This work will help us move beyond sponsorships and donations. We will incorporate CSR into our operations, to better align our day-to-day work with our values as cooperatives. We will be reporting to our board in Q1 2020, and I believe this has the potential to better demonstrate why dealing with credit unions is different than dealing with our competition.

In 2018 we began executing on several transformational platform initiatives, including the launch of Aviso Wealth, Collabria, League Savings' new business model and our first shared service, Risk Management and Compliance. We saw significant progress on this work in 2019.

We scaled our Risk Management and Compliance shared service to 30 customers, representing 67% of credit union members in Atlantic Canada. We also completed planning for our second shared service, Human Resources.

Our work with Collabria progressed and we now have more than 22,000 cards in circulation. While the decision by Collabria to wind down Global Payment Cards (GPC) was disappointing, we worked through the process together and made the transition as smooth as we could. In my view, examples like the launch of Collabria, the wind down of GPC, and the launch of our new digital technologies, show that we are stronger and can accomplish more when we work together.

While the focus of Atlantic Central is squarely on delivering services to credit unions, it is important to note that your central had a solid year financially. We made significant and strategic investments from our Special Reserve (see page 9) and I am more convinced than ever of the importance of having the ability to make those investments on behalf of the Atlantic system. Early on there were questions about where we should invest, but with so many digital and payments related initiatives on our doorstep, it's clear we will need to continue to build the reserve for the collective benefit of the Atlantic system.

Our regional loan syndication program continues to grow. By the end of 2019, we reached a significant milestone when we hit $300 million, providing more than $11 million of revenue to participants. The program has achieved significant growth and is now a material contributor to the overall profitability of our system. We will continue to grow the program and find new ways to help build your balance sheet.

So, you may ask, "Where is the innovation? Where is the transformation?" The fact is, our Atlantic model is innovative. Our approach to collaboration, and presenting ourselves as an integrated collective, has drawn interest from credit unions across the country and beyond. National partners are interested in working with us because our model solves a major problem that exists in the cooperative business model: creating the necessary scale and efficiency in smaller cooperatives. Our regional strategy, regional brand, aggregation strategy, building shared service models for credit unions in four provinces? All innovative initiatives we have developed in Atlantic Canada that are unique to us. Looking for transformation? Look at what we have done with League Savings (see League's 2019 annual report for more details). We are pushing our model hard to maximize value for our members, and yours.

Consumers are expecting more from their banking providers and we need to step up our game. We need more innovation and more transformation.

Looking ahead, with our regional collaboration model building momentum and delivering results, and our Special Reserve available to make important investments, I am confident in our ability to tackle future opportunities and challenges. I couldn't be more proud of the work we do together, or the work done by our team to support credit union success.

I want to close by thanking our board for their guidance and support, my team for their dedication and passion for the work we do, and you, our credit union partners. You are why we come to work every day. Your continued support and collaboration will allow us to collectively grow the Atlantic credit union system.

Michael Leonard
President and CEO
Atlantic Central

Highlights

Shared Services

We launched our first shared service, Risk Management and Compliance, for the benefit of Atlantic credit unions. We are pleased to say that all service levels were met; a significant achievement for the first year of operations. Plans are underway for a second Shared Service. What we're hearing:

"The staff are very knowledgeable and easily accessible."

"Relief-knowing there's a place to go and get the right answers."

"The transition was smooth and easy."

"It has turned out to be a great investment."

As of December 31, 2019

30 Credit unions participating in the Risk Management and Compliance services representing

66% of system assets

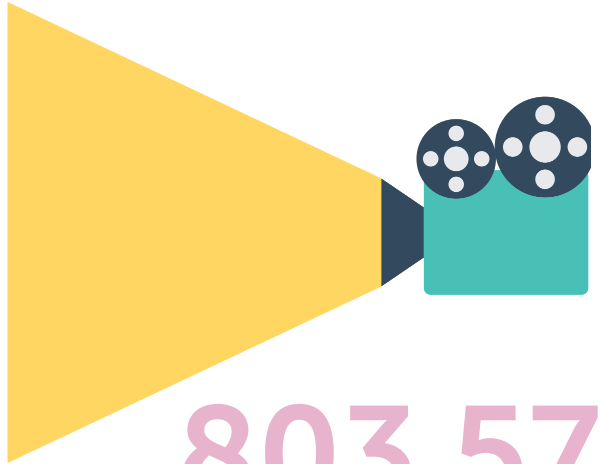
Products and Services

Digital Account Opening and Lending
Atlantic Central is collaborating with League Data to create an omni-channel banking experience that improves the user experience. With self-serve banking options increasingly in demand, we want to enable credit union members to complete account openings and apply for loans when, where, and how it's convenient for them.

Planning was completed in 2019 with rollout to credit unions beginning in Q1 2020.

Invisible reCAPTCHA
Cybersecurity is a priority and in 2019 this security feature was updated to protect member accounts for online and mobile banking.

Enhancements to Proactive Risk Manager
Our debit card fraud monitoring system now sends mobile fraud warnings to credit union members.



Brand Awareness

Connecting with our members and consumers in new and innovative ways!

Your Two Cents Video Series

We partnered with Canadianity Content Studios and Canadian celebrity Jonathan Torrens to create the 24-segment series, many featuring Atlantic credit union employees. Engaging the younger demographic online with a blend of parody and pop-culture while providing practical financial tips.

803,578 video views

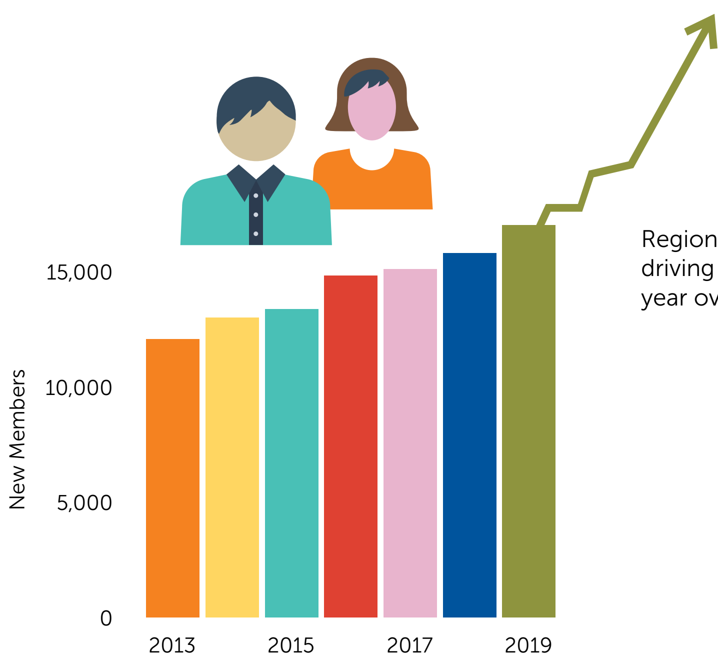
4.5M people reached

$42,240 in earned media

Earned and Owned Media Results

80 New stories published on HonestMoney.ca

8 Earned media stories valuing **$68,000**

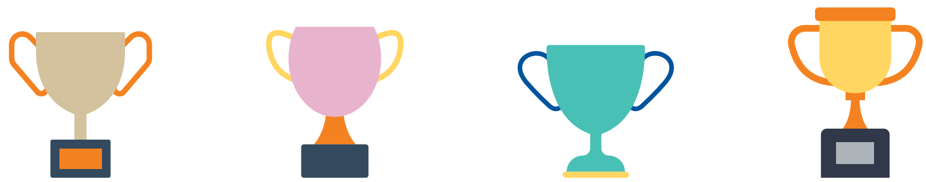


Regional campaigns driving member growth year over year

Award Winning Regional Marketing Program

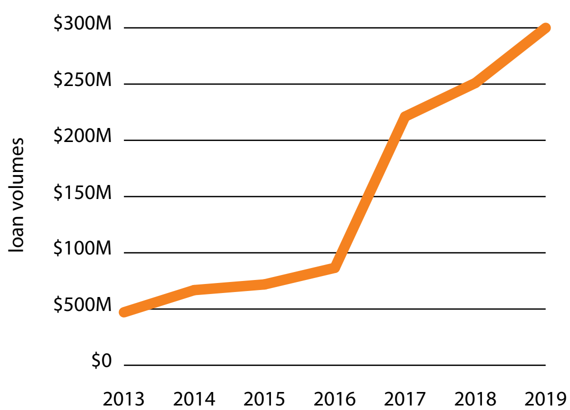
2019 saw our Regional Marketing Program win four awards at the Canadian Credit Union Association's (CCUA) Achievements in Marketing Excellence (AIME) Awards in the following categories:

- Branch Transformation
- New Product Launch for credit cards
- Public and Community Relations for our Lost Wallets Experiment
- Brand Building for the Lost Wallets Experiment



Syndication Program Delivering Results!

Our relationships with key partners like Concentra deliver significant results to our credit unions.



$300M in 2019

$7.3M in net interest revenue for credit unions

$4.3M to other system partners

Revenue Growth

$617M in Canada Mortgage Bond deals adjudicated

= $3.2M in gains for our subsidiary, League Savings and Mortgage

Special Reserve

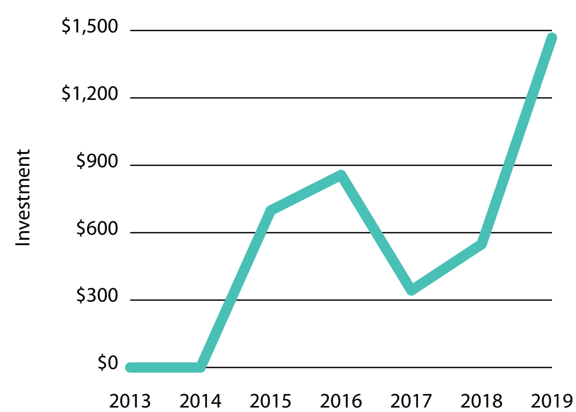
The Special Reserve was established in 2013 to support transformational change in the Atlantic credit union system. To date:

$11M has been contributed

$4M spent on key system initiatives

Atlantic Central drew nearly $1.5M from the Special Reserve in 2019 to fund system initiatives such as:

- Your Two Cents video series
- Sponsorship of the President Obama event
- Digital Account Opening and Lending project
- Shared Services



A Conversation with Barack Obama

On November 13, 2019, together with our partners at the Nova Scotia Co-operative Council, Atlantic credit unions welcomed President Barack Obama to Halifax for a night of meaningful conversation.

sold out event

8,000 people in total

3,000 credit union members

Living Our Values

Building Financial Inclusion and Resilience

Each One Teach One
Since 2016 credit union employees from across Atlantic Canada have delivered 202 financial literacy workshops for 2750 members of their communities.

> "If more people had the information that we got from the program then a lot less people would have money and financial struggles."
>
> – Workshop participant

68 Credit union coaches trained since 2016

30 Participating credit unions since 2016

57 Workshops held in 2019

614 Workshop participants in 2019

Investing in the Sustainable Economy

We're committed to investing in the sustainable economy. We've partnered with Bullfrog Power to purchase renewable energy in our three corporate offices.

A sustainable approach to investing
Our investment decisions are becoming more aligned with our co-operative values to ensure we're helping to grow a sustainable economy.

The new investment approach will be launched in 2020.

20% of our funding for Bullfrog Power supports small-scale renewable energy projects in our region and the rest of Canada

624 MWh
renewable energy purchased

214 Tonnes
CO_2 reduced

Atlantic Co-op Councils
$25,000 for each year

Growing the Co-operative Movement

Small Business Loan Guarantee Program

174 Loans issues

$10.4M Value of loans issued

976 Total job impact (new jobs created + jobs maintained)

55 Loans to women-owned businesses

29 Loans to minority-owned businesses

"They saw our vision and potential for growth – the only hindrance was the cash flow. That was the barrier between us and our potential, but the credit union supported us."

– Tareq Hadhad, Founder of Peace by Chocolate, Antigonish, NS

Cumulative impact 2003–2019

2,486 Total loans

$141M Loans value

16,358 New jobs created plus jobs maintained

794 Loans to women-owned businesses

235 Loans to minority-owned businesses

$25,000 Support each year to the four Atlantic Co-op Councils

Growing the Co-operative Movement

Co-operative Development Foundation of Canada (CDF)

$120,000

in support since 2013!

$174,000

Leveraged from government support

$20,000

Support for CDF

30,000

People supported by CDF from leveraged funds

With our support, CDF Canada works with community-owned co-operative enterprises in developing countries to help people with financial literacy, loans and savings, climate resiliency, and female empowerment.

2018 Coady Award

The Coady Award is presented annually to a credit union or caisse populaire in recognition of its leadership, support and community involvement. The award is named after Dr. Moses Coady, a leader in the establishment of the co-operative movement.

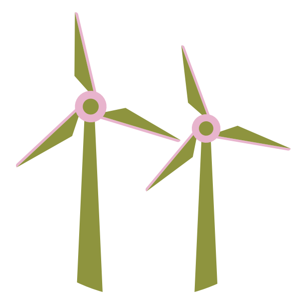
Nova Scotia's East Coast Credit Union consistently demonstrates its positive impact on members and the communities it serves. The following are some key highlights from 2018:

- $100,000 social enterprise partnership
- national award for its commitment to building stronger communities through sustainability
- 100% green electricity in all branches
- $50,000 to the Dartmouth General Hospital expansion project

We congratulate the staff of East Coast Credit Union for their work in supporting strong, healthy and successful communities!

100%

green electricity



#EastCoastCUCares

200

Nearly 200 staff and board members took part in the initiative which encourages people to be kind to one another.

OUR MANAGEMENT TEAM

Corporate Governance

Sound governance and ethical behaviour begin with our Board of Directors, which is accountable to our shareholder members and assumes responsibility for the stewardship of Atlantic Central (Central). The board is responsible for overseeing the management of the business and affairs of Central and for providing effective leadership to Central and the credit union system, with an objective of enhancing stakeholder value. Among its many specific duties the board

- approves strategic goals and business plans
- sets policy to direct the overall operations of Central
- provides advice, counsel and oversight to the President and CEO
- oversees the ethical, legal and social conduct of Central
- oversees risk management
- and reviews Central's ongoing financial performance

The board ensures that appropriate structures and procedures are in place to confirm its independence from management.

Board Composition

The board of directors of Central consists of 12 directors as follows:

- Two directors elected by delegates representing Central's member credit unions within the New Brunswick Regional Group
- Two directors elected by delegates representing Central's member credit unions within the Newfoundland and Labrador Regional Group
- Six directors elected by delegates representing Central's member credit unions within the Nova Scotia Regional Group, as follows:
    a. Three Directors elected by delegates representing Central's member credit unions within NS Peer Group A (credit unions with total assets up to and including $100,000,000)
    b. Three Directors elected by delegates representing Central's member credit unions within NS Peer Group B (credit unions with total assets over $100,000,000)
- Two directors elected by delegates representing Central's member credit unions within the Prince Edward Island Regional Group.

The following individuals currently serve on the board:

Pat Duffield, Chair
Raymond Surette, Vice-Chair
Martin Gillis
Marc LeClair (until September 2019)
Jim MacFarlane
Paul MacNeill
Camille Maillet
Paul Newman
Gary O'Brien
Kurt Peacock
William Timmons
Thomas Vickers

The board and each committee meet at least once each fiscal quarter, and the board holds an annual strategic planning session. The board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The board met nine times in 2019.

Committees of the Board

The board has established the following standing committees: Audit; Risk; Conduct Review; Co-operative Social Responsibility; Executive/Human Resources; and Governance.

Audit, Risk and Conduct Review Committees

The committees consist of at least four directors, none of whom is an employee or officer of Central or League Savings and Mortgage Company (LSM). The Audit Committee is responsible for ensuring that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible for meeting periodically with internal and external auditors. The Risk Committee is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies used for the allocation of human, capital and other resources. The Conduct Review Committee is responsible for ensuring that Central has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

Committees Members

Paul Newman (Chair), Paul MacNeill, Camille Maillet, and William Timmons.

Co-operative Social Responsibility Committee

The joint Central and LSM Co-operative Social Responsibility (CSR) Committee is comprised of at least one director from each of Central and LSM and representatives from each of the Atlantic provinces. The CSR Committee develops and supports clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee recommends to the board priorities for charitable giving and awards and recognition programs, and provides related oversight to these priorities and programs. In addition, the committee ensures sustainability and environmental impacts are considered in the management of premises and operations.

(Joint) Committee Members

Gary O'Brien (Chair), Pat Duffield, Sarah Millar, William Timmons, and Thomas Vickers.

Executive/Human Resources Committee

Its five members include the board chair, vice-chair and three members at large elected by the board, one of whom shall be a member, concurrently, of the board of Central's subsidiary, LSM, serving as an appointee of Central. This committee is responsible for addressing matters between scheduled board meetings that require immediate attention, and acts as a Human Resources Committee. In this capacity, the committee makes recommendations to the board on the President and CEO's compensation and performance evaluation.

Committee Members

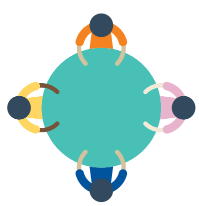
Pat Duffield (Chair), Raymond Surette (Vice-Chair), Jim MacFarlane, Gary O'Brien, and William Timmons.

Governance Committee

The committee consists of at least four directors and is responsible for reviewing and recommending changes to the governance structure of Central and for ensuring that an effective governance system is in place, including a schedule for regular policy review and compliance. In addition, this committee ensures board decisions and positions are appropriately translated into documented policies. Policies developed by the committee are forwarded to the board for its consideration and approval. The committee oversees the procedures for nominating and electing Central directors to ensure compliance with Central's bylaws, and resolves any issues or questions related to this process. The committee is responsible for overseeing the director evaluation process, board competencies, and the ongoing training and development of board members.

Committee Members

Raymond Surette (Chair), Pat Duffield, Martin Gillis, Jim MacFarlane, and Kurt Peacock.



Mandate of the Board of Directors

While the board's fundamental responsibility is to oversee the management of the business and affairs of Central, any responsibility that is not specifically delegated to the President and CEO remains with the board. In particular, the board oversees Central's strategic direction to ensure it serves the organization, its member credit unions, employees, and communities of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. The board assumes overall stewardship with respect to Central's purpose and values, its long-term objectives and the approval of corporate strategies. Specifically, the board is responsible for:

- the selection, succession, evaluation, compensation and employment conditions of the President and CEO
- establishing and approving board policies
- overseeing Central's internal control framework
- developing and approving Central's strategic goals and business
- providing advice to the President and CEO
- evaluating the board's performance and overseeing the ethical, legal and social conduct of the organization
- reviewing the financial performance and condition of the organization

Attendance at Board and Committee Meetings

The board of directors recognizes the importance of each individual director's participation at board and committee meetings. Every director is expected to attend all board and committee meetings unless adequate cause is given for missing a meeting. The following table sets out the attendance of each board member at board and committee meetings throughout 2019.

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive/HR Committee	Governance Committee
Pat Duffield*	9/9		4/4	4/4	4/4
Raymond Surette*	9/9			4/4	4/4
Martin Gillis	9/9				4/4
Marc LeClair	6/7	2/3			
Paul MacNeill	8/9	4/4			
Jim MacFarlane	9/9			4/4	4/4
Camille Maillet	8/9	3/3			
Paul Newman	9/9	4/4			
Gary O'Brien	8/9		4/4	4/4	
Kurt Peacock	7/9				3/4
William Timmons	9/9	1/1	4/4	4/4	
Thomas Vickers	9/9		4/4		

*Table Officer

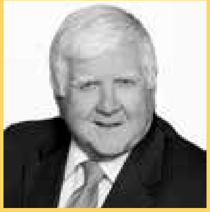

Pat Duffield, Chair


Raymond Surette, Vice-Chair


Martin Gillis


Marc LeClair


Paul MacNeill


Jim MacFarlane


Camille Maillet


Paul Newman


Gary O'Brien


Kurt Peacock


William Timmons


Thomas Vickers

Board Evaluations

As part of its commitment to ongoing development and improvement, the board conducts an annual self-evaluation. This evaluates the board's effectiveness in the following governance areas: Central's purpose and vision; strategic leadership; financial performance; internal controls and oversight, including financial oversight, risk oversight, and human resources oversight; co-operative social responsibility; compliance and accountability; stakeholder relations; board functioning and board and management relations; and learning and development. The results of the evaluation are used to guide the training and development agenda for the board in the upcoming year.

Evolving Governance Processes

At Central, we recognize that our governance standards must evolve to respond to changes in our organization, the credit union system, stakeholder expectations and regulatory requirements, and to ensure that Central and its stakeholders receive the benefit of exceptional governance practices. The board and management continually monitor developments in corporate governance practices and are committed to ongoing training and development to ensure that Central continues to lead the credit union system with its governance practices.

Affiliate and Regulatory Boards

Canadian Credit Union Association (CCUA)

Central is a Class B member of CCUA and is entitled to appoint one director to the CCUA board (the five Class B members consist of five centrals). Michael Leonard serves on the board of CCUA as a director from Central (term expires in 2021).

Concentra

Central is a minority shareholder of Concentra. Michael Leonard serves as a director on the board of Concentra (annual term expires in 2020).

Co-operative Enterprise Council of New Brunswick (CECNB)

Central has a share in CECNB, however there is no Central director currently serving on the CECNB board.

Co-operative Management Education Co-operative (CMEC)

Central holds shares in CMEC. The CMEC board includes co-op/credit union nominated positions, and the Central representative on the board is Paul Paruch (term expires in 2020).

Credit Union Central of Canada (CUCC)

CUCC transitioned to the Canadian Credit Union Association (CCUA) in 2015; however, a board of directors is still in place at CUCC, and Michael Leonard serves as the board chair.

League Data Limited

The president and CEO of Central, or designate, has a dedicated seat on the board of League Data Limited. Sharon Arnold, from Central, serves on the League Data board.

League Savings and Mortgage Company (LSM)

Central is entitled to appoint six members to the board of its subsidiary, LSM. Currently the directors appointed by Central to the board of LSM are Pat Duffield, Jim MacFarlane, Paul Newman, Gary O'Brien, Raymond Surette, and William Timmons.

Nova Scotia Co-operative Council (NSCC)

Central appoints one director to the NSCC board. Raymond Surette is the Central director serving on the NSCC board (annual term expires in 2020).

Nova Scotia Credit Union Deposit Insurance Corporation (NS CUDIC)

Three of the seven positions on the NS CUDIC board are nominated by Central, and appointments are subject to the Minister of Finance and Treasury Board's approval. The Central-appointed directors on the NS CUDIC board are Beverley Cooke and John Armstrong (terms expire in 2020), and Rick Parker (term expires in 2021).

Prince Edward Island Co-operative Council

Central has a designated seat on the board of the Prince Edward Island Co-operative Council and the director serves at the pleasure of Central. The Central appointee is Marc LeClair (term expires in 2021).

The Co-operators

The Atlantic regional delegates elect three directors to The Co-operators' board to represent the Atlantic region. Effective April 2017, Central reappointed Michael MacIsaac to serve as director (term expires in 2020). Jim MacFarlane has been appointed to serve as director beginning in 2020. Central also appoints two delegates, currently Kurt Peacock (term expires in 2021) and Brenda Roberts-Harmon (term expires in 2022).

Atlantic Central

Consolidated Financial Statements
December 31, 2019

Management's Responsibility for Financial Statements

Management has the responsibility of preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, Management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an Audit Committee to review the annual financial statements with Management and auditors before final approval by the Board.

Both the federal and provincial regulators of financial institutions may conduct examinations and make such enquiries into the affairs of Atlantic Central and its subsidiary as they deem necessary to ensure the safety of depositors and members of Atlantic Central and to ensure that Atlantic Central is in sound financial condition. Their findings are reported directly to Management.

PricewaterhouseCoopers LLP, the independent auditors, have examined the consolidated financial statements of Atlantic Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to members.

Michael Leonard
President and CEO

Sharon Arnold, CPA, CA
Senior Vice President, Finance and Chief Risk Officer

Independent auditor's report

To the Members of Atlantic Central

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Central and its subsidiaries (together, the Company) 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 (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for 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 consolidated financial statements* section of our report.

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

Independence

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

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 11, 2020

Atlantic Central

Consolidated Balance Sheet

As at December 31, 2019

(expressed in Canadian dollars)

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents		60,772,131	31,369,044
Investments	6	783,983,134	661,628,608
Loans and mortgages	7	623,004,640	555,007,352
Accrued interest		4,376,318	4,335,728
Fixed assets	9	2,221,412	1,983,409
Right-of-use assets	11	441,276	-
Deferred tax assets	16	619,526	531,216
Securitization assets	8	58,913,513	32,476,786
Other assets		7,859,642	4,454,963
		1,542,191,592	1,291,787,106
Liabilities			
Deposits	10	1,156,738,911	941,983,999
Accrued interest		3,948,013	2,656,242
Lease liabilities	11	449,151	-
Accounts payable and accrued liabilities		25,005,568	16,177,896
Mortgage backed securities	8	223,614,772	202,576,268
Capital tax payable		125,846	34,725
Income tax payable		283,751	707,424
Deferred tax liabilities	16	1,578,798	1,541,925
		1,411,744,810	1,165,678,479
Members' equity			
Capital stock	12	68,981,286	69,372,955
Contributed surplus		6,018,056	6,018,056
Special reserve	12	7,280,209	7,110,038
Retained earnings		32,865,098	30,293,072
Accumulated other comprehensive income		15,302,133	13,314,506
		130,446,782	126,108,627
		1,542,191,592	1,291,787,106

Commitments and contractual obligations 15

Approved by the Board of Directors

Michael Leonard
President and CEO

Pat Duffield
Chair

Paul Newman
Director

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

Atlantic Central

Consolidated Statement of Income

For the year ended December 31, 2019

(expressed in Canadian dollars)

	Note	2019 $	2018 $
Financial income			
Interest on investments		15,563,208	11,853,011
Interest on loans and mortgages		21,809,057	19,672,266
		37,372,265	31,525,277
Financial expense		24,045,262	17,265,409
Gross financial margin		13,327,003	14,259,868
Provision for credit losses		350,575	41,060
Net financial income		12,976,428	14,218,808
Securitization gains	8	3,238,519	962,492
Non-interest income	20	9,159,805	9,012,396
		25,374,752	24,193,696
Operating expenses			
Salaries and staff related		11,268,317	10,147,719
Management fees		254,634	-
Office		2,323,575	2,428,442
Marketing and business development		127,717	130,525
Democracy		873,506	933,864
Professional fees		677,820	1,098,791
Other		819,815	846,020
		16,345,384	15,585,361
Operating income		9,029,368	8,608,335
Initiatives and restructuring expenses	21	1,467,978	1,270,197
Income before income taxes		7,561,390	7,338,138
Capital tax	16	863,846	742,999
Income taxes	16	1,042,144	1,334,752
Net income for the year		5,655,400	5,260,387

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

Atlantic Central

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

(expressed in Canadian dollars)

	Note	2019 $	2018 $
Net income for the year		5,655,400	5,260,387
Other comprehensive income (OCI)			
Items that will be reclassified subsequently to income:			
Net change in unrealized gains (losses) in investments at fair value through OCI:			
Net unrealized gains on mark to market investments		3,097,090	2,572,762
Reclassification of net realized gains to net income		(225,969)	(1,223)
Income tax expense:	16		
On unrealized gains on mark to market investments		(953,002)	(610,030)
On reclassification of net realized gains to net income		69,508	376
Other comprehensive income		1,987,627	1,961,885
Comprehensive income		7,643,027	7,222,272

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

Atlantic Central

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2019

(expressed in Canadian dollars)

	Capital stock (note 12) $	Contributed surplus $	Special reserve (note 12) $	Retained earnings $	Accumulated other comprehensive income $	**Total members'** equity $
Year ended December 31, 2019						
Balance – Beginning of year	69,372,955	6,018,056	7,110,038	30,293,072	13,314,506	126,108,627
Net income for the year	-	-	-	5,655,400	-	5,655,400
Other comprehensive income, net of tax	-	-	-	-	1,987,627	1,987,627
Comprehensive income	-	-	-	5,655,400	1,987,627	7,643,027
Transfer to special reserve	-	-	1,638,149	(1,638,149)	-	-
Transfer from special reserve	-	-	(1,467,978)	1,467,978	-	-
Issued	1,297,391	-	-	-	-	1,297,391
Redeemed	(5,459)	-	-	(1,000)	-	(6,459)
Issued in equity rebalancing	208,860	-	-	-	-	208,860
Redeemed in equity rebalancing	(1,892,461)	-	-	-	-	(1,892,461)
Cash dividend paid on shares	-	-	-	(2,912,203)	-	(2,912,203)
Balance – End of year	68,981,286	6,018,056	7,280,209	32,865,098	15,302,133	130,446,782
Year ended December 31, 2018						
Balance – Beginning of year	65,711,155	6,018,056	5,609,101	28,655,044	11,352,621	117,345,977
Impact of adopting IFRS 9	-	-	-	9,420	-	9,420
Net income for the year	-	-	-	5,260,388	-	5,260,388
Other comprehensive income, net of tax	-	-	-	-	1,961,885	1,961,885
Comprehensive income	-	-	-	5,260,388	1,961,885	7,222,273
Transfer to special reserve	-	-	2,050,258	(2,050,258)	-	-
Transfer from special reserve	-	-	(549,321)	549,321	-	-
Issued in equity rebalancing	3,663,680	-	-	-	-	3,663,680
Redeemed in equity rebalancing	(1,880)	-	-	-	-	(1,880)
Cash dividend paid on shares	-	-	-	(2,130,842)	-	(2,130,842)
Balance – End of year	69,372,955	6,018,056	7,110,038	30,293,072	13,314,506	126,108,627

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

Atlantic Central

Statement of Cash Flows

For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net income for the year	5,655,400	5,260,387
Charges (credits) to income not involving cash		
Loans and mortgages, net	(67,997,288)	(16,155,313)
Deposits, net	214,754,912	20,004,627
Mortgage backed securities, net	21,038,504	13,089,015
Depreciation	553,022	427,636
Interest receivable/payable, net	1,251,181	468,393
Income taxes receivable/payable, net	(423,673)	333,941
Deferred tax assets/liabilities, net	(51,437)	186,586
Other items, net	(20,922,613)	(1,781,719)
	153,858,008	21,833,553
Financing activities		
Net proceeds (redemptions) from issuance of capital	(1,690,060)	3,661,800
Dividends	(1,614,812)	(2,130,842)
Leases, net	(90,454)	-
	(3,395,326)	1,530,959
Investing activities		
Investments, net	(123,275,830)	(20,393,807)
Fixed assets, net	(692,696)	(262,690)
	(123,968,526)	(20,656,497)
Net change in cash and cash equivalents during the year	26,494,156	2,708,015
Cash and cash equivalents – Beginning of year	34,289,225	31,581,210
Cash and cash equivalents – End of year	60,783,381	34,289,225
Cash and cash equivalents includes:		
Cash and balances with financial institutions	60,772,131	31,369,044
Cash included in investments	11,250	2,920,181
	60,783,381	34,289,225
Supplemental disclosure of cash flow information		
Interest received	37,182,898	31,743,723
Dividends received	148,777	211,002
Interest paid	23,015,671	17,363,456
Income taxes paid, net of refunds	2,307,179	2,751,928

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

(expressed in Canadian dollars)

1 Reporting entity

Atlantic Central (the "Company" or "Central") is incorporated in Nova Scotia under the Credit Union Act. Central is regulated by the Nova Scotia Office of the Superintendent of Credit Unions.

Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic provinces. Its head office is located at 6074 Lady Hammond Road in Halifax, Nova Scotia, and Central also operates out of offices in Riverview, New Brunswick and Charlottetown, Prince Edward Island. Central's key financial role is the management of the Atlantic credit union system's liquidity reserve requirements. Additionally, Central provides financial, trade association and other support services to Atlantic credit unions, their members and others.

The consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2020.

2 Basis of presentation

The consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the consolidated financial statements are set out in note 4.

The consolidated financial statements include the accounts of the subsidiary, League Savings and Mortgage Company (League Savings). Subsidiaries are defined as entities controlled by the Company. Control is defined as the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Subsidiaries are consolidated from the date control is transferred and consolidation ceases on the loss of control.

Significant inter-company transactions and account balances have been eliminated from the consolidated accounts. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in note 4.

The Company presents its consolidated balance sheet on a non-classified basis. The following balances are generally classified as current: cash and cash equivalents, fixed income investments and loans and mortgages maturing within one year, accrued interest, other assets, lease liabilities, demand deposits, term deposits and mortgage backed securities maturing within one year, accounts payable and accrued liabilities and income taxes.

(expressed in Canadian dollars)

3 Changes in accounting standards

Changes in accounting policies during the year

On January 1, 2019, the Company adopted IFRS 16 – Leases. The Company leases various office space and equipment. Until December 31, 2018, leases were classified as either finance leases or operating leases. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Applying this model, a lessee is required to recognize:

- Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- Depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option; and
- Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company adopted IFRS 16 by applying a modified retrospective approach, under which the transition impact is recognized as an adjustment to the opening balance of retained earnings on the adoption date, with no restatement of comparative information. Under this method, the right of use assets and lease liabilities have been measured by discounting the remaining lease payments using the incremental borrowing rate. The Company chose, on a lease by lease basis, to measure the right-of-use asset at either the carrying amount of the lease liability on transition date, discounted using the Company's incremental borrowing rate at the date of transition. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(expressed in Canadian dollars)

3 Changes in accounting standards (continued)

Other standards

The following amended standards, which were effective January 1, 2019, had no significant impact on the Company:

- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28); and.
- IFRIC 23 Uncertainty over Income Tax Treatments.

IAS 12 was amended to clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits were recognized. Accordingly, for the Company the tax consequences of dividends paid during the year are recognized in the statement of profit and loss as a reduction of income tax expense.

Future changes in accounting policies

There are no accounting changes, that have been issued but are not yet effective, that are expected to have a significant impact on the company.

4 Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and balances with financial institutions that are utilized primarily in the payments function. Certain cash accounts that are utilized in Central's investment activities are reported in investments.

Financial instruments

The Company classifies its financial assets in the following measurement categories: fair value through profit or loss (FVTPL); fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition.

The accounting policies related to these financial assets and liabilities are as follows:

Measurement methods – Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Measurement methods – Amortized cost and effective interest rate (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. it is amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss (ECL) provision). Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the consolidated statement of income as a reduction to income over the expected life of the relevant loans and mortgages.

Initial recognition and measurement

The Company recognizes loans and mortgages on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Company becomes party to the contractual provision of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realized through settlement.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Investments

The classification requirements for debt and equity investments are described below:

Debt instruments

Debt instruments are instruments that meet the definition of a financial liability from the issuer's perspective; such as loans and government and corporate bonds. The classification and subsequent measurement of debt instruments depends on the business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following two measurement categories:

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest (SPPI), are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for interest revenue, ECL and reversals and foreign exchange gains and losses, which are recognized in income or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to income or loss. Interest income from these financial assets is included in interest on investments using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is included in interest on investments.

Business model

The Company considers the following in the determination of the applicable business model for financial assets:

- The business purpose of the portfolio – such as a focus on earning contractual interest income or a focus on matching the duration of the liabilities that are funding the assets;
- The risks that are being managed and the type of activities that are carried out on a day-to-day basis to manage the risks;
- The basis on which performance of the portfolio is being evaluated; and
- The frequency and significance of sales activity in prior periods, and expectations about future sales activity.

The Company has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria, the financial asset is expected to be securitized as part of a portfolio that qualifies for derecognition, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL. If the portfolio does not qualify for derecognition, the Company has elected to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Investments (continued)

Solely payments of principal and interest (SPPI)

Where the business model is to hold to collect contractual cash flows, or to collect contractual cash flows and sell, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Company elects to present in OCI changes in the fair value of certain equity instruments that are not held for trading.

Gains and losses on these equity instruments are never reclassified to income or loss and no impairment is recognized in income or loss. Dividends are recognized in investment income unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

Dividend income on investments is recognized when the right to receive income is established.

Investments in associates

Associates are entities over which the Company exercises significant influence, but not control. The Company accounts for its investments in associates using the equity method. The Company's share of profits or losses of associates is recognized in the consolidated statement of income in interest on investments.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests of the Company in associates are recognized in the consolidated statement of income.

For investments in associates, a significant or prolonged decline in fair value of the investment below its carrying value is evidence that the investment is impaired. The impairment loss is the difference between the carrying value and its recoverable amount at the measurement date. The recoverable amount is the higher of an investment's fair value less costs of disposal and its value in use.

Investment in CU CUMIS Wealth Holdings Limited Partnership (CCWH)

CCWH is an investment limited partnership domiciled in Canada formed to hold the partners' interest in Aviso Wealth Inc. The partners of CCWH are Central, Central 1 Credit Union, Credit Union Central of Alberta, Credit Union Central of Saskatchewan, Credit Union Central of Manitoba Limited and The CUMIS Group. The Central has a 5.7% ownership interest in CCWH and accounts for its investment using the equity method (note 22).

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Impairment

The Company assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVOCI. The Company recognized a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt instruments carried at FVOCI are considered to have low credit risk and the loss allowance recognized during the period was therefore limited to 12 months ECL. Management considers 'low credit risk' to be, in the absence of evidence of an increase in credit risk, investments in government debt instruments and investments in financial institutions that have been designated as a domestic systemically important bank (D-SIB) or a global systemically important bank (G-SIB). Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Note 5 provides more detail on how the ECL is measured.

Modifications of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Company assesses whether or not the new terms are substantially different than the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, where the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; or
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognizes the original financial asset, recognizes a new asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed upon payments. Differences in the carrying amount are also recognized in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Derecognition other than on a modification

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Company transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third-party and the Company has transferred substantially all of the risks and rewards of ownership of that asset to a third-party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method.

Mortgage backed securities

The Company securitizes insured residential mortgages through the creation of mortgage backed securities (MBS) under the National Housing Act Mortgage-Backed Securities (NHA MBS) program sponsored by Canada Mortgage and Housing Corporation (CMHC). All loans securitized under the NHA MBS program are required to be insured by CMHC or a third-party insurer. The NHA MBS program utilizes a Central Payor and Transfer Agent (CPTA). The use of one designated CPTA for all issuers makes greater program efficiency possible in paying investors, transferring NHA MBS and issuing new NHA MBS.

The MBS created under the program are sold to third-party investors (Market MBS), or are sold to Canada Housing Trust (CHT), a CMHC sponsored structured entity, under the Canada Mortgage Bond (CMB) program.

In a Market MBS, the CPTA registers the NHA MBS and issues NHA MBS Certificates to investors, and CMHC provides a guarantee of the timely payment of amounts due to the investors. The MBS are backed by the residential mortgages and amortize in step with the mortgages underlying the security.

In the CMB program, the CHT aggregates NHA MBS from multiple issuers, financing the purchase of the NHA MBS through the issuance of securities to third-party investors. These CMB securities provide investors with semi-annual interest payments over the term of the bond, and the repayment of the principal balance on the specified maturity date. The timely payment of interest and principal to investors is guaranteed by CMHC.

The Company uses these securitization programs to diversify its funding sources.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Mortgage backed securities (continued)

With Market MBS, the Company typically continues to administer the loans securitized and is entitled to the payments received on the mortgages. At the same time, the Company is obligated to make the payments due on the issued MBS, including the investment yield due to the investors in the security, regardless of whether the Company has collected the funds from the mortgagor.

The Company also purchases pools of mortgages to sell into the CMB program. These mortgage pools are typically administered by a third-party mortgage servicer for a fee. For these pools, the Company is also entitled to the payments received on the mortgages and obligated to make the payments due on the issued MBS.

Unlike the Market MBS, the CMB securities do not amortize in step with the underlying mortgages. As a result, the CMB program requires the provision of replacement MBS securities to offset the declining balance of the underlying mortgages through principal payments. The CMB program also requires an interest rate swap agreement under which a Swap Counterparty pays the CHT the interest due to investors and receives the interest on the NHA MBS securities. For a fee, the Company has contracted with a third-party financial institution to take on the requirements to provide the replacement NHA MBS securities and to act as the Swap Counterparty.

Derecognition

The sale of mortgages through the NHA MBS program does not meet the requirements for derecognition if the Company has not transferred substantially all the risks and rewards of ownership of the underlying mortgages, as it retains the prepayment, credit and interest rate risk associated with the mortgages. For sales of MBS that do not qualify for derecognition, the Company continues to recognize the underlying mortgages in assets as secured loans and the cash proceeds from the securitization are recognized as liabilities.

Securitization retained interests and servicing liabilities

In certain cases, the Company has purchased pools of mortgages for subsequent sale into the CMB program where the Company's exposure to risks and rewards from the securitized assets is quite limited. In these transactions, the Company retains the rights to the future excess interest spread and the liability associated with servicing the assets sold, with very little exposure to variable cash flows.

The Company accounts for its retained interests and servicing liabilities on the consolidated balance sheet, in securitization assets and accounts payable and accrued liabilities, respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the consolidated statement of income under interest on loans and mortgages and non-interest income (securitization expenses), respectively.

Gains on securitization

When these assets are derecognized, the gains or losses on the transactions are recorded in securitization gains and are dependent in part on the previous carrying amount of the financial assets involved in the transfer. The proceeds of the sale are allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Fixed assets

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful life and residual value of fixed assets are reviewed at least annually. Depreciation rates are as follows:

Buildings and improvements	2-10%
Furniture and equipment	20-33%

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Operating expenses are recognized upon the utilization of the services.

The Company generates revenue primarily from providing products and services to its members including credit union lending and access to digital banking technologies and payments processing solutions offered by credit union system partners and other service providers. The Company provides access to credit facilities to support clearing, daily cash management, borrowing and other liquidity management requirements.

Payments services facilitate the day-to-day banking requirements of credit unions, which comprise multiple services that are provided over time. The revenue is collected over time at contracted terms based on the number of transactions that have occurred in the period, or a flat monthly fee depending on the type of services provided.

As a trade association, the Company collects dues from credit union members to fund certain services such as risk management, human resources, consulting and support, and marketing and communications planning. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale. The assessment of dues funded functions is determined annually based on an operating budget that is approved by the Board of Directors. Dues are collected from credit unions quarterly. The services are rendered over time and performance obligations are satisfied in the same manner.

The Company also collects dues from member credit unions to develop a regional marketing program. The program includes owned and earned multi-media campaigns, and other activities to allow credit unions to build awareness of the credit union’s brand to acquire members and increase wallet share. The dues are reviewed and approved by credit unions annually. The Company engages third-party vendors to perform these services. As such, performance obligations are satisfied over time as marketing activities are provided.

The Company also provides other consulting and marketing services, which are typically one-off work requests. The performance obligations relating to these services are satisfied upon completion of the contracts and delivery of the goods or services. Therefore, revenue is recognized at a point in time based on the right to invoice.

Other fee income, including account servicing fees, loan fees, discharge fees and administration fees, is recognized as the services are provided.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Translation of foreign currencies

Assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the rate at the transaction date.

Foreign currency translation gains and losses are included in banking service fees.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI. Income tax consequences of dividends on financial instruments classified as equity are recognized net income.

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

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

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available and that 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).

Employee benefits

Short-term employee benefits include salaries and wages, compensated absences, medical and dental plans, and variable compensation. The Central also contributes on behalf of employees to a Group Savings for Retirement Program and to life and long-term disability insurance plans. Under these defined contribution programs, the Central pays fixed contributions to an independent entity and has no legal or constructive obligation to pay further contributions. Defined contribution program costs of $573,815 (2018 - $555,666) are expensed as the related service is provided.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Initiatives and restructuring

Expenses that are not expected to recur in normal operations, including certain expenses relating to system initiatives or other organizational changes, are reported in initiatives and restructuring expenses.

Leases - Policies in effect prior to January 1, 2019

All leases were classified as operating leases. Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an operating lease), the total rentals payable under the lease are charged to the statement of income on a straight-line basis over the lease term.

Critical accounting estimates and assumptions

In preparing the Company's consolidated financial statements, Management is required to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The judgments and estimates that have the most significant effect on the amounts recognized in the consolidated financial statements are decisions with respect to the fair value of financial instruments, the allowance for loan losses, the derecognition of loans and mortgages, and income taxes.

Fair value of financial instruments

The determination of the fair value of financial instruments requires the exercise of judgment by Management. The fair value of financial instruments traded in active markets at the consolidated balance sheet date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique that maximizes the use of observable market inputs.

For certain types of equity instruments, where no active market exists or where quoted prices are not otherwise available, fair value is considered to approximate par value based on the terms of those instruments. The Company continues to monitor these instruments for any indication that a new measure of fair value is available.

(expressed in Canadian dollars)

4 Summary of significant accounting policies (continued)

Critical accounting estimates and assumptions (continued)

Expected credit loss allowance

The Company reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5.

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

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Derecognition of loans and mortgages

In determining whether to derecognize loans and mortgages, judgment is applied in determining whether the Company has transferred substantially all of the risks and rewards of ownership in transferring the assets to another entity.

Income taxes

The determination of deferred tax assets or liabilities requires judgment as the recognition is dependent on projections of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled.

5 Risk management

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The Company manages significant risks efficiently and effectively through an Enterprise Risk Management Framework (ERM), which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review, designed to reduce the significant risks and to manage those risks within appropriate tolerances for the Company.

Authority for all risk-taking activities rests with the Board of Directors (Board), which approves the Company's Risk Appetite Statement and risk management policies, delegates' limits and regularly reviews Management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, stress tested, assessed and controlled. Internal Audit reports independently to the Audit, Risk and Conduct Review Committees of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

(expressed in Canadian dollars)

5 Risk management (continued)

Stress testing is a risk measurement technique that examines the potential effects on the Company's financial condition resulting from adverse economic, liquidity, credit, and/or financial market conditions. The Company's risk management processes include stress testing scenarios including exceptional but plausible adverse events that can impact the Company's financial results and capital requirements, the results of which are used to enhance our understanding of our risk profile, and to support our strategic decision making. Stress testing results are also explicitly incorporated into the Company's Capital Plan.

The Chief Risk Officer is responsible for the oversight of risk management across the organization and reports quarterly to the Risk Committee and the Board. The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Interest rate risk
- Investment portfolio
- Large exposures
- Liquidity
- Foreign exchange
- Derivatives
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short- and long-term goals set by the Board.

The Company's principal business activities result in a consolidated balance sheet that consists primarily of financial instruments. The key risks related to the Company's financial instruments are credit, liquidity and market risk.

Credit risk

Credit risk is the potential for loss due to the failure of a borrower, counterparty, endorser or guarantor to fulfill its payment obligation to the Company. Credit risk arises in the Company's direct lending operations and in its funding and investing activities where counterparties have repayment or other obligations to the Company. There is also credit risk in unfunded loan commitments. The Company has established policies and procedures for credit risk management, including individual counterparty limits and portfolio category limits relating to investment activities.

Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic credit allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval and may be subject to subsequent risk assessment based on factors such as loan type, amount, original risk rating and payment history. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of Management.

(expressed in Canadian dollars)

5 Risk management (continued)

Credit risk (continued)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Company has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Company considers three components:

- The probability of default (PD) by the borrower or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Company derives the exposure at default (EAD); and
- The likely recovery ratio on the defaulted obligations loss given default (LGD).

The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimize their effectiveness.

The classes of financial instruments to which the Company is most exposed to credit risk are cash, investments and loans and mortgages.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Company. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

(expressed in Canadian dollars)

5 Risk management (continued)

Credit risk (continued)

Significant increase in credit risk (SICR) (continued)

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- For consumer and residential loans:
  - Contractual cash flow obligations are more than 30 days past due, and/or;
  - Available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (e.g. using internal watch lists for monitoring the credit risk of borrowers).

- For commercial loans:
  - Contractual cash flow obligations are more than 30 days past due, and/or;
  - Available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (e.g. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates).

In the years ended December 31, 2019 and 2018, the Company has used the low credit risk exemption for certain investment grade securities and for credit union lines of credit.

Definition of default and credit-impaired assets

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following:

- The borrower is more than 90 days past due on its contractual payments;
- The borrower is in long-term forbearance; and
- The borrower is insolvent or has filed for bankruptcy.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's ECL calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

(expressed in Canadian dollars)

5 Risk management (continued)

Credit risk (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortizing products, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and collateral values change, etc. — are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(expressed in Canadian dollars)

5 Risk management (continued)

Credit risk (continued)

Collateral held and other credit risk enhancements

The Company employs a range of policies and practices to mitigate credit risk. The most common is accepting collateral for funds advanced. A valuation of the collateral obtained is prepared as part of the loan origination process. The principal collateral types for loans and advances are mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held since the prior period.

At December 31, 2019, the net carrying amount of credit-impaired loans and advances to customers amounted to $713,215 (2018 - $364,835) and the value of identifiable collateral held against these loans amounted to $665,030 (2018 - $166,500).

Assets obtained by the Company, by taking possession of collateral held as security against loans and advances, are included in other assets. The balance held at December 31, 2019 was $1,059,468 (2018 - $866,738).

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

Liquidity risk

Liquidity refers to the capacity to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet the Company's commitments as they fall due and to fund new business opportunities. Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

The Company's primary role is to manage liquidity for the credit union systems in Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador. In its role as a credit union service partner, League Savings' primary financial role is to accept deposits from credit unions, their members and others, and to employ those funds to advance loans and mortgages to credit union members and others.

(expressed in Canadian dollars)

5 Risk management (continued)

Liquidity risk (continued)

The Company has established policies to ensure that it is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards;
- Matching the maturities of assets and liabilities;
- Diversifying funding sources;
- Establishing and maintaining minimum liquidity reserves;
- Monitoring actual cash flows on a daily basis;
- Forecasting future cash flow requirements;
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements; and
- Performing scenario testing and contingency planning.

While operating under similar liquidity management frameworks, certain liquidity management practices of Central and the subsidiary, League Savings, differ due to the specific nature of each organization. While Central's primary financial role is to manage the liquidity requirements of the Atlantic credit union system, League Savings acts primarily in the mortgage lending and deposit taking industry. In particular, the potential liquidity stresses that are modelled in scenario testing are different.

As the credit unions' system liquidity provider, the Central's cash flows are impacted by the liquidity requirements of the individual Atlantic credit unions. As a result, the Central's liquidity stress testing assesses the impact of increases in the drawdowns of credit union lines of credit and decreases in credit union excess liquidity deposits (deposits above the levels that credit unions are required to maintain with Central).

League Savings' cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits.

The matching of the maturities of assets and liabilities are detailed in note 13.

Management monitors the Central's liquidity position daily and reports to the Board on a quarterly basis.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually. This includes limits on the mismatch of foreign currency assets and liabilities, and limits on the amount of equity investments permitted in the securities portfolio. The Company has no exposure to commodity prices.

The Company uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

(expressed in Canadian dollars)

5 Risk management (continued)

Market risk (continued)

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/liability maturities; however, off consolidated balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through a combination of gap and income simulation analysis on a monthly basis. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at risk over the next 12 months as at December 31:

	2019 $	2018 $
100 basis point increase	(830,920)	(1,110,800)
100 basis point decrease	838,860	1,176,000

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk and the Company's earnings at risk were within this limit.

6 Investments

Debt instruments are carried at FVOCI. For equity investments, the Company has also elected to measure the investments at FVOCI. The Company accounts for its investment in associate using the equity method.

	2019		2018	
	Cost $	Market value $	Cost $	Market value $
Banks [a]	360,959,645	360,641,463	349,232,386	347,432,776
Government debt	225,127,136	225,582,317	147,480,948	147,395,805
Corporate debt	-	-	2,969,570	2,952,448
Co-operative deposits	171,007,068	171,028,898	140,989,720	140,997,679
Co-operative equities [b]	6,522,567	9,096,991	3,639,217	5,783,916
Investment in associate [c]	15,750,154	15,750,154	15,411,277	15,411,277
Corporate equities	112,461	1,890,050	112,461	1,662,000
Allowance for impairment	(6,739)	(6,739)	(7,293)	(7,293)
	779,472,292	783,983,134	659,828,286	661,628,608

a) Includes cash and cash equivalents utilized in the investments function.
b) See note 13 d) for details on a market value adjustment on investments in Credential Financial Inc. (CFI) and Northwest & Ethical Investments LP (NEI).
c) During the year ended December 31, 2018, the Company disposed of its investment in CFI and NEI in exchange for a 5.76% interest in CCWH (note 22).

(expressed in Canadian dollars)

7 Loans and mortgages

At December 31, 2019, loans are presented net of ECLs totalling $2,074,887 (2018 - $1,821,544). Loans are initially measured at fair value and are subsequently measured at amortized cost.

	Total loans	Allowance for credit losses	Net loans
	$	$	$
2019			
Consumer loans	2,296,189	86,516	2,209,673
Residential insured	388,316,107	69,194	388,246,913
Residential uninsured	156,024,736	676,851	155,347,885
Multi-residential insured	10,064,690	2,609	10,062,081
Multi-residential uninsured	70,683,303	459,159	70,224,144
Non-residential	77,252,416	780,558	76,471,858
Co-operatives	8,146,118	-	8,146,118
	712,783,559	2,074,887	710,708,672
Less: under administration			
Residential insured	76,647,479	-	76,647,479
Residential uninsured	11,056,553	-	11,056,553
	87,704,032	-	87,704,032
	625,079,527	2,074,887	623,004,640
2018			
Consumer loans	3,426,898	130,539	3,296,359
Residential insured	396,824,808	84,344	396,740,464
Residential uninsured	101,263,323	403,501	100,859,822
Multi-residential insured	9,692,615	2,513	9,690,102
Multi-residential uninsured	55,098,438	321,336	54,777,102
Non-residential	73,816,093	879,311	72,936,782
Co-operatives	20,487,051	-	20,487,051
	660,609,226	1,821,544	658,787,682
Less: under administration			
Residential insured	91,414,207	-	91,414,207
Residential uninsured	12,366,123	-	12,366,123
	103,780,330	-	103,780,330
	556,828,896	1,821,544	555,007,352

The following table is a summary of loans and mortgages by ECL impairement stage. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are considered impaired. The gross carrying amount of financial assets below also represents the Company’s maximum exposure to credit risk on these assets.

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
2019				
Consumer loans	2,285,892	10,297	-	2,296,189
Residential insured	310,294,640	975,077	398,911	311,668,628
Residential uninsured	144,789,151	179,032	-	144,968,183
Multi-residential insured	10,064,690	-	-	10,064,690
Multi-residential uninsured	70,489,617	-	193,686	70,683,303
Non-residential	77,131,798	-	120,618	77,252,416
Co-operatives	8,146,118	-	-	8,146,118
	623,201,906	1,164,406	713,215	625,079,527
2018				
Consumer loans	3,410,113	15,686	1,099	3,426,898
Residential insured	304,197,146	1,192,216	21,239	305,410,601
Residential uninsured	88,897,200	-	-	88,897,200
Multi-residential insured	9,692,615	-	-	9,692,615
Multi-residential uninsured	55,098,438	-	-	55,098,438
Non-residential	72,329,376	1,144,219	342,498	73,816,093
Co-operatives	20,487,051	-	-	20,487,051
	554,111,939	2,352,121	364,836	556,828,896

Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in PD, EAD and LGD in the period arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and the write-offs of allowances related to assets that were written off during the period.

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

Loss allowance (continued)

The following table presents the reconciliation of allowances for credit losses for each loan category according to ECL impairment stage.

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Consumer loans				
Balance as at December 31, 2018	121,017	8,456	1,067	130,540
Gross write-offs	(1,390)	(95)	(6)	(1,491)
Recoveries	4,853	331	21	5,205
Remeasurement [(a)]	(43,515)	(3,141)	(1,082)	(47,738)
Balance as at December 31, 2019	80,965	5,551	-	86,516
Residential insured				
Balance as at December 31, 2018	61,306	1,799	21,239	84,344
Transfer to (from):				
Stage 1	1,070	(1,070)	-	-
Stage 2	-	(430)	430	-
Stage 3	276	(276)	-	-
Remeasurement [(a)]	(101)	1,378	(16,427)	(15,150)
Balance as at December 31, 2019	62,551	1,401	5,242	69,194
Residential uninsured				
Balance as at December 31, 2018	403,502	-	-	403,502
Transfer to (from):				
Stage 1	1,312	(1,312)	-	-
Remeasurement [(a)]	266,111	7,238	-	273,349
Balance as at December 31, 2019	670,925	5,926	-	676,851

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

Loss allowance (continued)

	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Multi-residential insured				
Balance as at December 31, 2018	2,513	-	-	2,513
Remeasurement [(a)]	96	-	-	96
Balance as at December 31, 2019	2,609	-	-	2,609
Multi-residential uninsured				
Balance as at December 31, 2018	321,336	-	-	321,336
Transfer to (from):				
Stage 1	(47,630)	-	47,630	-
Remeasurement [(a)]	137,487	-	336	137,823
Balance as at December 31, 2019	411,193	-	47,966	459,159
Non-residential				
Balance as at December 31, 2018	612,850	90,465	175,997	879,312
Transfer to (from):				
Stage 1	80,633	(80,633)	-	-
Remeasurement [(a)]	(33,543)	(9,832)	(55,379)	(98,754)
Balance as at December 31, 2019	659,940	-	120,618	780,558
Total allowance as at December 31, 2019	1,888,183	12,878	173,826	2,074,887

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Consumer loans				
Balance as at December 31, 2017	-	-	-	111,130
Transition to IFRS 9	-	-	-	87,441
Balance as at January 1, 2018	189,523	8,696	352	198,571
Gross write-offs	(55,686)	(3,213)	(294)	(59,193)
Recoveries	2,217	128	13	2,358
Remeasurement [(a)]	(15,037)	2,845	996	(11,196)
Balance as at December 31, 2018	121,017	8,456	1,067	130,540
Residential insured				
Balance as at December 31, 2017	-	-	-	250,701
Transition to IFRS 9	-	-	-	(165,609)
Balance as at January 1, 2018	64,264	570	20,257	85,091
Transfer to (from):				
Stage 1	(1,213)	1,213	-	-
Stage 2	376	(376)	-	-
Remeasurement [(a)]	(2,121)	392	982	(749)
Balance as at December 31, 2018	61,306	1,799	21,239	84,344
Residential uninsured				
Balance as at December 31, 2017	-	-	-	525,492
Transition to IFRS 9	-	-	-	(108,988)
Balance as at January 1, 2018	416,504	-	-	416,504
Transfer to (from):				
Stage 1	(50)	50	-	-
Remeasurement [(a)]	(12,954)	(50)	-	(13,004)
Balance as at December 31, 2018	403,500	-	-	403,500

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Multi-residential insured				
Balance as at December 31, 2017	-	-	-	-
Transition to IFRS 9	-	-	-	3,061
Balance as at January 1, 2018	3,061	-	-	3,061
Remeasurement [(a)]	(548)	-	-	(548)
Balance as at December 31, 2018	5,513	-	-	2,513
Multi-residential uninsured				
Balance as at December 31, 2017	-	-	-	-
Transition to IFRS 9	-	-	-	339,954
Balance as at January 1, 2018	339,594	-	-	339,594
Remeasurement [(a)]	(18,258)	-	-	(18,258)
Balance as at December 31, 2018	321,336	-	-	321,336
Non-residential				
Balance as at December 31, 2017	-	-	-	1,215,305
Transition to IFRS 9	-	-	-	(188,484)
Balance as at January 1, 2018	714,866	131,853	180,102	1,026,821
Transfer to (from):				
Stage 2	347	(347)	-	-
Remeasurement [(a)]	(102,364)	(41,041)	(4,105)	(147,510)
Balance as at December 31, 2018	612,849	90,465	175,997	879,311
Total allowance at December 31, 2018	1,522,522	100,720	198,303	1,821,544

a) Remeasurement includes changes in the allowance related to purchases and originations, derecognition and maturities, partial repayments and additional draws on existing facilities, and changes in estimates relating to the costs and the value of collateral reflected in the realizable value of a loan.

(expressed in Canadian dollars)

7 Loans and mortgages (continued)

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired at December 31 and the related collateral held, are shown below:

	Balance	Collateral value	Allowance
	$	$	$
2019			
Residential insured	398,911	502,500	5,241
Multi-residential uninsured	193,686	162,530	47,966
Non-residential	120,618	-	120,618
	713,215	665,030	173,825
2018			
Consumer loans	1,099	-	1,067
Residential insured	21,239	-	21,239
Non-residential	342,497	166,500	175,997
	364,835	166,500	198,303

8 Mortgage backed securities

Balances relating to mortgage backed securities under the NHA MBS program are as follows:

a) Transferred assets that do not qualify for derecognition

The Company securitizes insured residential mortgage loans by participating in the NHA MBS and CMB programs. Through the programs, the Company issues securities backed by residential mortgage loans that are insured against the borrowers' default. Once the mortgage loans are securitized, the Company assigns the underlying mortgages and/or related securities to CMHC. As an issuer of MBS, the Company is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages.

In these securitizations, the Company retains certain prepayment risk, timely payment guarantee risk, and interest rate risk related to the transferred mortgages. Due to retention of these risks, the transferred mortgages are not derecognized, and the securitization proceeds are accounted for as secured borrowings. There are generally no ECLs on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of the Company in the event of failure of mortgages to be paid when due.

(expressed in Canadian dollars)

8 Mortgage backed securities (continued)

a) *Transferred assets that do not qualify for derecognition* (continued)

The following is the Company's net positions on its securitized assets and liabilities that have not been derecognized:

	2019			2018		
Carrying value	Market MBS $	CMB $	Total $	Market MBS $	CMB $	Total $
NHA MBS assets	155,931,145	68,186,401	224,117,546	133,514,129	69,574,256	203,088,385
Associated liabilities	155,632,819	67,981,953	223,614,772	133,256,875	69,319,393	202,576,268

Assets pledged as collateral

Mortgage loans are pledged against the MBS issuances. As a requirement of the NHA MBS and CMB programs, the Company assigns and transfers to CMHC, all of its rights, title and interest in existing mortgage pools. If the Company fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment to CMHC of the mortgages included in all the mortgage pools backing the securities issued. If CMHC enforces the assignments, all authority and power of the Company under the terms of the NHA MBS guide, whether with respect to securities issued or mortgages pooled in the contract, shall pass to and be vested with CMHC.

b) *Transferred assets that have been derecognized*

In addition to the MBS above, certain mortgages were sold into the CMB program and derecognized. Balances relating to these transferred assets are as follows:

	2019 $	2018 $
Mortgages sold	608,660,057	235,316,034
Gain on sales	3,238,519	930,909
Cumulative balance of mortgages sold and derecognized	1,608,184,103	999,524,046
Related balances at December 31:		
Retained interests	58,913,513	32,476,786
Servicing liabilities	15,112,145	7,533,393

(expressed in Canadian dollars)

9 Fixed assets

2019	Land $	Buildings and improvements $	Furniture and equipment $	Total $
Gross carrying amount				
Balance at January 1	351,522	5,636,316	6,884,608	12,872,446
Additions	-	443,284	273,101	716,385
Disposals	-	-	(59,223)	(59,223)
Balance at December 31	351,522	6,079,600	7,098,486	13,529,608
Accumulated depreciation				
Balance at January 1	-	4,394,572	6,494,465	10,889,037
Disposals	-	-	(35,534)	(35,534)
Depreciation	-	285,690	169,003	454,693
Balance at December 31	-	4,680,262	6,627,934	11,308,196
Carrying amount December 31	351,522	1,399,338	470,552	2,221,412

2018	Land $	Buildings and improvements $	Furniture and equipment $	Total $
Gross carrying amount				
Balance at January 1	351,522	5,621,906	6,636,328	12,609,756
Additions	-	14,410	248,280	262,690
Balance at December 31	351,522	5,636,316	6,884,608	12,872,446
Accumulated depreciation				
Balance at January 1	-	4,122,732	6,338,669	10,461,401
Depreciation	-	271,840	155,796	427,636
Balance at December 31	-	4,394,572	6,494,465	10,889,037
Carrying amount December 31	351,522	1,241,744	390,143	1,983,409

(expressed in Canadian dollars)

10 Deposits

	2019 $	2018 $
Current accounts	47,206,173	33,675,756
Cash management	190,147,059	162,731,793
Segregated liquidity	411,493,500	380,325,135
Registered	6,629,400	7,487,665
Other demand	3,555,476	8,978,934
Total demand deposits	659,031,608	593,199,283
Registered	136,955,705	137,535,092
Other term	360,751,598	211,249,624
Total term deposits	497,707,303	348,784,716
	1,156,738,911	941,983,999

11 Leases

	Premises $	**Computers and equipment $**	**Total $**
2019			
Right-of-use assets			
Gross carrying amount			
Impact of adoption of IFRS 16 at January 1	440,400	99,205	539,605
Additions	-	-	-
Disposals	-	-	-
Balance at December 31	440,400	99,205	539,605
Accumulated amortization			
Balance at January 1	-	-	-
Disposals	-	-	-
Deprecation	70,900	27,429	98,329
Balance at December 31	70,900	27,429	98,329
Carrying amount December 31	369,500	71,776	441,276
Lease liabilities	376,623	72,528	449,151
Interest expense in financial expense	16,099	1,843	17,972

	$
Operating lease commitments disclosed as at December 31, 2018	359,504
Discount using the lessee's incremental borrowing rate at the date of initial application	29,481
Adjustments as a result of a different treatment of extension options	150,620
Lease liability recognised as at January 1, 2019	539,605

(expressed in Canadian dollars)

12 Capital stock

Authorized capital stock, and the amounts outstanding, is as follows:

				Outstanding			
				2019		2018	
	Par value $	Redemption price $	Authorized	Shares	Amount $	Shares	Amount $
Opening balance				4,940,830	49,408,300	4,574,650	45,476,500
Issued				20,886	208,860	366,368	3,663,680
Redeemed				(189,324)	(1,893,240)	(188)	(1,880)
Common shares	None	None	Unlimited	4,772,392	47,723,920	4,940,830	49,408,300
Opening balance				31,991	32	31,991	32
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class B	0.001	100	10,000,000	31,991	32	31,991	32
Opening balance				19,964,533	19,964,533	19,964,533	19,964,533
Issued				1,297,391	1,297,390	-	
Redeemed				(4,679)	(4,679)	-	-
Preferred shares – Class LSM	None	1	100,000,000	21,257,245	21,257,244	19,964,533	19,964,533
Opening balance				26,700	27	26,700	27
Issued				-	-	-	-
Redeemed				(10)	-	-	-
Preferred shares – Class NB	0.001	100	10,000,000	26,690	27	26,700	27
Opening balance				4,100	4	4,100	4
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class NL	0.001	100	10,000,000	4,100	4	4,100	4
Opening balance				59,240	59	59,240	59
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class NS	0.001	100	10,000,000	59,240	59	59,240	59
Opening balance				100	-	100	-
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class PEI	0.001	100	10,000,000	100	-	100	-
				26,151,758	68,981,286	25,027,494	69,372,955

(expressed in Canadian dollars)

12 Capital stock (continued)

Shares are owned by member credit unions, who must maintain Common Shares in amounts proportionate to that member's pro rata share of system assets. Common Share ownership requirements are determined by the Board. All classes of shares are non-voting. Members hold votes proportionate to their pro rata share of system assets.

All of the Class B, Class NB, Class NL, Class NS and Class PEI shares were issued as part of the business combination described in note 1. The Central may at any time, upon providing 30 days' notice, and subject to any limitations set by applicable legislation or OSFI, redeem these shares for the redemption price.

Other than the redemption of shares that would result from the wind up of a credit union, the Central has no plans to redeem any of the remaining Class B, Class NB, Class NL, Class NS or Class PEI shares at this time. The redemption value of the remaining shares is $12,212,100 (2018 - $12,213,100).

Common shareholders have the right to receive any dividends that may be declared out of the ordinary income of Central. Holders of the Class B, Class NB, Class NL, Class NS and Class PEI shares have the right to receive any dividends that may be declared out of the extraordinary income of Central on that respective class of shares. Ordinary income refers to income earned in the ordinary course of business after January 1, 2011. Extraordinary income refers to income which does not typically result from normal business activities.

In December 2019, the Central transferred $1,638,149 (2018 - $2,050,258) in retained earnings to a Special Reserve to be used to fund future Atlantic credit union initiatives. Spending out of the Special Reserve is reported in the consolidated statement of income in initiatives and restructuring expenses (see note 21).

The consideration for any shares issued or redeemed is cash.

13 Financial instruments

a) *Interest rate risk*

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of consolidated balance sheet items by the earlier of the contractual repricing or maturity dates. Non-interest sensitive items are those that have no maturity date and do not pay or receive interest.

An estimate of prepayments has been determined by Management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

(expressed in Canadian dollars)

13 Financial instruments (continued)

a) *Interest rate risk* (continued)

(Reported in $000's)	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total	Average rate
	$	$	$	$	$	$	%
2019							
Assets							
Cash and investments	364,438	59,590	229,460	110,204	81,063	844,755	2.09
Loans and mortgages	68,136	155,832	400,944	167	(2,074)	623,005	2.77
Other assets	-	-	-	-	74,432	74,432	
	432,574	215,422	630,404	110,371	153,421	1,542,192	
Liabilities and equity							
Deposits	466,109	535,014	128,170	-	27,446	1,156,739	1.72
Other liabilities	-	-	-	-	31,391	31,391	
Mortgage backed securities	2,861	35,043	186,214	-	(503)	223,615	1.91
Equity	-	-	-	-	130,447	130,447	
	468,970	570,057	314,384	-	188,781	1,542,192	
Subtotal	(36,396)	(354,635)	316,020	110,371	(35,360)	-	
Prepayment estimate	15,042	45,125	(60,142)	(25)	-	-	
Excess (deficiency)	(21,354)	(309,510)	255,878	110,346	(35,360)	-	
2018							
Assets							
Cash and investments	249,530	120,202	271,297	7,567	44,402	692,998	2.08
Loans and mortgages	46,290	81,007	429,531	-	(1,821)	555,007	2.36
Other assets	-	-	-	-	43,782	43,782	
	295,820	201,209	700,828	7,567	86,363	1,291,787	
Liabilities and equity							
Deposits	368,566	424,229	131,687	-	17,502	941,984	1.81
Other liabilities	-	-	-	-	21,118	21,118	
Mortgage backed securities	2,694	20,315	180,079	-	(512)	202,576	3.25
Equity	-	-	-	-	126,109	126,109	
	371,260	444,544	311,766	-	164,217	1,291,787	
Subtotal	(75,440)	(243,335)	389,062	7,567	(77,854)	-	
Derivatives	10,000	(10,000)	-	-	-	-	
Prepayment estimate	16,108	48,322	(64,430)	-	-	-	
Excess (deficiency)	(49,332)	(205,013)	324,632	7,567	(77,854)	-	

(expressed in Canadian dollars)

13 Financial instruments (continued)

b) Interest rate swap agreements

The Company may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. Typically, the floating rate is reset periodically, and the net interest amount is exchanged between the counterparties at scheduled dates.

The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable.

Interest rate swap contracts outstanding at December 31 are as follows:

	2019			2018		
	Notional value $	Rate %	Market value $	Notional value $	Rate %	Market value $
Pay fixed swaps: Term to maturity						
Within 1 year	-	-	-	10,000,000	1.99	10,819
1 year to 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
	-	-	-	10,000,000		10,819

Rates represent the weighted average interest rates the Company is contractually committed to pay/receive until the swap matures. The floating side of all swaps are based on the three-month Canadian Dollar Offered Rate (CDOR). Market value represents the mark to market value of outstanding contracts - generally, the net amount that would be payable or receivable on the reporting date based on the floating rate at current market rates. There were no "receive fixed" swaps outstanding at December 31.

Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. Mark to market gains (losses) on swaps are recorded in other assets (other liabilities), while the change in market value is recorded in financial expense.

c) Index linked deposits

The Company offers index linked term deposits, which are non-redeemable three- and five-year term deposits that pay, on maturity, a return to the depositor linked to the performance of a market index. The interest paid to the depositor at maturity is based on the growth in the index over the term of the deposits.

(expressed in Canadian dollars)

13 Financial instruments (continued)

c) *Index linked deposits* (continued)

To offset the risk of this variable interest rate, the Company enters into agreements, whereby the Company pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, the Company receives an amount equal to the amount that will be paid to the depositors. At December 31, 2019, the balance of outstanding index linked deposits was $2,266,621 (2018 - $2,253,792).

d) *Fair value*

The following table presents the fair value financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions, and is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Fair value is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as prepaid expenses and balances that are statutory in nature. In addition, items such as the value of intangible assets such as customer relationships which, in Management's opinion add significant value to the Company, are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Company's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical financial instruments;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable either directly or indirectly; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data. This level includes equity investments and debt instruments with significant unobservable components.

The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2019, the Company had no transfers between fair value hierarchy levels.

(expressed in Canadian dollars)

13 Financial instruments (continued)

d) Fair value (continued)

For investments, corporate equities are valued using quoted market prices (Level 1) and government and corporate debt instruments are valued using market prices provided by third-party brokers (Level 2). Co-operative equities that don't have a quoted price in an active market, are valued based on recent transactions. The ownership of co-operative equities is typically restricted to credit unions and other credit union system partners and is usually a condition of membership or necessary for access to the services provided by a system partner. As a result, transactions in these investments are restricted and typically occur at par value, which is the best estimate of fair value.

Given the nature of most investments in co-operative equities, specifically, the fact that investments are typically not made for the purpose of financial gain (i.e. to earn investment income), the application of valuation techniques to determine fair value are typically not in use. In limited cases where such valuation techniques have been utilized, however, that information is used in determining the fair value of the co-operative investment. The Company continues to monitor these investments for any indication that a new measure of fair value is available.

In 2018, the Company contributed its investments in CFI and NEI in exchange for an investment in CCWH. The completion of the transaction resulted in a gain of $917,841 after taxes recognized in OCI in 2018.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, co-operative deposit investments, deposits and MBS, the fair value is calculated using a discounted cash flow model, based on current interest rates and the term to maturity of the instrument (Level 2). The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

(expressed in Canadian dollars)

13 Financial instruments (continued)

d) Fair value (continued)

The following table summarizes the fair value measurements recognized in the consolidated balance sheet by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

The carrying value of cash and cash equivalents approximates their fair value as they are short-term in nature or are receivable on demand.

The determination of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	Level 1 $	Level 2 $	Level 3 $	Total fair value $	Total carrying value $
2019					
Assets					
Investments	1,890,050	757,245,939	9,096,991	768,232,980	783,983,134
Loans and mortgages	-	623,019,560	-	623,019,560	623,004,640
Liabilities					
Deposits	-	1,158,399,977	-	1,158,399,977	1,156,738,911
Mortgage backed securities	-	217,045,136	-	217,045,136	223,614,722
2018					
Assets					
Investments	1,662,000	638,771,415	5,783,916	646,217,331	661,628,608
Loans and mortgages	-	563,748,470	-	563,748,470	555,007,352
Liabilities					
Deposits	-	938,198,275	-	938,198,275	941,983,999
Mortgage backed securities	-	207,110,125	-	207,110,125	202,576,268

(expressed in Canadian dollars)

13 Financial instruments (continued)

d) *Fair value* (continued)

	Level 1 $	Level 2 $	Level 3 $	Total fair value $
2019				
Assets				
Cash and cash equivalents	60,772,131	-	-	60,772,131
Investments	1,890,050	757,245,939	9,096,991	768,232,980
Loans and mortgages	-	623,019,560	-	623,019,560
Accrued interest	-	4,376,318	-	4,376,318
Liabilities				
Deposits	-	1,159,139,886	-	1,159,139,886
Accrued interest	-	3,948,013	-	3,948,013
Mortgage backed securities	-	217,045,136	-	217,045,136
2018				
Assets				
Cash and cash equivalents	31,369,044	-	-	31,369,044
Investments	1,662,000	638,771,415	5,783,916	646,217,331
Loans and mortgages	-	563,748,470	-	563,748,470
Accrued interest	-	4,335,728	-	4,335,728
Liabilities				
Deposits	-	938,198,275	-	938,198,275
Accrued interest	-	2,656,242	-	2,656,242
Mortgage backed securities	-	207,110,125	-	207,110,125

Changes in Level 3 fair value measurements

The table below presents a reconciliation of the changes in Level 3 financial instruments during the years ended December 31, 2019 and 2018, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

	2019 $	2018 $
Balance at January 1	5,783,916	18,447,633
Realized and unrealized gains (losses):		
Included in income	30,534	85,965
Included in OCI	429,725	2,124,897
Purchases	3,402,816	23,148
Disposals	(550,000)	(14,897,727)
Balance at December 31	9,096,991	5,783,916

(expressed in Canadian dollars)

14 Related party transactions

a) Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, and include members of the Board of Directors, the President and CEO, and other senior officers of the Company. Compensation to members of the Board of Directors is limited to an annual honorarium.

The President and CEO, and each of the four other senior officers of the Company earned variable compensation during the year. The Company's Total Compensation Program does not include guaranteed bonuses or deferred compensation payments. Variable compensation is earned during the year and paid in cash in the following year. Directors do not participate in any variable compensation programs.

The components of total compensation received by key management personnel and balances due to/from key management personnel are as follows:

	2019 $	2018 $
Short-term employee benefits	1,254,910	1,246,059
Contributions to group savings for retirement program	76,045	69,902
Variable compensation	155,849	222,168
Mortgage balances due from key management	-	326,575
Deposit balances due to key management	917,829	844,951

Short-term employee benefits include salaries, director remuneration and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

b) Associates

The Company has a contract with League Data Limited, a related company by virtue of common ownership, for the provision of administrative, management and other services. The companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount. The following transactions and balances are measured at the exchange amount:

	2019 $	2018 $
Income and fees related to the management contract	66,000	63,000
Rental and other income	-	81,000
Services and equipment purchases from League Data Limited	541,210	560,751
Term deposits with League Savings	14,043,074	12,018,481
Term deposits with Central	-	-
Other deposits with Central	4,834,155	6,770,972
Amount receivable from (payable to) League Data Limited	(82,787)	(66,887)
Deferred funding for regional marketing program	78,277	83,900

(expressed in Canadian dollars)

15 Commitments and contractual obligations

a) Approved loans and mortgages

At December 31, 2019, the Company had approved lines of credit in the amount of $131,753,102 (2018 - $112,216,949), approved mortgages for syndication in the amount of $59,126,164 (2018 - $55,382,568) and other approved mortgages in the amount of $18,349,934 (2018 - $28,782,819) that have not been advanced to borrowers.

b) Clearing and settlement agreement

The Central has entered into a contract for clearing, settlement and US Dollar account services. Pricing is subject to annual adjustment effective January 1st of each calendar year. The contract was effective July 31, 2019 and has a five-year term.

c) CCIF Limited Partnership capital contributions

In 2017, in accordance with the terms of a CCIF Limited Partnership Agreement, the Company entered into a subscription agreement to invest in the capital of CCIF Limited Partnership (CCIF). The subscription is for $375,000 in partnership units and $125,000 in partnership loans. As required by the subscription agreement, in 2017, the Company made an initial contribution of 5% of the committed amount, $18,750 in partnership units and $6,250 in partnership loans. In 2018, the Company made an additional investment of $17,361 in partnership units and $5,787 in partnership loans. In 2019, the Company made an additional investment of $18,229 in partnership units and $6,076 in partnership loans.

The date of the capital call for the remaining committed amount, which is at the discretion of the General Partner of CCIF, has not yet been determined.

16 Income taxes

The significant components of income tax expense are as follows:

	2019 $	2018 $
Current income tax expense		
Federal and provincial	1,093,582	1,283,278
Capital and large corporate tax	863,846	742,999
	1,957,428	2,026,277
Deferred income tax expense		
Origination and reversal of deductible temporary differences	(51,437)	51,474
	1,905,991	2,077,751

(expressed in Canadian dollars)

16 Income taxes (continued)

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2019 $	2018 $
Income before income taxes	7,561,390	7,338,138
Statutory income tax rate	34.84%	33.44%
Expected income tax	2,634,609	2,453,633
Effect on income tax of:		
Non-taxable dividends	(498,271)	(261,330)
Tax impact of dividends paid	(895,795)	(655,447)
Permanent tax differences	27,947	29,574
Capital and large corporate tax	596,054	512,669
Other	41,447	(1,348)
Total income tax expense	1,905,991	2,077,751

The components of the future income tax assets (liabilities) are as follows:

		Recognized in			Recognized in		
	Balance 2017 $	Net income $	OCI $	Balance 2018 $	Net income $	OCI $	Balance 2019 $
Deferred tax assets							
Property and equipment	425,595	30,079	-	455,674	77,598	-	533,272
Allowance for impaired loans	634,612	(98,331)	-	536,281	60,080	-	596,361
Losses carried forward	155	-	-	155	-	-	155
Net donations carried forward	81,369	(12,356)	-	69,013	(17,595)	-	51,418
Net capital losses	8,852	-	-	8,852	-	-	8,852
Other	47,407	29,134	-	76,541	(76,519)	-	22
	1,197,990	(51,474)	-	1,146,516	43,564	-	1,190,080
Deferred tax liabilities							
Unrealized gains on investments	2,022,114	-	135,111	2,157,225	-	(7,873)	2,149,352
	(824,124)	(51,474)	(135,111)	(1,010,709)	43,564	7,873	(959,272)
Deferred tax asset (liability)							
Attributable to:							
Central	(1,440,632)	33,818	(135,111)	(1,541,925)	(44,746)	7,873	(1,578,798)
League Savings	616,508	(85,292)	-	531,216	88,310	-	619,526
	(824,124)	(51,474)	(135,111)	(1,010,709)	43,564	7,873	(959,272)

(expressed in Canadian dollars)

17 Capital requirements

Federal Bill C-43, which came into force in December 2014, included provisions repealing Part XVI of the Cooperative Credit Associations Act, which permitted provincial Centrals to operate with oversight from the federal OSFI. As a result of this change, provincial governments become exclusively responsible for the oversight of provincial Centrals.

Central continues to manage its capital under the guidelines established by OSFI, which prescribe a liabilities to capital borrowing multiple not to exceed 20 times capital. The Company is also subject to the requirements of the Credit Union Act, which requires Central to establish and maintain a level of equity that is not less than 5% of its assets.

League Savings is subject to guidelines OSFI has issued based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors (BCBS). OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.

Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity and market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. League Savings has implemented the Standardized Approach for credit risk and the Basic Indicator Approach (BIA) for operational risk. League Savings is not subject to the requirements for market risk.

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features.

As of January 2019, under the BCBS rules, League Savings is required to meet new minimum requirements of: Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5% and the Total Capital ratio will be 10.5%. OSFI required Canadian deposit-taking institutions to fully implement the 2019 Basel III reforms in 2013, without the transitional phase-in provisions for capital deductions (referred to as "all-in"), and achieve a minimum 7% common equity target, by the first quarter of 2013.

The Company has established internal limits to ensure that it meets its regulatory requirements. Capital is monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually.

Details of the Company's regulatory capital at December 31 were as follows:

Central:

	2019 $	2018 $
Maximum borrowing multiple	20	20
Actual borrowing multiple	12.4	10.2
Minimum equity ratio	5.0%	5.0%
Actual equity ratio	10.5%	11.5%

(expressed in Canadian dollars)

17 Capital requirements (continued)

League Savings:

	2019	2018
	$	$
Risk-weighted assets for:		
Credit risk	252,247,000	194,615,500
Operational risk	21,700,000	20,538,000
	273,947,000	215,153,500
Capital elements:		
Common shares	23,059,000	22,102,000
Contributed surplus	1,786,000	1,786,000
Accumulated OCI	24,000	(73,000)
Retained earnings	25,475,000	22,760,000
CET1	50,344,000	46,575,000
Total Tier 1 capital	50,344,000	46,575,000
Stage 1 and Stage 2 Allowance	1,901,000	-
Total Tier 2 capital	1,901,000	-
Total regulatory capital	52,245,000	46,575,000
	%	%
Ratios:		
CET1	18.4	21.6
Total Tier 1	18.4	21.6
Total capital	19.1	21.6
Leverage ratio	7.2	7.8
OSFI targets:		
CET1	7.0	7.0
Total Tier 1	8.5	8.5
Total capital	10.5	10.5
Leverage ratio	4.0	4.0

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

18 Credit facilities

The Central has established an operating line of credit of $35,000,000 with Central 1. The line of credit bears interest at the institution's prime lending rate. As security, the Central has provided an assignment of marketable securities having a carrying value of $35,000,000. At December 31, 2019 and 2018, there were no amounts outstanding on this facility.

On January 29, 2019, the Company entered into a line of credit agreement with Concentra Bank bearing interest at 3-month CDOR plus 1.00%, up to an amount of $25,000,000. The facility is secured by a charge over insured residential mortgages covering $110% of the loan facility.

(expressed in Canadian dollars)

19 Assets under administration

a) Mortgages under administration

Assets under administration include mortgages under administration, which are not the property of Central and are not reflected in the consolidated balance sheet.

b) Syndicated loans

The Central provides a loan syndication program for credit unions. These loans, which are under Central's administration, are not the property of Central and are not reflected on the consolidated balance sheet. Although most of the loan syndications are purchased by credit unions, Central can be a participant if a loan is not fully subscribed to by credit unions.

When the Central participates in the loan syndication, the amount is included in loans and mortgages on the consolidated balance sheet as "non-residential". Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as "non-residential".

Assets under administration at December 31 were as follows:

	2019 $	2018 $
Mortgages under administration	87,704,032	103,780,330
Syndicated loans	295,237,240	251,462,633
Included in non-residential	7,742,648	8,005,046

20 Non-interest income (expense)

Non-interest income (expense) includes the following:

	2019 $	2018 $
Banking service fees	2,312,792	2,278,404
Securitization expenses	(360,657)	(464,007)
Lending service fees	1,543,871	1,893,258
Lending service expenses	(1,053,979)	(262,558)
Investment service fees	27,177	25,201
Investment service expenses	(150,000)	(144,617)
Member assessments	4,636,974	4,349,910
Management fees	66,000	63,000
Fees for service	1,793,233	799,707
Rentals	12,558	84,029
Other	413,836	390,069
	9,241,805	9,012,396

The expenses detailed above include direct expenses only. Salary and staff related costs, and other indirect costs required to provide these services are reported in operating expenses.

(expressed in Canadian dollars)

21 Initiatives and restructuring

Reported in initiatives and restructuring expenses are costs relating to various initiatives relating to transformational change within the Company and the credit union system and expenses relating to other organizational changes. In 2018, Management made the decision to outsource the League Savings retail mortgage administration function.

Spending on initiatives and restructuring is as follows:

	2019 $	2018 $
System initiatives	1,467,978	549,321
League Savings restructuring	-	720,876
	1,467,978	1,270,197

22 Investment in CU CUMIS Wealth Holdings Limited Partnership (CCWH)

The information below reflects the amounts presented in the financial statements of CCWH adjusted for differences in accounting policies between Central and CCWH, as applicable.

Aggregated financial information of CCWH, accounted for using the equity method, is as follows:

	2019 **$**	**2018** **$**
Assets	122,803,874	107,223,000
Liabilities	8,244,740	427,000
Equity	114,559,134	106,796,000
Revenue	18,208,426	4,625,000
Expenses	1,921,444	417,000
Net income for the year	16,286,982	4,208,000
Other comprehensive income	411,500	165,000
Comprehensive income	16,698,482	4,373,000
Interest held by Central	5.76%	5.76%
Net income for the year	938,036	242,381
Other comprehensive income	23,700	9,504
Comprehensive income	961,736	251,885

(expressed in Canadian dollars)

23 Compensation

Compensation is a key factor in recruiting, retaining, motivating and rewarding a talented and committed workforce. Pay determination policies and guidelines emphasize continued development of knowledge, expansion of skills, performance and the ability to be flexible and adaptable to change.

The goals of our Total Compensation Program are to provide levels of compensation that are internally equitable, externally competitive, financially feasible and that will enable Central to attract, retain and reward highly qualified individuals. Total Compensation includes base pay, variable pay (which must be re-earned each year) and employee benefits.

The Executive/HR Committee of the Board is responsible for:

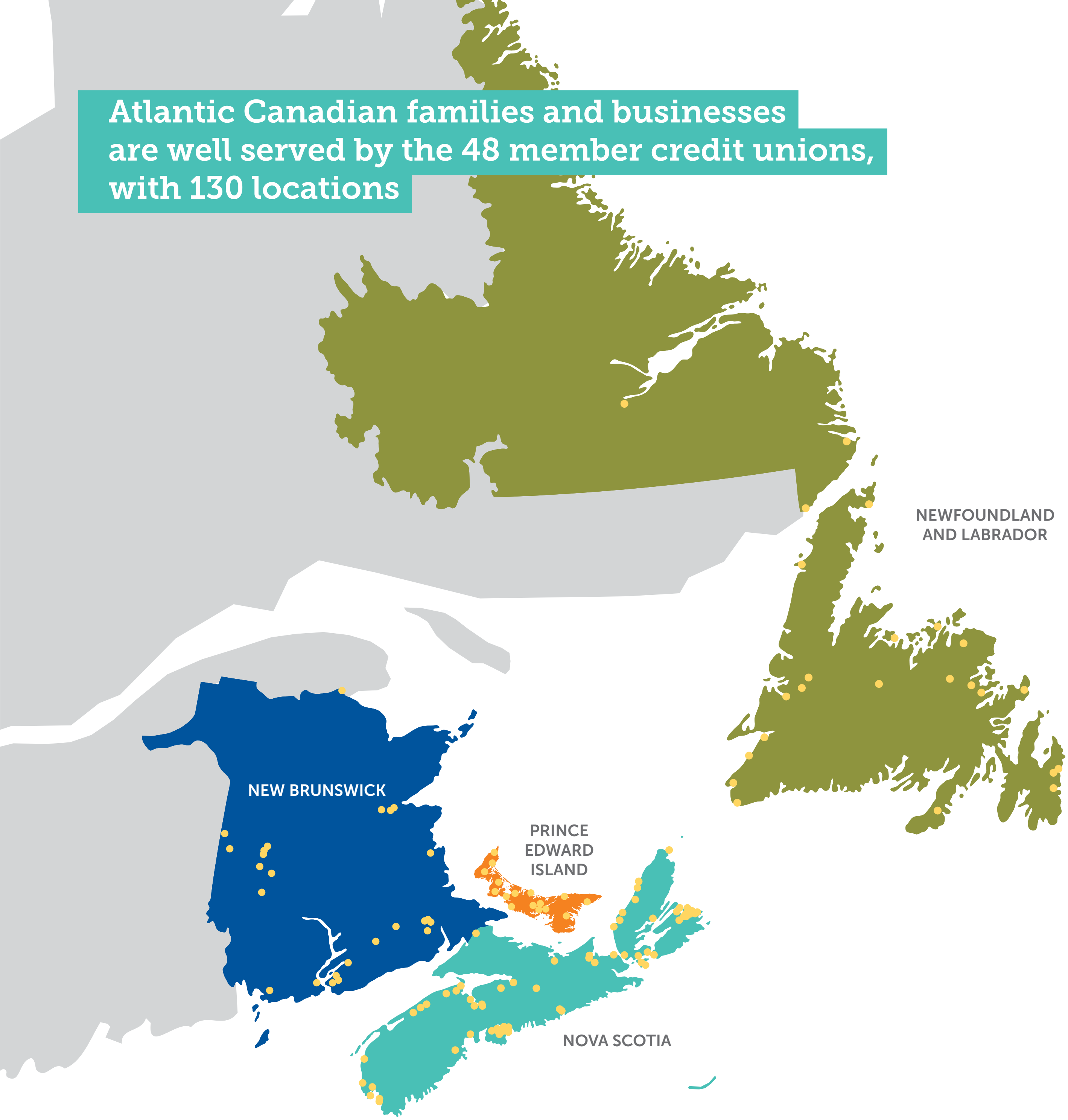
- Establishing an annual performance plan with specific objectives and monitoring and conducting annual performance evaluations of the President and CEO against these objectives;
- Determining and recommending to the Board an appropriate total compensation package (including variable compensation) for the President and CEO; and
- Reviewing annually the terms and conditions of the variable compensation plan for employees and recommending adoption by the Board.

The Board has delegated to the President and CEO the responsibility for the implementation and administration of all management or executive policies, including the Total Compensation Program for employees. The variable compensation program is governed by the Performance Sharing Incentive Plan, which is based on the following principles:

- The President and CEO will have the ultimate discretion to determine whether payment occurs and what the payment will be for the year, based on the annual performance of the Central;
- Performance is evaluated based on financial, customer service and balanced scorecard results;
- The plan is self-funded – if Central does not achieve the designated level of financial performance there will be no payout under the plan; and
- Individual performance will determine participation in and individual payments under the plan. Individual performance is measured against annual individual performance plans.

Compensation to members of the Board of Directors is limited to an annual honorarium. Directors do not participate in any variable compensation programs. Compensation paid to Directors and key management personnel are detailed in note 14 – related party transactions.

Atlantic Canadian families and businesses are well served by the 48 member credit unions, with 130 locations



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Consolidated Credit Union
Évangéline–Central Credit Union
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ATLANTIC CENTRAL

Atlantic Central is the regional trade association that provides leadership, advocacy, and a range of financial support services for 45 independent credit unions in all four Atlantic Provinces. Credit unions are co-operative financial institutions owned by their members. Atlantic credit unions serve 300,000 members who have entrusted them with more than $10 billion in loans, deposits and mortgages. Rooted in the communities they serve credit unions are an integral part of community life and play a significant role in the economic fabric of Atlantic Canada.

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