Financial Statements of

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

And Independent Auditors' Report thereon

Year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Members of Newfoundland and Labrador Credit Union Limited

Opinion

We have audited the financial statements of Newfoundland and Labrador Credit Union Limited (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of retained earnings for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements'').

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 ***''Auditors' Responsibilities for the Audit of the Financial Statements''*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity
KPMG Canada provides services to KPMG LLP.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

KPMG LLP

Chartered Professional Accountants

St. John's, Canada

February 17, 2020

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash and cash equivalents (note 3)	$ 5,865,735	$ 6,793,039
Investments (note 4)	62,294,347	56,041,406
Loans and mortgages receivable (note 5):		
Personal loans	93,388,713	90,869,017
Mortgage loans	390,996,185	380,837,014
Commercial loans and mortgages	46,633,027	40,389,067
	531,017,925	512,095,098
Less allowance for impaired loans and mortgages (note 9)	(3,099,043)	(2,656,492)
	527,918,882	509,438,606
Property and equipment (note 8)	17,701,456	17,585,842
Derivative financial instruments (note 15)	1,584,202	1,136,554
Other assets	1,858,503	2,208,943
	$ 617,223,125	$ 593,204,390

Liabilities and Retained Earnings

	2019	2018
Liabilities:		
Members' deposits (note 10)	$ 589,179,630	$ 565,647,963
Note payable (note 3)	-	677,784
Accounts payable and accrued liabilities	1,710,304	1,867,774
Severance provisions	1,954,242	1,859,155
Derivative financial instruments (note 15)	1,584,202	1,136,554
	594,428,378	571,189,230
Retained earnings	22,794,747	22,015,160
	$ 617,223,125	$ 593,204,390

See accompanying notes to financial statements.

On behalf of the Board:

__________________ Director __________________ Director

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Interest income (note 6)	$ 20,584,179	$ 19,371,573
Investment income	1,391,251	1,078,898
	21,975,430	20,450,471
Financial expenses:		
Interest on members' deposits (note 7)	7,038,983	5,912,106
Financial margin	14,936,447	14,538,365
Other income:		
Service charges	3,675,522	3,340,066
Other	205,312	184,978
Insurance commissions	900,628	1,031,760
Rental	135,331	140,513
	4,916,793	4,697,317
Financial margin and other income	19,853,240	19,235,682
Non interest expenses:		
Personnel	10,120,731	10,044,468
General business	4,141,663	4,149,271
Occupancy	1,544,999	1,555,149
Members' security	1,729,773	1,670,111
Depreciation	1,054,490	909,808
	18,591,656	18,328,807
Income before income taxes	1,261,584	906,875
Income taxes (note 11)	341,997	115,953
Net income and comprehensive income for the year	$ 919,587	$ 790,922

See accompanying notes to financial statements.

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Retained Earnings

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Retained earnings, beginning of year	$ 22,015,160	$ 21,361,238
Net income and comprehensive income for the year	919,587	790,922
Dividends	(140,000)	(137,000)
Retained earnings, end of year	$ 22,794,747	$ 22,015,160

See accompanying notes to financial statements.

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Net income and comprehensive income for the year	$ 919,587	$ 790,922
Items not involving cash:		
Depreciation	1,054,490	909,808
Provision for impaired loans and mortgages	442,551	256,419
Financial margin	(14,936,447)	(14,538,365)
Increase in severance provision	95,087	32,763
Deferred income tax expense (recovery)	160,856	(89,691)
	(12,263,876)	(12,638,144)
Changes in operating assets / liabilities:		
Change in accounts payable and accrued liabilities	(157,470)	847,417
Change in members' deposits	22,975,360	18,998,677
Note payable	(677,784)	677,784
Change in loans and mortgages receivable	(18,808,288)	(21,792,620)
Change in other assets	230,935	262,814
Interest received	21,860,891	20,751,688
Interest paid	(6,482,676)	(5,646,974)
Change in income taxes	(41,351)	31,509
	6,635,741	1,492,151
Investing activities:		
Increase in investments	(6,252,941)	(3,487,794)
Purchase of property and equipment	(1,170,104)	(452,452)
	(7,423,045)	(3,940,246)
Financing activities:		
Dividends paid on membership shares	(140,000)	(137,000)
Net decrease in cash and cash equivalents	(927,304)	(2,585,095)
Cash and cash equivalents, beginning of year	6,793,039	9,378,134
Cash and cash equivalents, end of year	$ 5,865,735	$ 6,793,039

See accompanying notes to financial statements.

Newfoundland and Labrador Credit Union Limited ("NLCU") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act") and is a member of the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador. NLCU commenced operations in 1957. It currently operates twelve branches that offer a full range of financial services to the people of Newfoundland and Labrador. The registered office of NLCU is at 240 Water Street, St. John's, Newfoundland and Labrador.

1. Basis of preparation and statement of compliance:

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

These financial statements have been approved and authorized for issue by the Board of Directors (the "Board") on January 25, 2020.

Basis of preparation

NLCU's accounting policies are in note 2. Changes in accounting policies in the current year are in note 1(e). As explained in note 1(e), NLCU has adopted IFRS 16 Leasing with a date of initial application of January 1, 2019. As a result, the comparative information has not been been restated to comply with IFRS 16 leasing.

Measurement basis

These financial statements are presented in Canadian dollars, which is NLCU's functional currency. They are prepared on the historical cost basis except for the following material items:

Items	Measurement Basis
Financial instruments at fair value through profit or loss (FVTPL)	Fair Value
Financial instruments at fair value through OCI (FVTOCI)	Fair Value
Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationship	Amortized cost adjusted for hedging gain or loss

1. Basis of preparation and statement of compliance (continued):

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to NLCU's financial statements are as follows:

(a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, and prepayment rates.

(b) Impairment losses on loans and mortgages

Impairment of financial instruments assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (expected credit estimates of percentage losses based on historical data loss).

1. Basis of preparation and statement of compliance (continued):

(c) Economic lives of property and equipment

Management determines the estimated useful lives of its property and equipment based on historical experience of the actual lives of property and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

(d) Syndicated loans:

NLCU has entered into syndication agreements with various approved business partners to limit exposure to certain commercial loans.

Management is required to use judgment in the determination under IFRS 9 if the loans meet the criteria for derecognition.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

(e) Change in accounting policies

Except for the changes below, NLCU has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, and other related Standard Interpretations Committee ("SIC"} interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for most leases under a single on· balance sheet model.

1. Basis of preparation and statement of compliance (continued):

(e) Change in accounting policies (continued)

On adoption of IFRS 16, NLCU recognized a lease liability in relation to property leases which had previously been classified as 'operating leases' under the principal of IAS 17. As January 1, 2019, these liabilities were measured at the present value of the remaining lease payments discounted at 2.7%, which reflects the lessee's incremental borrowing rate to finance the purchase of similar property. NLCU has applied IFRS 16 using the modified retrospective approach, whereby the cumulative effect of adopting IFRS 16, if any, is recognized as an adjustment to opening retained earnings as at January 1, 2019, with no restatement of comparative information. Under this method using the practical expedients available, NLCU has recognized the right of use asset equal to the lease liability.

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

Operating lease commitments disclosed as at December 31, 2018	$ 257,158
Less: Short-term leases not included in lease liability	(31,867)
Less: variable costs included in commitments	(33,202)
Add: lease extension reasonably certain to be exercised	186,960
Balance	379,049
Incremental borrowing rate as at January 1, 2019	2.70%
Discounted operating lease commitments at January 1, 2019	$ 339,594

1. Basis of preparation and statement of compliance (continued):

(e) Change in accounting policies (continued)

The additional $186,960 of finance lease liabilities recognized represent lease payments arising from lease extension options for which NLCU has no contractual commitment to exercise, but is reasonably certain to do so.

The right-of-use assets associated with these property leases were initially measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the statement of financial position as at December 31, 2018.

Practical expedients applied
In applying IFRS 16 for the first time, NLCU has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as of the date of initial application and;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

(e) NLCU has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date NLCU relied on its assessments previously made in applying IAS 17 and IFRIC 4.

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

- Right-of-use assets of $339,594 were recognized and presented with property and equipment in the statement of financial position.
- Lease liabilities of $339,594 were recognized and presented with accounts payable and accrued liabilities in the statement of financial position.

2. Significant accounting policies:

The following significant accounting policies have been applied consistently by NLCU to all periods presented in these financial statements without exception.

(a) Financial instruments:

Financial assets and financial liabilities are recognized when NLCU becomes a party to the contractual provisions of the financial instrument.

NLCU initially recognizes loans, mortgages, and member deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which NLCU becomes a party to the contractual provisions 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.

(i) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, NLCU may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, NLCU may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

Business model assessment

NLCU makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to NLCU's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how NLCU stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

NLCU 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 as detailed below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, NLCU has elected, as its accounting policy, 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.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, NLCU considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, NLCU considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit NLCU's claim to cash flows from specified assets (e.g. non recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

Reclassifications

NLCU has classified financial instruments as follows: Cash and Cash equivalents, investments - interest bearing, loans and mortgage receivables, and other assets at amortized cost and investments- equity and derivative financial instruments at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after NLCU changes its business model for managing financial assets. There we no changes to any of NLCU's business models during the current year (prior year: nil).

Financial liabilities

NLCU classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

(ii) Derecognition:

Financial assets

NLCU derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which NLCU neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by NLCU is recognized as a separate asset or liability.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Derecognition (continued)

Financial assets (continued)

In transactions in which NLCU neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, NLCU continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, NLCU retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

NLCU derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Membership shares, surplus shares and incentive shares

In accordance with IFRIC 2, NLCU's membership shares, surplus shares, and incentive shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. They are classified as financial liabilities unless NLCU has the unconditional right to refuse redemption as a result of regulatory requirements outlined in their bylaws. Discretionary dividends on these shares will be recorded as a reduction in retained earnings, if and when declared.

(iii) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL, if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in comprehensive income. NLCU's financial instruments designated as FVTPL consist of derivative financial instruments.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, NLCU evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, NLCU recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

NLCU derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, NLCU has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Impairment

NLCU recognizes loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and advances and certain investment securities);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

NLCU measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

NLCU considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to NLCU in accordance with the contract and the cash flows that NLCU expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to NLCU if the commitment is drawn down and the cash flows that NLCU expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that NLCU expects to recover.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

Loans and receivables captions in the statement of financial position include:

- loans and receivables measured at amortized cost, they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method; and
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL, these are measured at fair value with changes recognized immediately in profit or loss.

Interest income is recognized by applying the effective interest rate.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, NLCU assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by NLCU on terms that NLCU would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for more than 90 days is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and NLCU cannot identify the ECL on the loan commitment component separately from those on the drawn component: NLCU presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when NLCU determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with NLCU's procedures for recovery of amounts due.

Impairment of financial assets and allowance for impaired loans

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vii) Designation of fair value through profit or loss

Financial assets

At initial recognition, NLCU has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

NLCU has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(viii) Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on 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 expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(viii) Amortized cost and gross carrying amount (continued)

For information on when financial assets are credit-impaired, see Note 9.

(ix) Presentation

Interest income and expense presented in the statement of comprehensive income and retained earnings:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in comprehensive income from other financial instruments at FVTPL.

(x) Investments

The investment caption in the statement of financial position includes:

- debt investment measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt and equity investments mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognized immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment designated as at FVOCI.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

NLCU elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

(xi) Membership shares

Membership shares recorded as liabilities are classified as measured at amortized cost under IFRS 9. Payments of dividends on special shares presented as a financial liability are recognized as a distribution of income.

2. Significant accounting policies (continued):

(b) Leases:

(i) Right-of-use assets

NLCU recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

(ii) Lease liabilities

At the commencement date of the lease, NLCU recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by NLCU and payments of penalties for terminating a lease, if the lease term reflects NLCU exercising the option to terminate. The variable lease payment that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, NLCU uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the tease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

(iii) Short-term leases on leases of low-value assets

NLCU applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits with banks and Credit Union Central and other 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 considered equivalent to fair value due to the short-term nature of these assets.

(d) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When parts of a capital asset have different useful lives, they are accounted for as separate assets.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives with the exception of depreciation of paved areas and furniture and equipment, which is recognized using the declining balance method.

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

(e) Employee benefits:

a) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

b) Long service provisions

Severance provisions are calculated based on management's best estimate of long service payment for years of service and current salary levels discounted from the expected payment date. The right to be paid long service award pay vests with employees with twenty years of continual service with NLCU. Severance is payable when the employee ceases employment with NLCU. The severance provision is unfunded.

2. Significant accounting policies (continued):

(f) Revenue recognition:

Interest income is accrued on a time basis, in calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired).

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income on the statement of comprehensive income.

Other fees and commission income include account service fees, investment management fees, and insurance fees, which are recognized as services performed, amounts are fixed or can de determined and the ability to collect is reasonable assured.

(g) Income taxes:

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not included in comprehensive income.

2. Significant accounting policies (continued):

(h) Foreign currency translation:

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in comprehensive income and are included in the 'other income' line item in the Statement of Comprehensive Income and Retained Earnings.

3. Cash and cash equivalents:

	2019	2018
Cash on hand	$ 3,218,790	$ 3,507,813
Cash held with Credit Union Central	1,983,204	600,161
Cash held with other chartered banks	663,741	1,685,065
Investments held with Central 1 (overnight 1.9%)	-	1,000,000
	$ 5,865,735	$ 6,793,039

NLCU has available lines of credit with Central 1 in the amounts of $6,000,000 (CDN) and $300,000 (USD). As at December 31, 2019, there was $nil drawn on these facilities (2018 - $677,784).

4. Investments:

The following table provides information on the investments held by NLCU.

	2019	2018
Mandatory liquidity reserve deposits	$ 35,794,000	$ 33,953,250
Residential mortgage pool	6,462,064	-
Central 1 deposit note	8,000,000	11,400,000
Syndicated loan	6,848,789	6,175,529
Consumer loan pool	2,177,565	3,129,409
Receivable from Concentra	1,792,367	-
Other deposits	573,382	712,271
Equity investments	457,106	457,107
	62,105,273	55,827,566
Accrued interest	189,074	213,840
	$ 62,294,347	$ 56,041,406
Fair value	$ 62,294,347	$ 56,041,406

As a condition required under Newfoundland and Labrador Regulations 56/09 Credit Union Regulation 2009 Section 19, NLCU is required to maintain on deposit with Central 1 an amount equal to 6% of NLCU's total liabilities as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in NLCU's liabilities or upon withdrawal of membership from Central 1.

Mandatory liquidity reserve deposits are fixed rate notes with maturity dates ranging between 2020 and 2024 and earn a weighted average interest rate of 1.68%.

Residential mortgage pools held with Concentra Bank contain fixed mortgages with maturity dates ranging from January 2020 to March 2020 and earns a weighted average interest rate of 2.52%.

The Central 1 deposit note matures in 2020 and earns interest at a rate of 2.15% (2018 - 2.48%).

The syndicated loans have maturity dates between 2020 and 2024 and earn a fixed rate weighted average interest rate of 4.14% (2018 - 3.90%).

4. Investments (continued):

Consumer loan pool held with Concentra Bank contains fixed and variable loans with maturity dates ranging from 2020 to 2032, and earns a weighted average interest rate of 5.10%.

Other deposits include:

Deposit with the Co-operators with no fixed maturity period and earns interest at a rate of 2.77%.

Lease financing through Concentra Bank with maturity dates ranging from March 2022 to April 2022 earning interest at a rate of 3.00%.

Central 1 Credit Union - liquidity reserve deposit

Interest on mandatory reserve deposits and other deposits generated an average annual return of 2.25% (2018 - 2.24%).

Equity investments

Equity investment shares are issued and redeemable at par value. The equity investments have no active market as they represent the credit union's investment in support organizations that were created to support their delivery of services to members. The investments are considered due on demand and therefore par value approximates fair value. The credit union has no intention of redeeming these units.

5. Loans to members:

Personal and commercial mortgages are repayable in monthly blended principal and interest installments over a maximum term of seven years up to the maximum amortization period as prescribed by Provincial law. Mortgages are secured by residential and commercial properties as noted below. Mortgages earn a weighted average interest rate of 3.35% (2018 - 3.27%). Many of the loans are insured.

Personal loans, including line of credit loans, are repayable in monthly blended principal and interest installments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees. Personal loans earn a weighted average interest rate of 6.10 % (2018 - 6.24%).

5. Loans to members (continued):

As of December 31, 2019 NLCU had $75,519,720 (2018 - $76,559,854) in approved lines of credit that had not been disbursed. See note 15 for additional disclosures related to managements policies and procedures to manage credit risk.

Commercial loans are repayable in periodic blended principal and interest installments and earn a weighted average interest rate of 5.68% (2018 - 5.91%).

Security held on a portfolio basis is as follows:

	2019	2018
Insured mortgages	$ 205,619,072	$ 213,424,942
Uninsured mortgages	209,878,565	187,341,819
Secured loans	73,194,428	68,919,867
Unsecured loans	42,325,860	42,408,470
	$ 531,017,925	$ 512,095,098

Loans to members are classified as measured at amortized cost under IFRS 9. See note 15 for additional information related to maturity and interest rate risk.

6. Financial revenue - members' loans and mortgages:

	2019	2018
Personal loans	$ 5,549,907	$ 5,363,908
Residential mortgages	12,825,705	12,057,878
Commercial loans and mortgages	2,208,567	1,949,787
	$ 20,584,179	$ 19,371,573

Total interest income reported is calculated using the effective interest method, and related to financial assets not carried at FVTPL.

7. Interest on members' deposits:

		2019		2018
Personal chequing accounts	$	38,933	$	31,269
Savings accounts		588,023		480,941
Term deposits		3,222,616		2,633,894
Registered savings accounts		2,000,793		1,731,961
Tax free savings accounts		908,465		639,566
Index - linked deposits		276,385		335,324
Other		3,768		59,151
	$	7,038,983	$	5,912,106

Terms disclosed in note 10.

8. Property and equipment:

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Right of use assets	Total 2019
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	3 years	
Cost												
Balance, beginning of year	$ 3,951,343	$ 15,464,963	$ 2,413,903	$ 775,517	$ 1,741,429	$ 6,589,392	$ 740,405	$ 2,369,676	$ 52,755	$ 2,077,012	$ -	$ 36,176,395
Additions	-	277,541	-	-	-	135,065	44,544	2,467	-	147,193	223,699	830,509
Transitional adjustment (note 1e)	-	-	-	-	-	-	-	-	-	-	339,594	339,594
Balance, end of year	3,951,343	15,742,504	2,413,903	775,517	1,741,429	6,724,457	784,949	2,372,143	52,755	2,224,205	563,293	37,346,498
Accumulated depreciation												
Balance, beginning of year	-	5,040,791	772,018	420,856	1,739,539	5,852,968	634,185	2,098,551	31,653	1,999,992	-	18,590,553
Depreciation expense	-	391,191	99,177	28,373	1,414	174,298	55,173	89,810	10,551	102,273	102,229	1,054,489
Balance, end of year	-	5,431,982	871,195	449,229	1,740,953	6,027,266	689,358	2,188,361	42,204	2,102,265	102,229	19,645,042
Net Book Value	$ 3,951,343	$ 10,310,522	$ 1,542,708	$ 326,288	$ 476	$ 697,191	$ 95,591	$ 183,782	$ 10,551	$ 121,940	$ 461,064	$ 17,701,456

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

8. Property and equipment (continued):

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Total 2018
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	
Cost											
Balance, beginning of year	$ 3,951,343	$ 15,434,212	$ 2,413,903	$ 775,517	$ 1,741,429	$ 6,460,090	$ 620,478	$ 2,268,826	$ 52,755	$ 2,005,390	$ 35,723,943
Additions	-	30,751	-	-	-	129,302	119,927	100,850	-	71,622	452,452
Balance, end of year	3,951,343	15,464,963	2,413,903	775,517	1,741,429	6,589,392	740,405	2,369,676	52,755	2,077,012	36,176,395
Accumulated depreciation											
Balance, beginning of year	-	4,657,348	672,841	390,016	1,739,100	5,668,862	585,777	2,009,234	21,102	1,936,465	17,680,745
Depreciation expense	-	383,443	99,177	30,840	439	184,106	48,408	89,317	10,551	63,527	909,808
Balance, end of year	-	5,040,791	772,018	420,856	1,739,539	5,852,968	634,185	2,098,551	31,653	1,999,992	18,590,553
Net Book Value	$ 3,951,343	$ 10,424,172	$ 1,641,885	$ 354,661	$ 1,890	$ 736,424	$ 106,220	$ 271,125	$ 21,102	$ 77,020	$ 17,585,842

9. Allowance for impaired loans and mortgages:

	Personal	Mortgages	Commercial	2019 Total
Current	$ 91,078,962	$ 388,950,783	$ 39,221,476	$ 519,251,221
Past due (1)				
31 to 90 days	30,640	952,312	-	982,952
91 and greater	220,409	744,500	6,719,800	7,684,709
Impaired	2,058,702	348,590	691,751	3,099,043
	93,388,713	390,996,185	46,633,027	531,017,925
Less: allowances	(2,058,702)	(348,590)	(691,751)	(3,099,043)
	$ 91,330,011	$ 390,647,595	$ 45,941,276	$ 527,918,882

	Personal	Mortgages	Commercial	2018 Total
Current	$ 89,104,471	$ 376,739,907	$ 32,244,153	$ 498,088,531
Past due (1)				
31 to 90 days	58,158	1,409,736	112	1,468,006
91 and greater	33,582	2,390,533	7,457,954	9,882,069
Impaired	1,672,807	296,838	686,847	2,656,492
	90,869,018	380,837,014	40,389,066	512,095,098
Less: allowances	(1,672,806)	(296,838)	(686,848)	(2,656,492)
	$ 89,196,212	$ 380,540,176	$ 39,702,218	$ 509,438,606

(1) A loan is considered to be past due when the counterparty has not made a payment on the day of the contractual payment date.

9. Allowance for impaired loans and mortgages (continued):

Personal loans to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2019 Total
Allowance January 1, 2019	$ 290,078	$ 301,741	$ 1,080,987	$ 1,672,806
Provision for credit losses:				
Stage 1 net provision	41,394	-	-	41,394
Stage 2 net provision	-	13,634	-	13,634
Stage 3 net provision	-	-	488,946	488,946
	331,472	315,375	1,569,933	2,216,780
Write-offs	(908)	-	(157,170)	(158,078)
Allowance December 31, 2019	$ 330,564	$ 315,375	$ 1,412,763	$ 2,058,702

Personal mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2019 Total
Allowance January 1, 2019	$ 6,585	$ 11,219	$ 279,034	$ 296,838
Provision for credit losses:				
Stage 1 net provision	519	-	-	519
Stage 2 net provision	-	(1,217)	-	(1,217)
Stage 3 net provision	-	-	54,342	54,342
	7,104	10,002	333,376	350,482
Write-offs	-	-	(1,892)	(1,892)
Allowance December 31, 2019	$ 7,104	$ 10,002	$ 331,484	$ 348,590

9. Allowance for impaired loans and mortgages (continued):

Commercial loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2019 Total
Allowance January 1, 2019	$ 4,327	$ 2,178	$ 680,343	$ 686,848
Provision for credit losses:				
Stage 1 net provision	4,305	-	-	4,305
Stage 2 net provision	-	608	-	608
Stage 3 net provision	-	-	(10)	(10)
	8,632	2,786	680,333	691,751
Write-offs	-	-	-	-
Allowance December 31, 2019	$ 8,632	$ 2,786	$ 680,333	$ 691,751

Total loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2019 Total
Allowance January 1, 2019	$ 300,990	$ 315,138	$ 2,040,364	$ 2,656,492
Provision for credit losses:				
Stage 1 net provision	46,218	-	-	46,218
Stage 2 net provision	-	13,025	-	13,025
Stage 3 net provision	-	-	543,278	543,278
	347,208	328,163	2,583,642	3,259,013
Write-offs	(908)	-	(159,062)	(159,970)
Allowance December 31, 2019	$ 346,300	$ 328,163	$ 2,424,580	$ 3,099,043

9. Allowance for impaired loans and mortgages (continued):

Personal loans to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 285,991	$ 316,399	$ 983,272	$ 1,585,662
Provision for credit losses:				
Stage 1 net provision	4,087	-	-	4,087
Stage 2 net provision	-	(11,264)	-	(11,264)
Stage 3 net provision	-	-	326,393	326,393
	290,078	305,135	1,309,665	1,904,878
Write-offs	-	(3,394)	(228,678)	(232,072)
Allowance December 31, 2018	$ 290,078	$ 301,741	$ 1,080,987	$ 1,672,806

Personal mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 6,417	$ 9,792	$ 114,250	$ 130,459
Provision for credit losses:				
Stage 1 net provision	168	-	-	168
Stage 2 net provision	-	1,427	-	1,427
Stage 3 net provision	-	-	164,784	164,784
	6,585	11,219	279,034	296,838
Write-offs	-	-	-	-
Allowance December 31, 2018	$ 6,585	$ 11,219	$ 279,034	$ 296,838

9. Allowance for impaired loans and mortgages (continued):

Commercial loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 3,920	$ -	$ 680,032	$ 683,952
Provision for credit losses:				
Stage 1 net provision	407	-	-	407
Stage 2 net provision	-	2,178	-	2,178
Stage 3 net provision	-	-	311	311
	4,327	2,178	680,343	686,848
Write-offs	-	-	-	-
Allowance December 31, 2018	$ 4,327	$ 2,178	$ 680,343	$ 686,848

Total loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2018 Total
Allowance January 1, 2018	$ 296,328	$ 326,191	$ 1,777,554	$ 2,400,073
Provision for credit losses:				
Stage 1 net provision	4,662	-	-	4,662
Stage 2 net provision	-	(7,659)	-	(7,659)
Stage 3 net provision	-	-	491,488	491,488
	300,990	318,532	2,269,042	2,888,564
Write-offs	-	(3,394)	(228,678)	(232,072)
Allowance December 31, 2018	$ 300,990	$ 315,138	$ 2,040,364	$ 2,656,492

10. Members' deposits:

	2019	2018
Personal and commercial chequing accounts	$ 113,297,701	$ 107,530,010
Savings accounts	111,044,528	110,982,624
Term deposits	151,841,090	145,038,320
Registered retirement savings plans	96,171,219	96,451,557
Registered retirement income funds	38,484,219	35,697,978
Tax free savings accounts	72,038,404	63,641,543
Share accounts	6,302,469	6,305,931
	$ 589,179,630	$ 565,647,963

Chequing accounts

Commercial and personal chequing accounts are due on demand and pay an average interest rate of 0.04% (2018 - 0.04%).

Savings accounts are due on demand and pay an average interest rate of 0.55% (2018 - 0.55%).

Term deposits

Term deposits are for periods of 30 days to seven years and generally may not be withdrawn prior to maturity. During the year ended 2019, they paid an average interest rate of 2.25% (2018 - 1.83%).

Registered retirement plans

NLCU has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in NLCU. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by NLCU, on behalf of the trustee. Registered retirement savings plans have terms of 6 months to 7 years or are due on demand. During the year ended 2019, they paid an average interest rate of 1.72% (2018 - 1.63%). Retirement income funds have terms of 6 months to 5 years or are due on demand. During the year ended 2019, they paid an average interest rate of 1.96% (2018 - 1.86%).

Tax free savings account

Tax free savings accounts have terms of 6 months to seven years or are due on demand. During the year they paid an average interest rate of 1.46% (2018 - 1.55%).

10. Members' deposits (continued):

Share accounts

Each member equity shares consist of 20 shares at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member. Currently, there are 16,503 (2018 - 16,654) fully paid equity share accounts with an aggregate value of $2,937,059 (2018 - $2,868,906). Maximum issuable share are "unlimited". Member equity shares are voting shares and are redeemable at the option of the member upon closing all accounts.

Surplus shares may be issued in an unlimited number at par value of five dollars ($5.00) per share. The holders of surplus shares have all of the rights and privileges and are subject to the restrictions applicable to members, as outlined in the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 2,332 (2018 - 2,255) fully paid surplus share accounts with an aggregate value of $11,660 (2018 - $11,275).

Incentive shares may be issued by NLCU to a maximum number of ten thousand shares as approved by the Regulator in accordance with the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 721 (2018 - 741) share accounts outstanding with an aggregate value of $3,353,750 (2018 - $3,425,750). Incentive shares are non-voting shares and are redeemable at par at the option of the member upon giving 90 days notice.

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in Note 12.

The Board of Directors declared a dividend of $140,000 as of December 31, 2019 (2018 - $137,000) and elected to present as a financing cash flow.

11. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 30% (2018 - 30%) to the income before income taxes. The reasons for the differences and related tax effects are as follows:

	2019	2018
Income before income taxes	$ 1,261,584	$ 906,875

	2019	2018
Income taxes on income before income taxes, at above basic rate	$ 378,475	$ 272,063
Increase (decrease) in taxes resulting from:		
Effect of non-deductible expenses	(36,478)	6,002
Other	-	(72,421)
Deferred income tax recovery	-	(89,691)
	$ 341,997	$ 115,953

Temporary differences, which give rise to the deferred income tax asset, are as follows:

	2019	2018
Deferred income tax assets (liabilities)		
Capital assets and other	$ (336,593)	$ (293,534)
Severance	586,273	557,747
Loan impairment	275,076	421,399
Deferred income tax asset	$ 524,756	$ 685,612

12. Capital adequacy:

Capital management

The Board approves annually the capital management policy and the annual business plan. This policy outlines NLCU's overall objectives and guidelines to ensure that NLCU has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of NLCU and to support the current and future operating plans.

12. Capital adequacy (continued):

The Credit Union Act 2009 requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of total assets. Alternatively, credit unions are able to use a risk weighted model when evaluating capital adequacy reserve that requires a minimum of 10.5%. Additionally, retained earnings cannot be less than 3% of NLCU's total assets and common equity cannot be less than 7% of risk weighted assets.

NLCU is in compliance with its policies and those of the Act regarding regulatory capital as at December 31, 2019 as outlined in the following table based on the alternative capital adequacy revenue model.

	2019	2018
Retained earnings (common equity)	$ 22,794,747	$ 22,015,160
Members' shares	6,302,469	6,305,931
Deferred tax asset	(524,756)	(685,612)
	$ 28,572,460	$ 27,635,479
Risk weighted assets	$ 197,090,855	$ 182,557,253
Risk weighted capital ratio		
Actual	14.50 %	15.14 %
Regulatory requirement	10.50 %	10.50 %
Common equity capital ratio		
Actual	11.57 %	12.06 %
Regulatory requirement	7.00 %	7.00 %
Retained earnings as a percentage of assets		
Actual	3.69 %	3.71 %
Regulatory requirement	3.00 %	3.00 %

13. Related party transactions:

At December 31, 2019, the aggregate value of personal and mortgage loans outstanding to directors, designated employees and all related parties totaled $2,393,894 (2018 - $2,529,008). The maximum balances of these loans during the year was $2,528,672 (2018 - $2,787,915). The aggregate value of deposits outstanding to directors, designated employees and all related parties totaled $6,224,138 (2018 - $6,539,051).

The interest rates charged on balances outstanding from directors and all related parties are the same as those charged in an arm's length transaction. Loans to designated employees are granted at a discount rate, consistent with industry practices and in accordance with board approved policy. Loan and mortgage balances with directors, designated employees and all related parties are secured as per NLCU's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2019 and December 31, 2018.

Key management personnel received salaries and other short-term employee benefits during the year of $3,975,073 (2018 - $3,833,078).

At December 31, 2019, directors received expense reimbursement of $27,518 (2018 - $20,064) and remuneration of $48,650 (2018 - $55,225) for serving NLCU.

14. Fair value of financial instruments:

NLCU's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets/liabilities that are not considered financial instruments, such as prepaids, property and equipment, deferred tax asset and accrued severance liability.

14. Fair value of financial instruments (continued):

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Shares in Central 1, League Data, and Concentra are measured at FVTPL. These shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. As there is no active market for these shares, fair value is not reliably determinable as future cash flows cannot be reasonably predicted with a standard valuation technique. Therefore these equity investments are carried at cost.

NLCU holds derivative financial instruments including embedded derivatives classified as FVTPL. These are classified as Level 2 financial instruments. Their fair value is determined by option pricing models that take into account changes in respective equity indices.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2019 and 2018.

Additionally, there are no financial instruments classified in Level 1 or 3.

Interest rate sensitivity is the main reason for changes in fair values of NLCU's financial instruments with the exception of derivative assets.

14. Fair value of financial instruments (continued):

The fair value of cash and cash equivalents, interest receivable, accounts payables and accrued liabilities, loans to members due on demand, deposits from members due on demand and member share accounts redeemable on demand approximate their carrying amount due to short term to maturity.

The fair value of deposits with Central 1 is approximated by its carrying amounts due to the short - term maturity and repricing of the investments at market rates of return.

2019	Carrying amount	Fair value	Fair value difference
Financial assets			
Loans to members	$ 527,918,882	$ 526,625,309	$ (1,293,573)
Cash resources	5,865,735	5,865,735	-
Investments	62,294,347	62,294,347	-
Financial liabilities			
Members' deposits	$ 589,179,630	$ 589,289,713	$ 110,083
Accounts payable and accrued liabilities	1,710,304	1,710,304	-

14. Fair value of financial instruments (continued):

2018	Carrying amount	Fair value	Fair value difference
Financial assets			
Loans to members	$ 509,438,606	$ 506,466,823	$ (2,971,783)
Cash resources	6,739,039	6,739,039	-
Investments	56,041,406	56,041,406	-
Financial liabilities			
Members' deposits	$ 565,647,963	$ 564,431,035	$ (1,216,928)
Accounts payable and accrued liabilities	1,867,774	1,867,774	-

The above estimates were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumptions. Interest rate sensitivity is the main reason for changes in fair values of NLCU's financial instruments as many loans and deposits to members are at fixed interest rates.

The following are the methods and assumptions used to estimate the fair value of financial instruments:

The fair values of loans to members, and members' deposits are determined by two methods. Variable rate loans to members and demand deposit members' accounts are estimated to be at fair value, as the interest rates of these financial instruments vary with market interest rates. Fixed rate loans to members, and fixed term deposit members' deposits fair value is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks. The expected fair value of these loans to members, direct financing lease, fixed term deposits may differ with changes in interest rates.

15. Nature and extent of risks arising from financial instruments:

NLCU is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how NLCU manages its exposure to these risks.

Credit risk

The business of NLCU necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of NLCU oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of NLCU and reviews the effectiveness of internal control processes.

NLCU uses a lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist NLCU in assessing the borrower's ability to repay.

NLCU mitigates credit risk by obtaining quality collateral and requiring higher risk loans to be CMHC insured. NLCU considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. NLCU's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, NLCU monitors its loan concentration to ensure that it is in compliance with its policies.

Inputs, assumptions and techniques used for estimating impairment

Credit Risk Model:

NLCU uses a credit risk based predictive model to calculate Expected Credit Losses (ECL). This model incorporates the following concepts to calculate ECL:

- Significant Increase in Risk – This factor measures the change in the probability a facility will go into default.
- Staging – All facilities have been classified into one of three stages which represent their risk of default.
- Exposure at Default (EAD) – On a consolidated basis, the EAD looks at the future value of facilities using scheduled payments, facility interest rates and reasonable assumptions on prepayments. The present values of these future exposures are then used as the potential EAD.

15. Nature and extent of risks arising from financial instruments (continued):

Credit Classification and Staging:

For the purposes of determining our Expected Credit Loss (ECL) in accordance with IFRS 9, NLCU has classified all loans and mortgages of members in the following categories: Personal Loans, Personal Lines of Credit, Chequing Account credit limits, Retail Insured Mortgages, Retail Uninsured Mortgages, Commercial Loans, Commercial Mortgages, and Commercial Lines of Credit.

In addition, NLCU has classified all loans and mortgages of members in three stages. Each stage is based on the change in credit risk of the facility in comparison to the risk at origination or previous reporting period. Variables and data used to assess a change in credit risk include: knowledge of credit facility, current and historical data collected related to the facility such as payment history and current payment status, external data from credit agencies and macroeconomic factors. The three stages used by NLCU for classification of facilities are:

Stage 1:
Stage 1 represents facilities with the lowest risk rating for NLCU. These consist of facilities where the credit risk has not significantly changed from that identified at origination. ECL for facilities included in stage 1 have been estimated for a twelve month period.

Stage 2:
Stage 2 represents facilities where the credit risk has significantly changed from that identified at origination. ECL for facilities included in stage 2 have been estimated for the life of the facility.

Stage 3:
Stage 3 represents facilities for members who are in default or who are being monitored by NLCU. ECL for facilities included in stage 3 have been estimated for the life of the facility.

Probability of Default (PD):

To estimate a reasonable PD ratio NLCU examines historical data and specific facilities that have experienced default. The data was reviewed to determine default time frames in relation to year of origination. Statistical analysis was then completed to predict future probability of default. Additional weighting was given to more current data to more accurately reflect current economic conditions. The probabilities were adjusted statistically to represent twelve month and life time circumstances associated with each stage.

As stage 3 facilities were already in default or deemed to be high risk of default, these were included at a PD of 100%.

15. Nature and extent of risks arising from financial instruments (continued):

Loss Given Default (LGD):

At the point of default, NLCU needed to determine the percentage of each credit class that would be deemed uncollectable. To determine this ratio NLCU analyzed historical data including recovery rates and collateral values.

Liquidity risk

The business of NLCU necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

NLCU's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, NLCU's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

	2019	2018
Cash and cash equivalents	$ 5,865,735	$ 6,793,039
Central 1 (matures December 2020, redeemable)	2,000,000	-
Central 1 (matures December 2020, redeemable)	2,000,000	-
Central 1 (matures December 2020, not redeemable)	4,000,000	-
Central 1 (matures December 2019, redeemable)	-	2,000,000
Central 1 (matures December 2019, redeemable)	-	2,000,000
Central 1 (matures December 2019, redeemable)	-	2,000,000
Central 1 (matures December 2019, redeemable)	-	2,000,000
Central 1 (matures February 2019)	-	3,400,000
Liquidity reserve deposit	35,794,000	33,953,250
Total assets held for liquidity	$ 49,659,735	$ 52,146,289

Contractual maturities of financial liabilities are shown under interest rate risk. NLCU has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

15. Nature and extent of risks arising from financial instruments (continued):

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates and market prices. NLCU is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with NLCU's Asset and Liability Management and Investment Policy set by the Board. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by NLCU. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on NLCU's earnings. It is the policy of NLCU to keep exposure to interest rate fluctuations within limits set by the Board and regulations by matching, when possible, the maturity of interest bearing liabilities and assets and pricing interest rate assets consistent with the basis used for liabilities.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates.

2019	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 102,764,069	$ 121,690,301
Less than three months	2,417,764	23,608,397	51,163,192
Three months to a year	17,878,470	90,996,053	135,972,083
One to five years	41,706,466	311,786,258	142,683,783
Non-rate sensitive	291,647	1,863,148	137,670,271
Effective interest rate	2.25 %	3.93 %	1.25 %
Total	$ 62,294,347	$ 531,017,925	$ 589,179,630

15. Nature and extent of risks arising from financial instruments (continued):

2018	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 99,812,171	$ 119,716,395
Less than three months	8,507,878	21,011,561	37,626,314
Three months to a year	17,430,284	97,899,883	112,492,482
One to five years	29,811,597	291,323,634	164,511,181
Non-rated sensitive	291,647	2,047,849	131,301,591
Effective interest rate	2.24 %	3.89 %	1.13 %
Total	$ 56,041,406	$ 512,095,098	$ 565,647,963

At December 31, 2019, if interest rates at that date had been 100 (2018 - 100) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately $109,836 (2018 - $165,431) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages, and lower interest revenue on liquidity investments. If interest rates had been 100 (2018 - 100) basis points higher, with all other variables held constant, after-tax net income would have been approximately $97,013 (2018 - $168,275) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages, and higher interest on liquidity investments.

Market price risk

Market price risk refers to the potential impact of changes in foreign exchange rates on NLCU's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of NLCU to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. NLCU does not hold foreign investments beyond cash required to meet daily operational requirements. Index-linked deposits

At December 31, 2019, NLCU has issued $18,518,755 (2018 - $24,692,638) of index-linked term deposits (registered and non-registered deposits) to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term based on the performance of various Toronto Stock Exchange ("TSX") indices.

The interest feature of these term deposits have been accounted for by an embedded derivative liability of fair value separate from the host deposit.

15. Nature and extent of risks arising from financial instruments (continued):

NLCU has entered into derivative agreements with the Central 1 to offset or hedge the exposure to these indices associated with these products. NLCU pays the Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, NLCU receives payments from the counterparty, Central 1, equal to the amount that will be paid to the depositors based on the performance of various TSX indices.

These agreements have a fair value that varies based on the particular contract and changes in linked indices. The fair value of these agreements is $1,584,202 (2018 - $1,136,554) at year end and has been accounted for as derivative in accordance with NLCU's accounting policy.

15. Nature and extent of risks arising from financial instruments (continued):

Credit quality analysis

		12 month ECL		Life time ECL not credit impaired		Lifetime ECL credit impaired		2019 Total		2018 Total
Personal loans to members at amortized cost:										
Low to Fair Risk	$	81,768,817	$	9,785,360	$	-	$	91,554,177	$	89,603,390
Watch List Loans		-		133,130		280,589		413,719		283,919
Loans in Default		-		-		1,420,817		1,420,817		981,709
		81,768,817		9,918,490		1,701,406		93,388,713		90,869,018
Allowance for loan loss		(330,564)		(315,375)		(1,412,763)		(2,058,702)		(1,672,806)
Carrying amount	$	81,438,253	$	9,603,115	$	288,643	$	91,330,011	$	89,196,212

		12 month ECL		Life time ECL not credit impaired		Lifetime ECL credit impaired		2019 Total		2018 Total
Personal mortgages to members at amortized cost:										
Low to Fair Risk	$	328,887,328	$	54,856,537	$	-	$	383,743,865	$	374,570,179
Watch List Loans		-		5,916,627		259,719		6,176,346		3,597,152
Loans in Default		-		-		1,075,974		1,075,974		2,669,683
		328,887,328		60,773,164		1,335,693		390,996,185		380,837,014
Allowance for loan loss		(7,104)		(10,002)		(331,484)		(348,590)		(296,838)
Carrying amount	$	328,880,224	$	60,763,162	$	1,004,209	$	390,647,595	$	380,540,176

15. Nature and extent of risks arising from financial instruments (continued):

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2019 Total	2018 Total
Commercial loans and mortgages to members at amortized cost:					
Low to Fair Risk	$ 37,068,243	$ 2,167,781	$ -	$ 39,236,024	$ 32,253,839
Loans in Default	-	-	7,397,003	7,397,003	8,135,227
	37,068,243	2,167,781	7,397,003	46,633,027	40,389,066
Allowance for loan loss	(8,632)	(2,786)	(680,333)	(691,751)	(686,848)
Carrying amount	$ 37,059,611	$ 2,164,995	$ 6,716,670	$ 45,941,276	$ 39,702,218

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2019 Total	2018 Total
Total loans and mortgages to members at amortized cost:					
Low to Fair Risk	$ 447,724,388	$ 66,809,678	$ -	$ 514,534,066	$ 496,427,408
Watch List Loans	-	6,049,757	540,308	6,590,065	3,881,071
Loans in Default	-	-	9,893,794	9,893,794	11,786,619
	447,724,388	72,859,435	10,434,102	531,017,925	512,095,098
Allowance for loan loss	(346,300)	(328,163)	(2,424,580)	(3,099,043)	(2,656,492)
Carrying amount	$ 447,378,088	$ 72,531,272	$ 8,009,522	$ 527,918,882	$ 509,438,606