FRONTLINE FINANCIAL CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

McCAY DUFF LLP, CHARTERED PROFESSIONAL ACCOUNTANTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Frontline Financial Credit Union (the "Credit Union") and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Credit Union maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board. The Committee meets periodically with Management, and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the members.

The financial statements have been audited by McCay Duff LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and they have expressed their opinion on the fairness of the financial statements. The auditors have full and unrestricted access to the Audit Committee and Board of Directors to discuss their audit and related findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal control.

Chief Executive Officer
Frontline Financial Credit Union Limited

March 11, 2020.

McCAY DUFF LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members of
Frontline Financial Credit Union Limited

Opinion

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

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

Basis for Opinion

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

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

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

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

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INDEPENDENT AUDITORS' REPORT (Cont'd.)

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

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 these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

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INDEPENDENT AUDITORS' REPORT (Cont'd.)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

McCay Duff LLP

McCay Duff LLP,
Licensed Public Accountants.

Ottawa, Ontario,
March 11, 2020.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

ASSETS

	2019	2018
Cash (note 3)	$ 2,359,189	$ 1,640,479
Investments (note 4)	8,031,146	7,288,113
Income taxes recoverable	607	-
Member loans (note 6)	110,023,955	100,741,176
Property, plant and equipment (note 8)	235,549	271,561
Prepaid expenses	104,226	42,280
	$ 120,754,672	$ 109,983,609

LIABILITIES

	2019	2018
Accounts payable and accrued liabilities	$ 279,790	$ 355,822
Income taxes payable	-	14,720
Member deposits (note 9)	111,528,158	101,232,550
	111,807,948	101,603,092

MEMBERS' EQUITY

	2019	2018
Members' shares (note 11)	343,555	345,020
Retained earnings	8,603,169	8,035,497
	8,946,724	8,380,517
	$ 120,754,672	$ 109,983,609

Commitments (note 17)

Approved on behalf of the Board:

Kim Stewart
Director

Director

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

	Members' Shares	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2017	$ 341,615	$ 7,495,341	$ 7,836,956
Comprehensive income	-	540,156	540,156
Redemption of patronage shares	(1,920)	-	(1,920)
Issue of members' shares	14,775	-	14,775
Redemption of members' shares	(9,450)	-	(9,450)
BALANCE AT DECEMBER 31, 2018	345,020	8,035,497	8,380,517
Comprehensive income	-	567,672	567,672
Redemption of patronage shares	(1,690)	-	(1,690)
Issue of members' shares	15,259	-	15,259
Redemption of members' shares	(15,034)	-	(15,034)
BALANCE AT DECEMBER 31, 2019	$ 343,555	$ 8,603,169	$ 8,946,724

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
INTEREST INCOME		
Member loans	$ 4,134,369	$ 3,553,794
Investments	237,266	129,729
	4,371,635	3,683,523
INTEREST AND LOAN RELATED EXPENSES		
Interest on member deposits	1,739,941	1,185,236
Interest on borrowed funds	-	20,921
Provision for impairment of loans (note 7)	25,000	90,000
	1,764,941	1,296,157
FINANCIAL MARGIN	2,606,694	2,387,366
Other income	696,240	687,527
INCOME BEFORE EXPENSES - CARRY FORWARD	$ 3,302,934	$ 3,074,893

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
INCOME BEFORE EXPENSES - CARRIED FORWARD	$ 3,302,934	$ 3,074,893
EXPENSES		
Member Services		
Marketing and advertising	70,278	104,962
League dues	21,830	10,613
FSRA insurance	88,487	80,893
Electronic service fees	19,996	28,118
	200,591	224,586
Staff		
Employee benefits	231,210	245,615
Staff training	19,585	19,420
Salaries	1,090,791	1,038,790
	1,341,586	1,303,825
Financial		
P.C.A. and other charges	91,648	83,404
Registered administration fees	6,996	6,570
	98,644	89,974
Administrative		
Board and corporate governance	129,246	109,718
Data processing	142,841	170,535
Insurance	54,971	27,545
Office	234,050	115,607
Professional fees	239,400	189,033
	800,508	612,438
Premises		
Depreciation	39,227	46,849
Heat, light and water	17,514	18,872
Maintenance and repairs	59,172	38,637
Property taxes	45,852	42,052
Rent	22,168	39,504
	183,933	185,914
TOTAL EXPENSES	2,625,262	2,416,737
INCOME BEFORE INCOME TAXES	677,672	658,156
Provision for income taxes	110,000	118,000
NET INCOME FOR THE YEAR	567,672	540,156
Other comprehensive income for the year	-	-
COMPREHENSIVE INCOME FOR THE YEAR	$ 567,672	$ 540,156

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 567,672	$ 540,156
Adjustments for:		
- interest income	(4,371,635)	(3,683,523)
- interest expense	1,739,941	1,206,157
- depreciation	39,227	46,849
- provision for income taxes	110,000	118,000
- provision for impairment of loans	25,000	90,000
	(1,889,795)	(1,682,361)
Change in prepaid expenses	(61,946)	15,955
Change in accounts payable and accrued liabilities	(76,032)	17,856
	(137,978)	33,811
	(2,027,773)	(1,648,550)
Change in member activities (net)		
Change in member loans	(9,277,409)	(10,620,388)
Recovery of loans previously written off	485	576
Loans written off	(13,830)	(38,238)
Change in member deposits	10,039,738	9,401,947
	748,984	(1,256,103)
Cash flows related to interest, dividends and income taxes		
Interest received on member loans	4,117,344	3,518,803
Interest received on investments	229,732	133,426
Interest paid on member deposits	(1,484,071)	(1,058,849)
Interest paid on borrowed funds	-	(20,921)
Income taxes paid	(125,327)	(133,797)
	2,737,678	2,438,662
Total cash inflow (outflows) from operating activities	1,458,889	(465,991)
INVESTING ACTIVITY		
Change in investments	(735,499)	(461,122)
Purchase of property, plant and equipment	(3,215)	-
Total cash inflow (outflows) from investing activities	(738,714)	(461,122)
FINANCING ACTIVITIES		
Proceeds from issue of membership shares	15,259	14,775
Redemption of membership shares	(15,034)	(9,450)
Redemption of patronage shares	(1,690)	(1,920)
Total cash inflow (outflows) from financing activities	(1,465)	3,405
NET CHANGE IN CASH POSITION	718,710	(923,708)
Cash position - beginning of year	1,640,479	2,564,187
CASH POSITION- END OF YEAR	$ 2,359,189	$ 1,640,479

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Frontline Financial Credit Union Limited (the "Credit Union") was incorporated under the Credit Unions and Caisses Populaires Act, 1994 (the "Act") of Ontario on December 16, 1948 and is a member of Central 1 Credit Union ("Central 1") and the Financial Services Regulatory Authority of Ontario ("FSRA"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated banking machines ("ABMs"), debit cards, internet banking, e-transfer and telephone banking. The Credit Union's head office is located at 365 Richmond Road, Ottawa, Ontario.

The financial statements for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on March 11, 2020.

Basis of Preparation

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for the following items which have been measured at fair value: financial instruments at fair value through profit and loss, financial assets at fair value through other comprehensive income.

Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. Except as otherwise indicated, financial information is presented in Canadian dollars.

Use of Estimates and Judgments

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

Regulatory Compliance

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at the annual meeting of members. This information has been integrated into the basic financial statements and notes and they comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information. Notes 13, 15 and 16 contain information disclosed to support regulatory compliance.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Financial Instruments

Recognition and initial measurement

The Credit Union initially recognizes loans and advances and 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 the Credit Union 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 fair value through profit and loss, transaction costs that are directly attributable to its acquisition or use.

Classification

A financial asset is classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (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 to cash flows that are solely payments of principal and interest.

A financial asset 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 to cash flows that are solely payments of principal and interest.

All other financial assets are classified and measured at FVTPL.

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

In assessing whether the contractual cash flows represent solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument in question. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Classification (Cont'd.)

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as subsequently measured at amortized cost or FVTPL.

Derecognition

The Credit Union 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 the Credit Union 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 Other Comprehensive Income (OCI) is recognized in profit or loss.

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

Cash

Cash includes cash on hand, deposits with other financial institutions, cheques and other items in transit with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash is carried at amortized cost in the statement of financial position.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Investments

Central 1 deposits are classified as amortized cost or fair value through profit or loss and are initially recognized at fair value.

Equity instruments are classified as amortized cost or fair value through profit or loss and are initially recognized at fair value. Subsequently they are carried at fair value, unless they do not have a quoted market bid price in an active market and fair value is not reliably determinable, in which case they are carried at cost.

Derivative Financial Instruments

Non-Hedge Derivatives

The Credit Union designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in comprehensive income.

Member Loans

The Credit Union initially recognizes loans and advances on the date on which they are originated. Member loans are subsequently measured at amortized cost as the objective of the business model is to collect contractual cash flows of principal and interest. This measurement is done using the effective interest rate model, which is calculated by applying the effective interest rate to the gross carrying amount of the financial asset. Member loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans.

Impairment

The Credit Union recognizes loss allowances on its loans and advances based on the expected credit loss (ECL) model. Using the ECL model, the Credit Union measures loss allowances at an amount equal to the lifetime expected credit loss, except for those loans and advances that are determined to have low credit risk at the reporting date, or on which the credit risk has not increased significantly since their initial recognition. In these scenarios, a 12-month ECL is recognized, which is the portion of the ECL that will result within the 12 months after the reporting date. The Credit Union defines low credit risk as a loan or advance whereby the loan has not shown any impairment.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Impairment (Cont'd.)

At each reporting date, the Credit Union must assess whether the financial assets carried at amortized cost are credit-impaired. A financial asset is considered to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. This could include significant financial difficulty, breach of contract or default, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise, or it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. 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.

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

Write-off

Member loans are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is remote. Bad debts are written off against the provision for impairment if a provision for impairment had previously been recognized. If no provision had been recognized, the bad debts are recognized as expenses in comprehensive income.

Member Deposits

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

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

Accounts Payable and Accrued Liabilities

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	-	3%
Capital and leasehold improvements	-	10%
Computer equipment	-	33 1/3%
Furniture and equipment	-	20%

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Income Taxes

Current and deferred income taxes are recognized in comprehensive income except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

Members' Shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments.*

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Patronage Distributions

Patronage distributions are recognized in comprehensive income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Retained Earnings

Current legislation requires that the Credit Union shall establish and maintain a sufficient level of regulatory capital in accordance with Section 17 of Regulation 237/09 of the Act. It is management's opinion that as at December 31, 2019 the Credit Union has retained sufficient equity to meet these requirements.

Revenue Recognition

Revenue is recognized when the amount of revenue can be reliably measured and it is probable that economic benefits associated with the transaction will be realized. The following specific recognition criteria are used for recognition of income:

(i) Interest Income

Interest income is recognized in the statement of comprehensive income for all interest-bearing financial instruments, except for those designated as fair value through profit or loss, using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant periods using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

(ii) Interest Income

When a loan is classified as impaired as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(iii) Other Income

Service charges, ABM network revenue, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd.)

Transfer of Receivables

The Credit Union occasionally sells receivables such as residential mortgages to Concentra Financial to manage its portfolio diversification risk. In these instances the credit risk is transferred to the purchasing institution, while the Credit Union continues to administer the receivables. As such, the mortgage loans are removed from the statement of financial position since control of the assets has been transferred. A nominal administration fee is paid to the Credit Union each month, which is recorded as income when received.

The sale price of receivables is determined at fair market value, which may give rise to either a gain or a loss on sale. This gain or loss is recognized at the time of the sale and recorded as other income on the statement of comprehensive income.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by using the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in comprehensive income. Exchange gains and losses arising on the retranslation of monetary financial assets measure as amortized cost are treated as a separate component of the change in fair value and recognized in comprehensive income. Exchange gains and losses on non-monetary financial assets measure as amortized cost form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

New Standards and Interpretations Not Yet Adopted

There are no identified new accounting standards, interpretations, amendments and improvements to the existing standards that have been issued by the IASB, but are not yet effective for the year ended December 31, 2019, and have not been applied by the Credit Union in preparing these financial statements. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Going Concern

The Credit Union has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue business for the foreseeable future. The Credit Union is not aware of any material uncertainties that may cause significant doubt regarding it's ability to continue as a going concern. The financial statements have been prepared on a going concern basis.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Fair Value of Financial Instruments

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of the Credit Union's financial instruments not quoted in an active market were estimated using the valuation methods and assumptions as described in the respective notes to these financial statements. Assumptions used include discount rates and estimates of future cash flows. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of the instruments, taking into account changes in market rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the derived fair value estimates may not be capable of being realized immediately and are not recorded in the financial statements.

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd.)

Member Loan Loss Provision (Cont'd.)

Loans and advances are categorized into three stages:

Stage 1: Financial assets that are not credit impaired, or where there have been no signs of credit impairment as of the reporting date. A loss allowance equal to a 12-month expected credit loss is recognized. The Credit Union has determined that the loans and advances that fall within this stage include those where no sign of credit impairment has been identified.

Stage 2: Financial assets where there has been an increased credit risk from the date of initial recognition. A loss allowance equal to the lifetime expected credit loss is recognized.

Stage 3: Financial assets that are credit impaired as at the reporting date. A loss allowance equal to the lifetime expected credit loss is recognized.

Further details on the estimates used to determine the allowance for impaired loans are provided in note 7.

Income Taxes

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

3. CASH

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2019 is 1.90%.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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4. INVESTMENTS

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

Central 1 Deposits

	2019	2018
Liquidity reserve deposit	$ 7,304,760	$ 6,613,380
Accrued interest receivable	20,305	12,771
Total Central 1 Deposits	$ 7,325,065	$ 6,626,151

Liquidity reserve deposits expected to be recovered or settled within twelve months of the reporting period total $1,846,079 (2018 - $1,154,699). Liquidity reserve deposits expected to be recovered or settled more than 12 months after the reporting period total $5,458,681 (2018 - $5,458,681).

The Credit Union must maintain liquidity reserves with Central 1 at 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one to four years. At maturity, these deposits are reinvested at market rates for various terms. At December 31, 2019 the Credit Union met the liquidity requirement with Central 1.

Equity Instruments

	2019	2018
Central 1 Credit Union - Class A	$ 39,644	$ 38,990
Central 1 Credit Union - Class E	227,100	227,100
Central 1 Credit Union - Class F	379,337	335,872
Ficanex Technology Limited Partnership Units	60,000	60,000
Total Equity Instruments	$ 706,081	$ 661,962
Total Investments	$ 8,031,146	$ 7,288,113

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

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

Class E Central 1 shares are issued with a par value; however, they are redeemable at $227,100 at the option of Central 1. There is no separately quoted market price for these shares and the fair value can not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

4. INVESTMENTS (Cont'd.)

Class F Central 1 shares are issued with a par value of $1 per share and are redeemable at the option of Central 1. There is no separately quoted market price for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

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

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

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities.

The Credit Union has outstanding $242,235 (2018 - $442,974) in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of the TSX 60 index.

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2019, the Credit Union had entered into such contracts on index linked term deposits for a total of $242,235 (2018 - $442,974). The agreements are secured by a general security agreement covering all assets of the Credit Union.

6. MEMBER LOANS

	2019	2018
Residential mortgages	$ 92,939,464	$ 86,304,692
Personal loans	10,227,779	9,514,118
Commercial loans	7,014,242	5,085,266
	110,181,485	100,904,076
Accrued interest receivable	168,230	151,205
Allowance for impaired loans (note 7)	(325,760)	(314,105)
Net Member Loans	$ 110,023,955	$ 100,741,176

Member loans expected to be recovered or settled within twelve months of the reporting period total $36,312,246 (2018 - $30,284,349). Member loans expected to be recovered or settled more than 12 months after the reporting period total $73,869,239 (2018 - $70,619,727).

6. MEMBER LOANS (Cont'd.)

Terms and Conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 6.50%. The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2019 was 3.95%.

The interest rate offered on fixed rate loans being advanced at December 31, 2019 ranges from 2.96% to 12.75%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

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

Commercial loans are to individuals and corporations and have various repayment terms. They are generally secured by mortgages on real property and general security agreements.

Mortgages Held by Concentra Financial

The Credit Union administers mortgages totaling $18,608,419 (2018 - $23,334,044) that are held by Concentra Financial. These transactions are not securitization transactions as the contractual rights to receive cash flows from these assets have ceased to exist or the risks and rewards of the loans have been transferred.

Average Yields to Maturity

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

	2019 Principal	2019 Yield	2018 Principal	2018 Yield
Variable rate	$ 31,673,260	4.78 %	$ 33,697,315	4.68 %
Fixed rate due less than one year	8,736,233	3.40 %	9,209,430	3.52 %
Fixed rate due between one and five years	69,771,992	3.52 %	57,997,331	3.51 %
	$ 110,181,485		$ 100,904,076	

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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6. MEMBER LOANS (Cont'd.)

Credit Quality of Loans

	2019	2018
Unsecured loans	$ 16,997,725	$ 14,385,694
Unsecured commercial loans	214,243	211,450
Loans secured by cash, members deposits	30,053	2,240
Loans secured by real property	91,813,994	85,601,743
Residential mortgages insured by government	1,125,470	702,949
	$ 110,181,485	$ 100,904,076

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

Fair Value

The fair value of member loans at December 31, 2019 was $110,712,390 (2018 - $99,716,402).

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

Concentration of Risk

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

Individual or related groups of members loans which exceed 10% of members’ equity:

	2019	2018
Residential mortgages	$ 9,915,375	$ 6,027,046
Commercial loans	2,766,573	2,238,326
	$ 12,681,948	$ 8,265,372

The majority of member loans are with members located in and around Ottawa, Ontario.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

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7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loans comprises:

	2019	2018
Stage 1 Provision	$ 136,212	$ 187,508
Stage 2 Provision	160	61,167
Stage 3 Provision	189,388	65,430
Total Allowance	$ 325,760	$ 314,105

Movement in the allowance for impaired loans is as follows:

	2019	2018
Balance and beginning of year	$ 314,105	$ 261,767
Recoveries of loans previously written off	485	576
Provision charge to comprehensive income	25,000	90,000
	339,590	352,343
Loans written off	13,830	38,238
Balance at end of year	$ 325,760	$ 314,105

The following table provides a breakdown of the expected credit losses by stage and nature of the loans under IFRS 9 at December 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages	$ 30,647	$ 103	$ -	$ 30,750
Personal loans	97,024	57	189,388	286,469
Commercial loans	8,541	-	-	8,541
	$ 136,212	$ 160	$ 189,388	$ 325,760

7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd.)

Key Assumptions in Determining the Allowance for Impaired Loans

As disclosed in Note 2, the allowance for impaired loans is calculated based on 3 stages of loans. The Credit Union has identified that Stage 3 loans are those loans that are credit impaired as of the reporting date. The allowance includes the lifetime expected credit losses associated with these identified member loans. This amount has been calculated using SaskCentral's IFRS 9 Lite Impairment Model, and amounted to $136,212 at December 31, 2019.

The Credit Union has identified that Stage 2 loans are those loans which have shown signs of an increased credit risk. An amount equal to the expected lifetime credit loss has been included in the allowance, and was calculated using SaskCentral's IFRS 9 Lite Impairment Model and amounted to $160 at December 31, 2019.

The Credit Union has identified that any loans which do not fall under Stage 2 or 3 noted above would fall within the Stage 1 category. The allowance includes an amount equal to 12 months of expected credit losses associated with these loans, which was calculated using SaskCentral's IFRS 9 Lite Impairment Model, as an amount equal to 12 months of expected credit losses associated with these loans, and amounted to $189,388 at December 31, 2019.

Loans with repayments past due but not regarded as individually impaired include:

2019	1-29 Days	30-89 Days	90 days and Greater	Dec. 31 Balance
Residential mortgages	$ 1,410,997	$ 320,586	$ -	$ 1,731,583
Personal loans	60,512	18,621	-	79,133
Commercial loans	-	-	-	-
	$ 1,471,509	$ 339,207	$ -	$ 1,810,716

2018	1-29 Days	30-89 Days	90 days and Greater	Dec. 31 Balance
Residential mortgages	$ 2,871,502	$ 128,329	$ -	$ 2,999,831
Personal loans	387,732	10,947	-	398,679
Commercial loans	-	-	-	-
	$ 3,259,234	$ 139,276	$ -	$ 3,398,510

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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DECEMBER 31, 2019

8. PROPERTY PLANT AND EQUIPMENT

	Land	Building	Capital and Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Cost						
Balance at December 31, 2017	$ 37,726	$ 674,716	$ 337,096	$ 218,319	$ 223,644	$ 1,491,501
Balance at December 31, 2018	37,726	674,716	337,096	218,319	223,644	1,491,501
Balance at December 31, 2019	$ 37,726	$ 674,716	$ 337,096	$ 221,534	$ 223,644	$ 1,494,716

	Land	Building	Capital and Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Accumulated Depreciation						
Balance at December 31, 2017	$ -	$ 474,579	$ 296,317	$ 198,674	$ 203,521	$ 1,173,091
Depreciation expense	-	20,100	10,008	6,925	9,816	46,849
Balance at December 31, 2018	-	494,679	306,325	205,599	213,337	1,219,940
Depreciation expense	-	22,490	8,848	1,103	6,786	39,227
Balance at December 31, 2019	$ -	$ 517,169	$ 315,173	$ 206,702	$ 220,123	$ 1,259,167
Net Book Value						
December 31, 2018	$ 37,726	$ 180,037	$ 30,771	$ 12,720	$ 10,307	$ 271,561
December 31, 2019	$ 37,726	$ 157,547	$ 21,923	$ 14,832	$ 3,521	$ 235,549

9. MEMBER DEPOSITS

	2019	2018
Chequing	$ 16,013,034	$ 14,888,551
Demand	6,766,312	5,785,579
Platinum savings	20,388,220	22,775,618
Term	34,919,796	27,047,471
Brokered term deposits	-	1,289,780
Registered savings plans	15,050,041	13,692,054
Registered retirement income funds	4,719,988	4,659,064
Tax-free savings account	12,963,387	10,642,923
	110,820,778	100,781,040
Accrued interest payable	707,380	451,510
	$ 111,528,158	$ 101,232,550

9. MEMBER DEPOSITS (Cont'd.)

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.15% at December 31, 2019.

Demand deposits are due on demand and bear interest at a variable rate up to 1.10% at December 31, 2019. Interest is calculated daily and paid on the accounts monthly.

The registered retirement savings plan (RRSPs) accounts can be fixed or variable rate. Term deposits and fixed RRSPs bear fixed rates for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. Both term deposits and RRSPs bear interest at rates up to 2.60% at December 31, 2019.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts (TFSAs) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits is an amount of $413,527 (2018 - $341,075) denominated in U.S. dollars ($537,089 CDN dollars, 2018 - $458,133 CDN dollars).

Mutual Funds held by Aviso

Aviso administers mutual funds totaling $35,778,154 (2018 - $29,786,588) for Credit Union members.

Fair Value

The fair value of member deposits at December 31, 2019 was $110,965,627 (2018 - $100,614,651).

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

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9. MEMBER DEPOSITS (Cont'd.)

Average Yields to Maturity

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

	2019 Principal	2019 Yield	2018 Principal	2018 Yield
Variable rate	$ 53,753,776	1.05 %	$ 53,534,106	0.50 %
Fixed rate due less than one year	36,813,833	2.49 %	28,837,426	2.46 %
Fixed rate due between one and five years	20,253,169	2.52 %	18,409,508	2.04 %
	$ 110,820,778		$ 100,781,040	

Concentration of Risk

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

There are no individual or related groups of member deposits which exceed 10% of member deposits in each of the deposit types.

The majority of member deposits are with members located in and around Ottawa, Ontario.

10. INCOME TAXES

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

	2019	2018
Current tax expense		
Based on current year taxable income	$ 110,000	$ 118,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 39.5% (2018 - 39.5%) are as follows:

	2019	2018
Income before income taxes	$ 677,672	$ 658,156
Expected taxes based on the statutory rate	$ 267,680	$ 259,972
Reduction due to small business deduction	(135,000)	(130,000)
Other	(22,680)	(11,972)
Total income tax expense	$ 110,000	$ 118,000

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11. MEMBERS' SHARES

	2019			2018		
	Issued	**Equity**	**Liability**	**Issued**	**Equity**	**Liability**
Membership shares	58,725	$ 293,625	$ -	58,680	$ 293,400	$ -
Patronage shares	4,993	49,930	-	5,162	51,620	-
		$ 343,555	$ -		$ 345,020	$ -

During the year 3,052 (2018 - 2,955) membership shares were issued and 3,007 (2018 - 1,890) shares were redeemed. The Credit Union is authorized to issue an unlimited number of membership shares.

During the year nil (2018 - nil) patronage shares were issued and 169 (2018 - 192) shares were redeemed. The Credit Union is authorized to issue an unlimited number of patronage shares.

Terms and Conditions

Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to maintain a minimum of fifteen shares at $5 per share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (note 16), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Patronage Shares

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital (note 16), as is the payment of any distributions on these shares. Patronage shares that are available for redemption are classified as a liability. Any difference between the total patronage shares and the liability amount are classified as equity.

Patronage rebates are at the discretion of the Board of Directors unless a constructive obligation exists for distribution.

Patronage shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*. If they are classified as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

12. TRANSFERS OF LOANS RECEIVABLE

The Credit Union periodically may sell mortgage loans to other financial institutions as described in note 1.

As at December 31, 2019, the aggregate outstanding value of loans transferred amounted to $18,608,419 (2018 - $23,334,044). The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the statement of comprehensive income. There were no mortgage loans delinquent at December 31, 2019. In addition, there were no credit losses incurred on the mortgages transferred in 2019 or 2018.

Transfer of loans receivable activity in the year

	2019	2018
Cash inflows remitted on collections	$ 3,286,904	$ 3,642,836
Servicing fees received	79,046	97,095

13. RESTRICTED AND RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with restricted and related parties. Restricted parties are defined by regulation 75(1) of the Credit Unions and Caisses Populaires Act, 1994 as directors and officers as well as their spouses and immediate dependent family members. Related parties are defined by IAS 24, *Related Party Disclosures*, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

	2019	2018
Compensation	$ 537,150	$ 330,310
Loans to restricted and related parties		
Aggregate value of loans advanced	$ 274,756	$ 260,169
Interest received on loans advanced	7,701	6,547
Total value of lines of credit advanced	148,591	136,091
Interest received on lines of credit advanced	11,794	9,021
Unused value of lines of credit	436,550	391,016

The Credit Union's policy for lending to restricted and related parties is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

	2019	2018
Deposits from restricted and related parties		
Aggregate value of term and savings deposits	$ 105,160	$ 711,935
Total interest paid on term and savings deposits	3,304	45,021

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13. RESTRICTED AND RELATED PARTY TRANSACTIONS (Cont'd.)

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

In accordance with the required disclosures under Ontario Regulation 237/09, section 28, of the Credit Unions and Caisses Populaires Act 1994, no officer or employee of the Credit Union had remuneration greater than $150,000 during the year.

14. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

	FVTPL	FVOCI	Amortized Cost	Total
December 31, 2019				
Cash	$ -	$ -	$ 2,359,189	$ 2,359,189
Investments	706,081	-	7,325,065	8,031,146
Member loans	-	-	110,023,955	110,023,955
Accounts payable and accrued liabilities	-	-	279,790	279,790
Member deposits	-	-	111,528,158	111,528,158
	$ 706,081	$ -	$ 231,516,157	$ 232,222,238

	FVTPL	FVOCI	Amortized Cost	Total
December 31, 2018				
Cash	$ -	$ -	$ 1,640,479	$ 1,640,479
Investments	661,962	-	6,626,151	7,288,113
Member loans	-	-	100,741,176	100,741,176
Accounts payable and accrued liabilities	-	-	355,822	355,822
Member deposits	-	-	101,232,550	101,232,550
	$ 661,962	$ -	$ 210,596,178	$ 211,258,140

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14. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (Cont'd.)

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

- Level 1 valuation based on quoted market bid prices in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted market bid 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); and
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of three levels.

December 31, 2019

	Level 1 Quoted Market Bid Price	Level 2 Observable Market Inputs	Level 3 Non-Observable Market Inputs	Total
Financial assets				
Investments - fair value through profit or loss	$ -	$ 646,081	$ 60,000	$ 706,081

December 31, 2018

	Level 1 Quoted Market Bid Price	Level 2 Observable Market Inputs	Level 3 Non-Observable Market Inputs	Total
Financial assets				
Investments - fair value through profit or loss	$ -	$ 601,962	$ 60,000	$ 661,962

14. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (Cont'd.)

The following table summarizes the changes in the fair value of Level 3 assets for the year ended December 31:

	2019	2018
Balance - beginning of year	$ -	$ 4,948
Distributions received, or receivable, during the year	-	(4,948)
Balance - end of year	$ -	$ -

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

General Objectives, Policies and Procedures

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

CREDIT RISK

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

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

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Cont'd.)

Objectives, Policies and Procedures

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

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

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans and delinquent loans. The Board of Directors also receives an analysis of loans deemed to be uncollectible and allowance for impaired loans monthly.

The Credit Union's definition of default is consistent across credit management and accounting policies, with financial instruments considered to be credit impaired when a borrower fails to make a contractual payment and the payment is past due for 90 days.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is nil.

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

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

LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Cont'd.)

Risk Measurement

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

Objectives, Policies and Procedures

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

Provisions of the Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 7%.

The Credit Union manages liquidity risk by:

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

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements at December 31, 2019.

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

	Maximum Exposure
Cash	$ 2,359,189
Liquidity reserve deposit	7,304,760
	9,663,949
Total liquidity requirement	7,757,454
Excess Liquidity Requirement	$ 1,906,495

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

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

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Cont'd.)

MARKET RISK

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

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Financial Services Regulatory Authority of Ontario (FSRA) in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA as required by Credit Union regulations. For the year ended December 31, 2019, the Credit Union was in compliance with this policy.

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

	Variable Rate	Less than 3 Months	3 to 12 Months	One to Five Years	Non-Rate Sensitive	Total	Effective Interest Rate
Cash	$ 1,999,342	$ -	$ -	$ -	$ 359,847	$ 2,359,189	1.90
Investments	5,458,681	744,411	1,101,668	-	706,081	8,010,841	3.24
Loans to members	31,673,260	775,453	7,960,780	69,771,992	-	110,181,485	3.90
Member deposits	53,753,776	4,434,715	32,379,118	20,253,169	-	110,820,778	2.51
Membership shares	-	-	-	-	293,625	293,625	-
Patronage shares	-	-	-	-	49,930	49,930	-

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Cont'd.)

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.00% could result in a decrease to comprehensive income of $162,000, while a decrease in interest rates of 0.50% would result in a decrease to comprehensive income of $128,000.

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

Currency Risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union’s foreign exchange risk is related to U.S. dollar deposits. Foreign currency changes are continually monitored by Management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy. The Credit Union will endeavour to maintain U.S. dollar assets in proportion to its U.S. dollar liabilities.

Risk Measurement

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

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates is controlled by maintaining U.S. cash deposits in proportion to the U.S. dollar member deposits.

For the year ended December 31, 2019, the Credit Union's exposure to foreign exchange risk was within the structural risk management policy.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings in Central 1 shares.

16. CAPITAL MANAGEMENT

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Retained earnings shall not be less than 4% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' equity as shown on the balance sheet shall not be less than 5% of the book value of all assets.

The Credit Union considers its capital to include members' equity. There have been no changes in what the Credit Union considers to be capital since the previous year.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2019 is $47,355,186.

As at December 31, 2019, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 7.52% and a risk weighted asset ratio of 17.00%.

Regulatory capital consists of the following:

	2019	2018
Tier 1 Capital		
Membership shares	$ 293,625	$ 293,400
Patronage shares	49,930	51,620
Retained earnings	8,603,169	8,035,497
	8,946,724	8,380,517
Tier 2 Capital		
Stage 1 and Stage 2 of the loan loss allowance	136,372	248,675
Total Regulatory Capital	$ 9,083,096	$ 8,629,192
% of total assets	7.52	7.85
% of total risk weighted assets	17.00	17.88

17. COMMITMENTS

Credit Facilities

The Credit Union has authorized credit facilities with Central 1 totaling $4,474,500 consisting of a demand loan of $1,824,500, an authorized line of credit of $2,625,000 and an authorized line of credit of $25,000 denominated in U.S. dollars. These credit facilities are secured by a general security agreement covering all assets of the Credit Union. As at December 31, 2019, these facilities have not been utilized (2018 - nil).

Member Loans

The Credit Union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit:

Unadvanced loans and mortgages	$ 6,623,919
Unused lines of credit	$ 21,198,072
Letters of credit	$ 35,000