

**Kingston Community
Credit Union Limited**
Financial Statements
December 31, 2020

**Kingston Community
Credit Union Limited
Contents**

For the year ended December 31, 2020

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Management's Responsibility

To the Members of Kingston Community Credit Union Limited:

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

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

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

MNP LLP is appointed by the Credit Union to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 17, 2021



Chief Executive Officer

Independent Auditor's Report

To the Members of Kingston Community Credit Union Limited:

Opinion

We have audited the financial statements of Kingston Community Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, reserves and members' equity and accumulated other comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Kingston, Ontario

February 17, 2021

MNP LLP

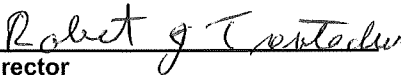
Chartered Professional Accountants

Licensed Public Accountants

**Kingston Community
Credit Union Limited**
Statement of Financial Position
As at December 31, 2020

	2020	2019
Assets		
Cash and cash equivalents (Note 3)	10,534,015	7,304,230
Investments (Note 4)	41,142,549	27,007,362
Member loans (Note 5)	130,422,817	119,890,172
Property, plant and equipment (Note 6)	2,075,178	2,258,748
Other assets (Note 7)	269,950	178,896
Deferred income tax (Note 8)	53,996	50,574
Total assets	184,498,505	156,689,982
Liabilities		
Member deposits (Note 9)	166,623,789	139,176,652
Other liabilities (Note 10)	1,008,307	922,871
Dividends and interest rebate payable	32,767	265,438
Obligations under capital lease (Note 11)	1,581,605	1,745,312
Membership shares (Note 12)	1,105,696	1,127,176
Total liabilities	170,352,164	143,237,449
Members' equity		
Members' equity	12,939,861	12,246,053
Reserves	1,206,480	1,206,480
Total equity	14,146,341	13,452,533
	184,498,505	156,689,982

Approved on behalf of the Board of
Directors


Director


Director

**Kingston Community
Credit Union Limited**
Statement of Comprehensive Income
For the year ended December 31, 2020

	2020	2019
Interest revenue		
Interest on loans to members (Note 5)	5,387,218	5,054,835
Investment income	572,409	685,939
	5,959,627	5,740,774
Interest expense		
Interest on members' deposits (Note 9)	1,023,754	826,040
Interest margin	4,935,873	4,914,734
Other revenue		
Rental	12,600	12,600
Other income	324,771	356,757
Service charges and commissions	1,036,562	1,119,835
Net provision for losses on loans	(264,620)	(160,963)
	6,045,186	6,242,963
Operating Expenses		
Amortization of property, plant and equipment	276,426	274,030
Interest on capital leases	33,456	33,191
Financial (Schedule 1)	129,393	129,476
Members' security insurance (Schedule 2)	166,751	156,185
Occupancy costs (Schedule 3)	256,085	238,096
Other administrative (Schedule 4)	1,599,188	1,517,945
Remuneration to management and staff (Schedule 5)	2,725,048	2,754,806
	5,186,347	5,103,729
Income before other items and income taxes	858,839	1,139,234
Other income (expenses)		
Gain on disposal of property, plant and equipment	-	2,500
Dividends on members' shares	(32,767)	(55,182)
Dividends on dividend savings	-	(210,256)
Income before income taxes	826,072	876,296
Provision (recovery) for income taxes (Note 8)		
Current	135,686	175,884
Deferred	(3,422)	10,189
	132,264	186,073
Net income for the year	693,808	690,223
Other comprehensive income (net of tax)		
Change in unrealized gains on available-for-sale investments	-	(6,393)
Total other comprehensive income for the year	-	(6,393)
Total comprehensive income for the year	693,808	683,830

The accompanying notes are an integral part of these financial statements

**Kingston Community
Credit Union Limited**

Statement of Reserves, Members' Equity, and Accumulated Other Comprehensive Income

For the year ended December 31, 2020

	<i>Reserves</i>	<i>Members' equity</i>	<i>Accumulated other comprehensive income</i>	<i>Total equity</i>
Balance January 1, 2019	1,206,480	11,555,830	6,393	12,768,703
Net income	-	690,223	-	690,223
Change in unrealized gains on available-for-sale investments	-	-	(6,393)	(6,393)
Balance January 1, 2020	1,206,480	12,246,053	-	13,452,533
Net income	-	693,808	-	693,808
Balance December 31, 2020	1,206,480	12,939,861	-	14,146,341

The accompanying notes are an integral part of these financial statements

**Kingston Community
Credit Union Limited**
Statement of Cash Flows

For the year ended December 31, 2020

	2020	2019
Cash provided by (used for) the following activities		
Operating activities		
Net income for the year	693,808	690,223
Amortization of property, plant and equipment	276,426	274,030
Deferred income taxes	(3,422)	10,189
Gain on disposal of property, plant and equipment	-	(2,500)
Net provision for losses on loans	264,620	160,963
	1,231,432	1,132,905
Changes in working capital accounts		
Other assets	(91,054)	19,821
Other liabilities	85,436	33,305
Accrued interest receivable	1,797	(18,134)
Interest receivable on investments	56,977	(43,189)
Accrued interest payable	(7,447)	99,765
Dividends and interest rebate payable	(232,671)	(22,221)
	1,044,470	1,202,252
Financing activities		
Increase in member deposits	27,454,584	10,250,181
Repayments of obligations under capital lease	(163,707)	(132,815)
Net redemption of member shares	(21,480)	(14,033)
	27,269,397	10,103,333
Investing activities		
Increase in member loans	(10,799,063)	(11,288,755)
Purchases of property, plant and equipment	(127,932)	(173,450)
Purchase of investments	(14,192,164)	(2,840,701)
Proceeds from disposal of property, plant and equipment	-	2,500
Deemed proceeds from disposal of assets under capital lease	35,077	-
	(25,084,082)	(14,300,406)
Increase (decrease) in cash resources	3,229,785	(2,994,821)
Cash resources, beginning of year	7,304,230	10,299,051
Cash resources, end of year	10,534,015	7,304,230

The accompanying notes are an integral part of these financial statements

1. Summary of significant accounting policies

Reporting entity

Kingston Community Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisse Populaires Act, 1994 (The "Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, TFSA's, RRIFs, mutual funds, automated banking machines (ABMs), debit and credit cards and internet banking. The Credit Union's head office is located at 795 Gardiners Road, Kingston, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 17, 2021.

Basis of presentation

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

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with Central 1 and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Investments

Central 1 Deposits and Guaranteed Investment Certificates are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost which approximates fair value.

Equity Instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

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

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income. On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Member loans

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment loss.

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

The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loan portfolio. The model was designed by Central 1 Credit Union, and is known as the IFRS 9 Impairment Expected Credit Loss Model (the "Model"). Under the Model, the Credit Union is required to classify all loans under three general categories: Performing (Stage 1), Underperforming (Stage 2), and Non-performing (Stage 3). The categories and details of the loan portfolio, which are described in Note 5, are uploaded to Central 1's Model on a monthly basis from which the model estimates the expected credit losses on the credit portfolio by category. The amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate as estimated by the Model. The amount of the impairment loss is recognized in net income.

The Credit Union continually assesses individual loans for objective indications of impairment or underperformance, such as delinquency or a credit event, and categorizes loans in its database accordingly.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is considered to be Performing (Stage 1). The carrying amounts of these assets are assessed individually for impairment based on loan specific data such as the related beacon scores, and inherent economic risks as determined by geography, economic data, regional employment trends, among other criteria. Assets that are considered to be Underperforming (Stage 2) or Non-performing (Stage 3) are assessed for impairment independently based on similar criteria, adjusted for the increased level of risk associated with the respective categories. The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loans carried at amortized cost. The amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate; short-term balances are not discounted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad debts written off

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

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

**Kingston Community
Credit Union Limited**
Notes to the Financial Statements
For the year ended December 31, 2020

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation, with the exception of land which is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

The methods of depreciation and depreciation rates applicable for each class of asset are as follows:

	<i>Method</i>	<i>Rate</i>
Buildings	straight-line	3 to 50 years
Furniture and equipment	declining balance	10 %
Signs	declining balance	20 %
Computer equipment	straight-line	1 to 5, or 7 years
Security equipment	straight-line	1,2,3 or 5 years
Banking system	straight-line	4 or 10 years
Automobile	straight-line	5 years
Leasehold improvements	straight-line	5 to 15 years

Impairment of non-financial assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has only one cash generating unit, for which impairment testing is performed.

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

Dividends

Dividends on member shares are recorded as a distribution of net income in the period to which they pertain, not in the period they are paid.

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 other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for 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 which 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 which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Reserves

The general reserve is created by appropriations from members' equity and is intended to provide for unforeseen losses.

Members deposits

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

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

Membership shares

Membership shares are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Membership shares are subsequently measured at amortized cost, using the effective interest rate method.

Revenue recognition

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

Interest revenue

The Credit Union generates revenue from interest charged on loans issued to its members. Performance obligations relating to these contracts are satisfied at the inception of the contract, when both the Credit Union and the member have agreed to the terms of the contract.

The Credit Union does not have an enforceable right to payment until legal title of the product transfers to the member; therefore, revenue is recognized at the point in time when legal title passes to the member. The form of this transfer varies, depending on the nature of the loan product.

Consideration is typically due in accordance with the repayment terms outlined in the contract. The transaction price is determined on a contract by contract basis, and is ultimately determined by the interest rate stated in the contract. The stated interest rate for a contract is influenced by a number of factors, including member risk and creditworthiness, loan collateral, market competition and prevailing economic conditions at the time of contract issuance.

**Kingston Community
Credit Union Limited**
Notes to the Financial Statements
For the year ended December 31, 2020

The primary cost of obtaining a contract are the wages and salaries of the applicable Credit Union staff. These costs are expensed as incurred.

Service charge revenue

The Credit Union generates revenue from the account service fees charged to a member for maintaining an account at the Credit Union. Performance obligations relating to these contracts are satisfied at contract inception and once the account has been opened.

Consideration is due each month and is charged to the member account. The amount of consideration is based on the type of account and the posted monthly service fee.

The primary cost of obtaining a contract are the wages and salaries of the applicable Credit Union staff. These costs are expensed as incurred.

Also included in service charges are revenues generated from CUMIS insurance premiums and annual profit sharing entitlements. These revenues are recognized as they are earned.

Other Revenue

The Credit Union generates revenues related to its KCCU Wealth Solutions division in the form of commissions. Also included in other revenue are ATM and other network fees. These revenues are recognized as they are earned.

Accounts payable

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

Provisions

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Standards issued but not yet effective

There are no new standards, interpretations and amendments, which are effective for the Credit Union's accounting periods beginning on or after January 1, 2021 and which have not been adopted early, that are expected to have a material effect on the Credit Union's future financial statements.

2. Critical accounting estimates and judgements

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

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

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

Fair Value of Financial Instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 4.

Income Taxes

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

3. Cash and cash equivalents

The Credit Union's cash and current accounts are held with Central 1. The current account has an average interest yield of 0.50% at December 31, 2020 (2019 average interest yield of 1.90%), and the U.S. dollar account average interest yield of 0.26% (2019 average interest yield of 1.93%). The current account holds a clearing facility of \$4,180,000 and the U.S. dollar account holds a clearing facility of \$100,000.

**Kingston Community
Credit Union Limited**
Notes to the Financial Statements
For the year ended December 31, 2020

4. Investments

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

	2020	2019
Central 1 Deposits and Guaranteed Investment Certificates		
Central 1 - Liquidity reserve deposit	11,116,311	9,445,477
Central 1 - term deposit	4,018,389	3,507,254
Central 1 - US term deposit	320,693	321,262
TD Canada Trust guaranteed investment certificates	16,528,201	7,057,620
Concentra - term deposit	4,009,219	-
RBC guaranteed investment certificates	4,020,045	5,548,125
	40,012,858	25,879,738
Equity Instruments		
Central 1 shares - class A	52,296	51,806
Central 1 shares - class E	294,400	294,400
Central 1 shares - class F	475,791	478,120
Concentra shares - class D preferred	250,000	250,000
CU CUMIS Wealth Holdings LP	2	2
Concentra financial	1,000	1,000
	1,073,489	1,075,328
Other investments		
Gold coin	5,000	5,000
CUMIS experience refund program	51,202	47,296
	56,202	52,296
Total investments	41,142,549	27,007,362

Central 1 - Liquidity reserve deposit

The Credit Union must maintain liquidity reserves with Central 1 at a minimum 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are made up of various liquidity deposits with varying maturity dates extending as late as June, 2022. At maturity, these deposits are reinvested at market rates for various terms. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

In October 2020 Central 1's Constitution and Rules were amended by special resolution to abolish the requirement for member credit unions to maintain 6% of their assets in a liquidity reserve with Central 1, effective January 1st, 2021.

Central 1 and Concentra - Term deposits and TD Canada Trust, and Royal Bank of Canada Guaranteed Investment Certificates

Central 1, Concentra term deposits and TD Canada Trust, and Royal Bank of Canada guaranteed investment certificates have varying maturity dates with the latest being December 2021. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

Class D Concentra preferred shares are issued at a par value with a minimum investment requirement of \$250,000. They are redeemable after five years by Concentra from the date of issuance, requiring the consent of the Office of Superintendent of Financial Institutions (OSFI). There is no separately quoted market value for these shares, however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Central 1 Shares

**Kingston Community
Credit Union Limited**
Notes to the Financial Statements
For the year ended December 31, 2020

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

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

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

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

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

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

At their December 11, 2020 meeting, the Central 1 Board of Directors approved the redemption of all Class F shares effective January 1st 2021.

**Kingston Community
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5. Member loans

	2020	2019
<i>Principal</i>		
Commercial	5,955,918	4,746,474
Mortgages	112,737,282	101,349,438
Personal and other	12,185,385	14,040,163
	130,878,585	120,136,075
Allowance for impaired loans	(661,092)	(453,024)
Accrued interest	205,324	207,121
Net loans to members	130,422,817	119,890,172

Terms and conditions

Member loans can either have a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate plus/minus" formula, ranging from prime minus 2.00% to prime plus 22.55%. The rate above prime is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2020 was 3.95%.

The interest rate offered on fixed rate loans being advanced at December 31, 2020 ranged from 2.00% to 18.00%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Commercial loans consist of term loans and mortgages to individuals, partnerships and corporations and, as such, have various repayment terms. They are secured by various types of collateral, including mortgages on real property, charges on specific equipment, investments and guarantees.

The Credit Union has, on behalf of Export Development Canada (EDC), advanced and administers 38 loans under the Canada Emergency Business Account (CEBA) program.

Residential mortgages are secured by residential property and generally are repayable in monthly blended payments of principal and interest.

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

	2020	2019
Interest income		
Commercial	266,459	174,309
Mortgages	3,989,828	3,595,927
Personal and other	1,130,931	1,284,599
	5,387,218	5,054,835

**Kingston Community
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Average yields to maturity

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

	2020		2019	
	Principal	Yield	Principal	Yield
Variable rate with maturities within five years	18,531,648	6.42 %	22,639,220	7.70 %
Fixed rate with maturities within one year	20,820,911	3.43 %	22,492,316	3.59 %
Fixed rate with maturities between one and five years	90,864,934	3.81 %	74,551,515	3.73 %
	<u>130,217,493</u>		<u>119,683,051</u>	
Accrued interest receivable	<u>205,324</u>		<u>207,121</u>	
	<u>130,422,817</u>		<u>119,890,172</u>	

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions.

Fair value

The fair value of member loans at December 31, 2020 was \$130,422,817 (2019 - \$119,890,172).

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

Concentration of risk

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

There were no individual or related groups of members' loans which exceed 10% of members' loans at December 31, 2020 or December 31, 2019.

The majority of members' loans are with members located in and around Kingston, Ontario.

Allowance for impaired loans

On January 1, 2018, the Credit Union adopted IFRS 9 "Financial Instruments" which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and gives rise to new requirements for the classification and measurement of the impairment of financial instruments. At each reporting date, the Credit Union recognizes an impaired loan provision for expected credit losses for debt instruments. This allowance is estimated based on an impairment model that comprises three stages:

Stage 1: For loans that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired loans, a loss allowance equal to 12-month expected credit losses is recognized.

Stage 2: For loans that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired loans, a loss allowance equal to the lifetime expected credit losses is recognized.

Stage 3: For loans considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

**Kingston Community
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The Credit Union relies on an expected credit loss model to estimate impairment losses on its member loan portfolio. The model was designed by Central 1 Credit Union, and is known as the IFRS 9 Impairment Expected Credit Loss Model. The model relies on current loan and credit information maintained by the Credit Union, such as the assessed loan stage, loan type, loan security, the length of time the loans are past due, and individual beacon scores, combined with macro- and micro- economic data to estimate expected credit losses. Economic data such as GDP trends, unemployment rates, bankers' acceptance rates, and the housing price index, is integrated into the model to ensure a comprehensive estimate is achieved. The circumstances may vary for each loan over time, resulting in higher or lower impairment loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

Total allowance for impaired loan provision comprises:

	2020	2019
Stage 1 provision	523,574	325,524
Stage 2 provision	19,941	18,908
Stage 3 provision	117,577	108,592
Total provision	661,092	453,024

Movement in Stage 1 provision for impairment:

	Personal and Other	Mortgages	Commercial	Total
Balance, January 1, 2019	135,914	111,780	622	248,316
Transfers from (to) stage 2	243	(3,349)	-	(3,106)
Transfers from (to) stage 3	(1,095)	-	-	(1,095)
New loans originated	94,940	54,117	463	149,520
Net remeasurement of allowance	(46,040)	(21,990)	(81)	(68,111)
Balance, December 31, 2019	183,962	140,558	1,004	325,524
Gross carrying amount of loans receivable	22,810,157	90,627,672	4,758,571	118,196,400
Balance, January 1, 2020	183,962	140,558	1,004	325,524
Transfers from (to) stage 2	(116)	372	-	256
Transfers from (to) stage 3	(2,086)	-	-	(2,086)
New loans originated	92,520	104,782	911	198,213
Net remeasurement of allowance	33,175	(32,394)	886	1,667
Balance, December 31, 2020	307,455	213,318	2,801	523,574
Gross carrying amount of loan receivables	21,222,355	101,466,122	5,970,405	130,122,241

**Kingston Community
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Movement in Stage 2 provision for impairment:

	Personal and other	Mortgages	Commercial	Total
Balance, January 1, 2019	17,925	5,100	-	23,025
Transfers from (to) stage 2	(243)	3,349	-	3,106
Transfers from (to) stage 3	8,450	-	-	8,450
New loans originated	1,325	-	-	1,325
Net remeasurement of allowance	(15,026)	(1,972)	-	(16,998)
Balance, December 31, 2019	12,431	6,477	-	18,908
Gross carrying amount of loan receivables	365,217	646,812	-	1,012,029
Balance, January 1, 2020	12,431	6,477	-	18,908
Transfers from (to) stage 1	116	(372)	-	(256)
New loans originated	606	3,456	-	4,062
Net remeasurment of allowance	2,628	(5,401)	-	(2,773)
Balance, December 31, 2020	15,781	4,160	-	19,941
Gross carrying amount of loan receivables	318,942	972,145	-	1,291,087

Movement in Stage 3 provision for impairment:

	Personal and other	Mortgages	Commercial	Total
Balance, January 1, 2019	59,120	23,661	-	82,781
Transfers from (to) stage 1	1,095	-	-	1,095
Transfers from (to) stage 3	(8,450)	-	-	(8,450)
Recoveries	26,537	5,598	-	32,135
Write-offs	(93,832)	(364)	-	(94,196)
New loans originated	26,419	11,281	-	37,700
Net remeasurement of allowance	74,231	(16,704)	-	57,527
Balance, December 31, 2019	85,120	23,472	-	108,592
Gross carrying amount of receivables	171,139	963,628	-	1,134,767
Balance, January 1, 2020	85,120	23,472	-	108,592
Transfers from (to) stage 1	2,086	-	-	2,086
Recoveries	30,882	2,627	-	33,509
Write-offs	(90,061)	-	-	(90,061)
New loans originated	16,804	15,692	-	32,496
Net remeasurement of allowance	48,014	(17,059)	-	30,955
Balance, December 31, 2020	92,845	24,732	-	117,577
Gross carrying amount of loan receivables	145,149	988,029	-	1,133,178

**Kingston Community
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6. Property, Plant and Equipment

	Land	Buildings	Furniture and equipment	Signs	Computer equipment	Security equipment	Banking system	Automobile	Leasehold improvements	Total
Cost										
Balance, January 1, 2019	24,000	315,228	757,715	113,618	622,947	160,806	72,696	21,808	640,218	2,729,036
Additions	-	1,878,128	9,815	15,392	105,394	-	-	27,199	15,650	2,051,578
Disposals	-	-	-	-	-	-	-	(21,808)	-	(21,808)
Balance, December 31, 2019	24,000	2,193,356	767,530	129,010	728,341	160,806	72,696	27,199	655,868	4,758,806
Balance, January 1, 2020	24,000	2,193,356	767,530	129,010	728,341	160,806	72,696	27,199	655,868	4,758,806
Additions	-	-	2,380	-	113,096	12,456	-	-	-	127,932
Disposals	-	(68,021)	-	-	-	-	-	-	-	(68,021)
Balance, December 31, 2020	24,000	2,125,335	769,910	129,010	841,437	173,262	72,696	27,199	655,868	4,818,717
Depreciation										
Balance, January 1, 2019	-	188,536	602,298	101,984	546,990	155,162	72,696	21,808	558,361	2,247,835
Depreciation expense	-	156,172	23,913	3,047	58,330	2,268	-	3,627	26,674	274,031
Disposals	-	-	-	-	-	-	-	(21,808)	-	(21,808)
Balance, December 31, 2019	-	344,708	626,211	105,031	605,320	157,430	72,696	3,627	585,035	2,500,058
Balance, January 1, 2020	-	344,708	626,211	105,031	605,320	157,430	72,696	3,627	585,035	2,500,058
Depreciation expense	-	149,258	14,352	2,547	75,957	1,744	-	5,439	27,129	276,426
Disposals	-	(32,945)	-	-	-	-	-	-	-	(32,945)
Balance, December 31, 2020	-	461,021	640,563	107,578	681,277	159,174	72,696	9,066	612,164	2,743,539
Net book value										
December 31, 2019	24,000	1,848,648	141,319	23,979	123,021	3,376	-	23,572	70,833	2,258,748
December 31, 2020	24,000	1,664,314	129,347	21,432	160,160	14,088	-	18,133	43,704	2,075,178

Assets held under capital leases in the amount of \$1,810,106 (2019 - \$1,878,127) with related accumulated amortization in the amount of \$256,997 (2019 - \$148,407) are included in buildings.

**Kingston Community
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7. Other assets

	2020	2019
Prepaid expenses	19,727	10,851
Income taxes recoverable	52,888	9,238
Other receivables	197,335	158,807
	269,950	178,896

8. Income tax

The significant components of income tax expense included in net income are composed of:

	2020	2019
Current tax expense		
Based on current year taxable income	145,716	175,884
Adjustment for prior year in relation to the current tax of prior years	(10,030)	-
	135,686	175,884
Deferred income tax		
Change in unrecognized deferred tax assets	(3,422)	10,189

Reasons for the differences between tax expense for the year and the expected income taxes based on the statutory rate of 26.5% (2019 - 26.5%) are as follows:

Income before income taxes	826,072	876,296
Expected taxes based on statutory rate	218,909	232,218
Reduction due to small business and credit union deduction and Ontario surtax	(66,451)	(52,693)
Unavailable general rate reduction	-	11,024
Deferred income tax (benefit)	(3,422)	10,189
Tax savings on non-taxable income	(4,288)	(5,220)
Other non-deductible portion of expenses and other items	(12,484)	(9,445)
Total income tax expense	132,264	186,073

Deferred income tax expense recognized in comprehensive income

The deferred income tax recovery (expense) recognized in comprehensive income for the current year is a result of the following changes:

	2020	2019
Deferred tax liability		
Property, plant and equipment	(8,608)	(13,779)
Reserves	-	(9,385)
	(8,608)	(23,164)
Deferred tax asset		
Market-to-market and other adjustments related to investments	-	1,695
Other accrued liabilities	12,030	11,280
	12,030	12,975

**Kingston Community
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For the year ended December 31, 2020

Deferred tax recovery (expense)	3,422	(10,189)
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Net deferred tax liability is reflected in the balance sheet as follows

Balance, beginning of year	50,574	60,763
Deferred tax recovery (expense)	3,422	(10,189)
Balance, end of year	53,996	50,574

9. Member deposits

	2020	2019
Chequing accounts	42,126,256	34,898,458
Commercial chequing accounts	26,759,874	22,602,867
Regular savings accounts	47,395,086	32,266,977
Registered Retirement Income Funds	6,683,640	6,745,092
Registered Retirement Savings Plans	12,403,148	11,863,624
Tax Free Savings Accounts	9,010,391	7,821,219
Term deposits	20,422,274	21,364,428
U.S. accounts	912,577	750,047
Property tax accounts	522,652	468,602
	166,235,898	138,781,314
Accrued interest payable	387,891	395,338
	166,623,789	139,176,652

Terms and conditions

Chequing accounts are due on demand and bear interest at rates between 0% and 0.10% at December 31, 2020.

Commercial chequing accounts are due on demand and bear interest at rates between 0% and 0.05% at December 31, 2020.

Regular savings accounts are due on demand and bear interest at rates between 0.05% and 0.10% at December 31, 2020. High interest savings accounts are due on demand and bear interest at rates between 0.40% and 0.55% at December 31, 2020. Registered Retirement Income Funds (RRIF) have both fixed and variable rates with terms and conditions similar to those of the Registered Retirement Savings Plans (RRSP) described below. Members may make withdrawals from a RRIF account on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

RRSPs have both fixed and variable rates. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described below. The variable rate RRSPs bear interest at 0.05% to 0.30% at December 31, 2020.

Tax Free Savings Accounts (TFSA) have both fixed and variable rates. The fixed rate TFSAs have terms similar to the term deposit accounts described below. The variable rate TFSAs bear interest at 0.05% to 0.30% at December 31, 2020.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2020, range from 0.10% to 1.15%.

U.S. accounts are due on demand and were non interest bearing at December 31, 2020.

Property tax deposit accounts are due on demand and bear interest at 0.05%.

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Fair Value

The fair value of member deposits at December 31, 2020 was \$166,623,789 (2019 - \$139,176,652).

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

	2020	2019
<u>Interest expense</u>		
Chequing accounts	9,142	30,137
Commercial chequing accounts	8,422	7,594
Regular savings accounts	166,264	19,046
Property tax accounts	228	178
Registered retirement income funds	122,806	120,361
Registered retirement savings plans	190,322	178,059
Tax free savings accounts	127,225	102,498
Term deposits	399,119	368,000
U.S. accounts	226	167
	1,023,754	826,040

Average Yields to Maturity

Member deposits bear interest at both variable and fixed rates with the following average yields at December 31, 2020 and December 31, 2019:

	Principal	Yield	Principal	Yield
Variable rate with maturities within five years	123,474,571	0.19 %	95,740,591	0.20 %
Fixed rate with maturities within one year	24,294,623	1.56 %	22,401,970	1.72 %
Fixed rate with maturities between one and five years	18,466,704	1.83 %	20,638,753	2.14 %
	166,235,898		138,781,314	
Accrued interest payable	387,891		395,338	
	166,623,789		139,176,652	

Concentration of Risk

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

There were no individual or related groups of members' deposits which exceed 10% of members' deposits at December 31, 2020 or December 31, 2019.

The majority of members' deposits are with members located in and around Kingston, Ontario.

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10. Other liabilities

	2020	2019
Accounts payable	1,008,307	922,870

11. Leases

Leases as lessee

The Credit Union leases space for two of its branches and for KCCU Wealth Solutions. These leases span a period of five years and include an option to renew the lease for two additional five year terms after the end of the initial contract term.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property, plant and equipment in the statement of financial position. Refer to note 6 for information pertaining to right-of-use assets arising from lease arrangements in which the Credit Union is a lessee.

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	2020	2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	147,594	168,100
One to five years	593,755	623,457
More than five years	1,016,611	1,165,049
Total undiscounted lease liabilities at December 31, 2020	1,757,960	1,956,606
Discounted lease liabilities included in the statement of financial position at year end	1,581,605	1,745,312

12. Membership shares

Terms and Conditions

Membership shares are classified as liabilities and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

The Credit Union is authorized to issue an unlimited number of membership shares.

Funds invested by members in shares are not insured by Deposit Insurance Corporation of Ontario (DICO). The withdrawal of member shares is subject to certain restrictions as provided by the Credit Union's by-laws, as is the payment of any dividends on these shares.

As a condition of membership, each member 21 years and over is required to hold \$25 in membership shares and each member under 21 years is required to hold \$5 in membership shares. Members age 21 and over may hold additional membership shares up to a maximum of \$1,025 per member. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors of the Credit Union.

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13. Regulatory capital (Ontario)

The Credit Union has a capital management policy in place that addresses the quantity, quality and composition of capital needed that reflects the inherent risks of the Credit Union, to support the current and planned operations and to meet regulatory requirements.

The Act requires the Credit Union to maintain adequate regulatory capital, consisting of membership shares, any other class of qualifying share capital that may be issued and reserves and members' equity plus the collective allowance. Adequate capital is defined as 4.00% of total assets and 8.00% of risk-weighted assets. At December 31, 2020, the Credit Union was in compliance with these regulatory requirements.

	2020	2019
Membership shares	1,105,696	1,127,176
Reserves and member's equity	14,146,341	13,452,533
Stage 1 & 2 allowance	543,515	344,432
	15,795,552	14,924,141

Total capital represents 8.56% of total assets (2019 - 9.53%) and 23.65% of total risk-weighted assets (2019 - 24.84%).

14. Commitments

Loan Commitments

At December 31, 2020, the Credit Union was committed to advance approximately \$2,802,909 on loans and mortgages. In addition, lines of credit which had been approved but not used at year-end totaled approximately \$17,357,664.

Lease Agreements

The Credit Union also entered into a lease agreement with Directcash Management Inc. to lease three ATM machines at Kingston General Hospital. There is no fixed term associated with the lease of the ATM machines.

Service Agreements

The Credit Union entered into a service agreement for the monitoring and operation of their IT network effective September 1, 2018 until August 31, 2021. The minimum annual lease and service agreement payment for the next year is \$43,452.

Payments Modernization

Payments Canada has initiated a multi-year modernization program of the Canadian clearing and settlement system. Kingston Community Credit Union has committed to a contract with Central 1 to develop and implement its share of the technology required for payments modernization.

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15. Pension Plan

The Credit Union makes contributions to a pension plan, which is a defined contribution plan, on behalf of its staff. There is also a retiring allowance available to staff who have reached a combination of years of service coupled with a minimum age requirement.

The amount contributed to the pension plan for 2020 was \$124,034 (2019 - \$117,375). The amount accrued for the retiring allowance was \$45,396 (2019 - \$42,566). All contributions were made for current service and these have been recognized in net income.

For employees who qualify for Early Retirement Benefits, the employee who meets the criteria is eligible to continue some of their existing benefits with the Co-operators Insurance at the employees cost, and as such there are no post-retirement benefit obligations to the Credit Union.

Employees are eligible to convert their life insurance benefits to a private plan at the employees cost.

16. Related party transactions

The Credit Union entered into the following transactions with the Board of Directors and management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, their spouses and relatives if the relative lives in the home of those described.

	2020	2019
Compensation		
Salaries and other short-term employee benefits	466,252	452,749
Total pension and other post employment benefits	38,788	36,723
Director remuneration and expenses	63,725	70,102
	<u>568,765</u>	<u>559,574</u>

	2020	2019
Loans to related parties		
Aggregate value of loans advanced	907,630	1,237,468
Interest received on loans advanced	28,400	28,042
Aggregate value of unadvanced loans	259,307	292,567
Total value of lines of credit advanced	93,693	200,433
Interest received on lines of credit advanced	3,364	6,152
Unused value of lines of credit	259,307	292,567

The Credit Union's policy for lending to the Board of Directors and management personnel is that all classes of loans are approved based on the same lending criteria which apply to members, but at preferred rates. None of the loans to restricted parties were impaired at December 31, 2020.

Deposits from related parties

Aggregate value of term and savings deposits	650,471	373,232
Total interest paid on term and savings deposits	4,448	2,921

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

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded \$150,000. During the year, there was one employee with remuneration over \$150,000. Jon Dessau, CEO, received a salary of \$154,837, a bonus of \$9,701, and benefits with a monetary value of \$8,560.

17. Financial instruments

The following table represents the carrying amount by classification.

	Available -for-Sale	Loans and Receivables	Other Financial Liabilities
December 31, 2020			
Cash and cash equivalents	-	10,534,015	-
Investments	1,073,489	40,069,060	-
Loans to members	-	130,422,817	-
Other assets	-	53,743	-
Member deposits	-	-	166,623,789
Other liabilities	-	-	799,804
Dividends and interest rebate payable	-	-	32,767
Membership shares	-	-	1,105,696
	1,073,489	181,079,635	168,562,056
December 31, 2019			
Cash and cash equivalents	-	7,304,230	-
Investments	1,075,328	25,884,738	-
Loans to members	-	119,890,172	-
Other assets	-	64,903	-
Member deposits	-	-	139,176,652
Other liabilities	-	-	761,582
Dividends and interest rebate payable	-	-	265,438
Membership shares	-	-	1,127,176
	1,075,328	153,144,043	141,330,848

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

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

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

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Notes to the Financial Statements
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	Level 1	Level 2	Level 3	Total
December 31, 2020				
Central 1 Shares – Class A	-	52,296	-	52,296
Central 1 Shares – Class E	-	294,400	-	294,400
Concentra Shares - Class D Preferred	-	250,000	-	250,000
CU CUMIS Wealth Holdings LP	-	-	2	2
Concentra Financial	-	-	1,000	1,000
	-	596,696	1,002	597,698
December 31, 2019				Total
Central 1 Shares – Class A	-	51,806	-	51,806
Central 1 Shares – Class E	-	294,400	-	294,400
Concentra Shares - Class D Preferred	-	250,000	-	250,000
CU CUMIS Wealth Holdings LP	-	-	2	2
Concentra Financial	-	-	1,000	1,000
	-	596,206	1,002	597,208

There were no transfers between Level 1, Level 2 or Level 3 for the years ended December 31, 2020 and December 31, 2019.

18. Financial Instrument Risk Management

General Objectives, Policies and Processes

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

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's member loans.

Risk Measurement

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

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

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

- i) general loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- ii) loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- iii) loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- iv) procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loans renegotiation;

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Notes to the Financial Statements
For the year ended December 31, 2020

- v) loan delinquency controls regarding procedures followed for loans in arrears; and
- vi) audit procedures and processes are in existence for the Credit Union's lending

With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

For the current year, there are no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

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

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

Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet the Credit Union's commitments as they come due.

Risk Measurement

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

Objectives, Policies and Processes

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisse Populaires Act, 1994, require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 8%.

The Credit Union manages liquidity risk by:

- i) Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- ii) Monitoring the maturity profiles of financial assets and liabilities;
- iii) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- iv) Monitoring the liquidity ratios daily.

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

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

	<u>Maximum Exposure</u>
Qualifying liquid assets on hand	
Cash	10,534,015
Liquidity reserve deposit	<u>11,055,347</u>
	21,589,362
Total liquidity requirement	<u>14,871,788</u>
Excess liquidity requirement	<u>6,717,574</u>

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

Market Risk

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

Interest Rate Risk

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

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

Risk Measurement

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

Objectives, Policies and Procedures

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

Schedules of matching and interest rate vulnerability are prepared monthly and monitored by Credit Union management and reported to FSRAO in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRAO as required by Credit Union regulations. For the year ended December 31, 2020, the Credit Union was in compliance with this policy.

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

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Notes to the Financial Statements
For the year ended December 31, 2020

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset/ Liability Gap
<i>Interest sensitive</i>					
0 - 12 months	18,531,648	6.42	123,474,571	0.19	(104,942,923)
2 - 5 years	-		-		-
Interest sensitive	<u>18,531,648</u>		<u>123,474,571</u>		<u>(104,942,923)</u>
<i>Non-interest sensitive</i>					
0 - 12 months	20,820,911	3.43	24,294,623	1.56	(3,473,712)
2 - 5 years	<u>90,864,934</u>	3.81	<u>18,466,704</u>	1.83	<u>72,398,230</u>
Non-interest sensitive	<u>111,685,845</u>		<u>42,761,327</u>		<u>68,924,518</u>
Total	<u>130,217,493</u>		<u>166,235,898</u>		<u>(36,018,405)</u>

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase or decrease in interest rates of 0.25% could result in a decrease to net income of \$98,000. The Credit Union reports positive exposure as zero exposure to interest rate risk and thereby only expresses negative risk to earnings.

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

Currency Risk

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

The Credit Union's foreign exchange risk is related to U.S. dollar member deposits and cash denominated in foreign currencies. Foreign currency changes are continually monitored by the Credit Union.

Risk Measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

Prudent investment limits for each type of financial asset have been established in accordance with regulatory requirements.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter if the investments are offside of the investment policy.

19. Subsequent Events

Ongoing at year-end, there is global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Credit Union, as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

20. Comparative Amounts

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

**Kingston Community
Credit Union Limited**
Schedule 1 - Schedule of Financial expenses
For the year ended December 31, 2020

	2020	2019
Financial		
ATM charges	41,445	73,656
Debit and MasterCard	13,650	13,154
RRSP administration costs	8,225	7,696
Service charges and exchange	66,073	34,970
	129,393	129,476

**Kingston Community
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Schedule 2 - Schedule of Members' security insurance
For the year ended December 31, 2020

	2020	2019
Members' security insurance		
Bond insurance	46,700	42,732
Members' security insurance - DICO insurance	120,051	113,453
	166,751	156,185

**Kingston Community
Credit Union Limited**
Schedule 3 - Schedule of Occupancy costs
For the year ended December 31, 2020

	2020	2019
Occupancy costs		
Building and fire insurance	24,884	24,534
Maintenance and repairs	70,132	59,859
Municipal taxes	29,621	29,396
Rent	87,679	77,953
Security systems	10,066	10,034
Utilities	33,703	36,320
	256,085	238,096

**Kingston Community
Credit Union Limited**

Schedule 4 - Schedule of Other administrative expenses
For the year ended December 31, 2020

	2020	2019
Other administrative		
Data processing	367,820	368,063
Education and publicity	345,546	319,106
FSCO assessment	-	221
Loan costs	82,399	70,071
Meeting and travel expenses	20,062	39,116
Member dues	27,501	31,355
Miscellaneous	295,433	269,479
Office supplies and expenses	261,966	227,901
Professional fees	198,461	192,633
	1,599,188	1,517,945

**Kingston Community
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Schedule 5 - Schedule of Remuneration to management and staff
For the year ended December 31, 2020

	2020	2019
Remuneration to management and staff		
Board honoraria and travel	63,725	70,102
Employee benefits	468,261	464,900
Salaries	2,193,062	2,219,804
	2,725,048	2,754,806