EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Financial Statements

Year Ended December 31, 2020

EAST KOOTENAY COMMUNITY CREDIT UNION

Index to Consolidated Financial Statements

Year Ended December 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of East Kootenay Community Credit Union have been prepared in accordance with International Financial Reporting Standards (IFRS). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of East Kootenay Community Credit Union's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and meets periodically with management and the members' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Audit Committee reports to the Board of Directors prior to its approval of the financial statements. The Committee also considers, for review by the Board and approval by the members, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited on behalf of the members by Adams Wooley, Chartered Professional Accountants, in accordance with International Financial Reporting Standards (IFRS).

DocuSigned by:
Jean-Ann Debreceni
D8E2CBC21FB6457...

Ms. Jean-Ann Debreceni, Chair

DocuSigned by:
6BDE309702D9412...

Mr. Jody Burk, CEO

Cranbrook, BC
February 25, 2021

AdamsWooley
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of East Kootenay Community Credit Union

Opinion

We have audited the consolidated financial statements of East Kootenay Community Credit Union (the Credit Union), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of income, retained earnings, comprehensive income and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2020, and the consolidated financial performance and consolidated 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

(continues)

824 - 1st Street South, Cranbrook, BC V1C 7H5
Phone 250-426-8277 **Fax** 250-426-4109
Email mail@cgafirm.com **Web** www.cgafirm.com

David M.W. Adams, BSc, CPA, CGA, CFP*
James R. Wooley, BPE, CPA, CGA*
Brian F. Adams, FCPA, FCGA* (Associate)

** Denotes Professional Corporation*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Adams Wooley

Cranbrook, BC
February 12, 2021

Adams Wooley
Chartered Professional Accountants

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Financial Position

December 31, 2020

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS *(Note 7)*	**$ 122,499,136**	$ 78,929,320
INVESTMENTS *(Note 8)*	**5,275,874**	5,187,854
INVENTORY *(Note 9)*	**580,341**	559,915
DERIVATIVE ASSETS *(Note 10)*	**241,743**	217,767
MEMBERS' LOANS *(Notes 11 and 12)*	**323,687,215**	313,769,870
PROPERTY, PLANT AND EQUIPMENT *(Notes 13 and 14)*	**5,492,189**	5,593,680
INTANGIBLE ASSETS *(Note 15)*	**7,112**	53,200
OTHER ASSETS *(Note 16)*	**683,688**	1,212,001
	$ 458,467,298	$ 405,523,607
LIABILITIES AND MEMBERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 3,612,199**	$ 1,461,406
MEMBERS' DEPOSITS *(Note 17)*	**406,195,966**	349,656,677
MEMBERS' SHARES *(Note 18)*	**1,190,234**	1,122,213
DEFERRED INCOME TAXES *(Note 19)*	**916,083**	618,879
DEFERRED INCOME *(Note 20)*	**41,091**	-
LOANS PAYABLE *(Note 21)*	**20,151,418**	28,143,855
LEASE LIABILITY *(Note 13)*	**288,413**	321,347
	432,395,404	381,324,377
MEMBERS' EQUITY		
Share capital *(Note 18)*	**2,672,443**	2,668,254
Accumulated other comprehensive income *(Note 22)*	**767,584**	123,428
Retained earnings	**22,631,867**	21,407,548
	26,071,894	24,199,230
	$ 458,467,298	$ 405,523,607

ON BEHALF OF THE BOARD

DocuSigned by:
Jean-Ann Debreceni *Director*
D5E0S802dFB6457...

DocuSigned by:
George Freitag *Director*
59393CD9B211405...

See notes to financial statements

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Income

Year Ended December 31, 2020

	2020	2019
REVENUES		
Interest from loans	**$ 12,589,662**	$ 12,483,201
Interest and income from investments	**1,491,650**	1,467,831
	14,081,312	13,951,032
INTEREST EXPENSES		
Interest on deposits	**4,342,201**	4,767,976
Interest on Secured Borrowings	**622,472**	730,273
	4,964,673	5,498,249
Impairment charges on member loans	**423,658**	(12,447)
	5,388,331	5,485,802
NET INTEREST INCOME AFTER IMPAIRMENT CHARGES	**8,692,981**	8,465,230
NON-INTEREST INCOME		
Service fees and commissions	**748,764**	865,242
Other	**341,249**	369,264
Loans Services	**382,600**	351,179
Rental Income	**169,503**	170,542
Foreign exchange	**70,582**	176,849
	1,712,698	1,933,076
NON-FINANCIAL EXPENSES	**8,634,967**	8,587,293
INCOME FROM OPERATIONS	**1,770,712**	1,811,013
OTHER INCOME (EXPENSES)		
Income (loss) from equity investment	**(4,529)**	15,643
INCOME BEFORE INCOME TAXES AND DONATIONS AND REWARDS TO MEMBERS	**1,766,183**	1,826,656
INCOME TAXES		
Current *(Note 23)*	**195,836**	219,697
Recovered	**-**	(3,834)
Deferred	**33,455**	177,490
	229,291	393,353
INCOME BEFORE DONATIONS AND REWARDS TO MEMBERS	**1,536,892**	1,433,303
DONATIONS AND REWARDS TO MEMBERS		
Community Donations	**85,852**	46,551
Member rewards *(Note 18)*	**207,070**	222,984
	292,922	269,535
NET INCOME	**$ 1,243,970**	$ 1,163,768

See notes to financial statements

EAST KOOTENAY COMMUNITY CREDIT UNION
Consolidated Non-Financial Expenses
Year Ended December 31, 2020

	2020	2019
Salaries and benefits	$ 4,882,987	$ 4,527,159
Data processing	953,181	923,904
Professional fees	439,303	392,908
Amortization	420,453	415,636
Premises and equipment	418,965	367,497
Consulting Fees	365,316	491,887
Miscellaneous financial item costs	238,377	268,775
Advertising and marketing	163,860	145,521
Stabilization assessment fees	105,276	206,598
Director and committee costs	103,901	177,192
Staff miscellaneous	101,808	111,049
Loan expenses	93,621	129,889
Staff travel and training	51,187	97,155
Stationery and supplies	51,116	60,573
Telephone	49,961	44,748
Dues and subscriptions	41,835	35,126
Bonding and insurance	36,632	33,035
Inspection fees	36,220	34,856
Postage	35,753	52,938
Central 1 dues	29,968	49,716
Interest on finance lease	9,072	9,098
Financial planner commissions	5,891	7,777
Miscellaneous	284	4,256
	$ 8,634,967	$ 8,587,293

See notes to financial statements

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Comprehensive Income

Year Ended December 31, 2020

	2020	2019
NET INCOME	**$ 1,243,970**	$ 1,163,768
CHANGES IN COMPREHENSIVE INCOME		
Unrealized gain (loss) on financial assets adjusted to fair value (net of deferred income tax) *(Note 22)*	**644,980**	(265,583)
Adjustment to value of equity investment *(Note 22)*	**(5,814)**	-
Deferred income tax rate adjustment related to other comprehensive income *(Note 22)*	**(2,700)**	-
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,880,436**	$ 898,185

See notes to financial statements

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Retained Earnings

Year Ended December 31, 2020

	2020	2019
RETAINED EARNINGS - BEGINNING OF YEAR		
As previously reported	**21,407,548**	20,292,780
Prior period adjustments	**-**	(49,000)
As restated	**21,407,548**	20,243,780
NET INCOME	**1,243,970**	1,163,768
	22,651,518	21,407,548
DEFERRED TAX RELATED TO EQUITY	**(19,651)**	-
RETAINED EARNINGS - END OF YEAR	**$ 22,631,867**	$ 21,407,548

See notes to financial statements

EAST KOOTENAY COMMUNITY CREDIT UNION

Consolidated Statement of Cash Flows

Year Ended December 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Net income	$ 1,243,970	$ 1,163,768
Items not affecting cash:		
Amortization	420,453	415,636
Deferred income taxes	272,008	177,490
Unrealized gain (loss) on financial assets adjusted	-	(287,613)
Change in accumulated other comprehensive income	649,700	(10,535)
	2,586,131	1,458,746
Changes in non-cash working capital:		
Accounts Payable and Accrued Liabilities	2,150,797	(811,085)
Inventory	(20,426)	(19,706)
Deferred income	41,091	-
Other Assets	528,313	(368,306)
	2,699,775	(1,199,097)
Cash flow from operating activities	5,285,906	259,649
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(270,077)	(237,657)
Acquisition of right-of-use asset	-	(350,837)
Purchase of intangible assets	(2,800)	(20,958)
Derivative assets	(23,976)	(104,801)
Investments	(88,020)	(8,919)
Members' Loans	(9,917,345)	(5,602,096)
Cash flow used by investing activities	(10,302,218)	(6,325,268)
FINANCING ACTIVITIES		
Members' deposits	56,539,289	33,068,089
Members' shares	68,021	(118,498)
Loan payable	(7,992,437)	(2,887,241)
Equity shares	4,189	35,453
Proceeds from lease liability	-	350,837
Repayment of lease liability	(32,935)	(29,485)
Cash flow from financing activities	48,586,127	30,419,155
INCREASE IN CASH FLOW	43,569,815	24,353,536
Cash - beginning of year	78,929,320	54,575,784
CASH - END OF YEAR	$ 122,499,135	$ 78,929,320
CASH CONSISTS OF:		
Cash and current accounts	$ 22,764,443	$ 14,433,873
Deposits - special and term	99,529,087	64,226,495
Accrued interest	205,605	268,952
	$ 122,499,135	$ 78,929,320

See notes to financial statements

1. NATURE OF OPERATIONS

East Kootenay Community Credit Union (the "Credit Union") is incorporated provincially under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, automated banking machines ("ABMs"), debit and credit cards and Internet banking. The Credit Union head office is located at 920 Baker Street, Cranbrook, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on February 25, 2021.

2. BASIS OF PRESENTATION

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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 4*.

These consolidated financial statements include the accounts of the Credit Union and its subsidiaries as follows: All significant intercompany transactions and balances have been eliminated upon consolidations.

	2020	2019
East Kootenay Community Insurance Services Ltd.	100.00 %	100.00 %
East Kootenay Community Financial Services Ltd.	100.00 %	100.00 %
EKC Property Holdings Ltd.	100.00 %	100.00 %

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for the following material items.

Items	**Measurement Basis**
Financial Instruments at Fair Value Through Profit and Loss (FVTPL)	Fair Value
Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)	Fair Value
Available-for-sale financial assets	Fair Value
Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships (which otherwise would have been measured at amortized cost)	Amortized cost adjusted for hedging gain or loss

4. USE OF JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments
Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

Note 5 - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Note 5 - securitizations: determination of both the degree of transfer of risks and rewards/ control on assets transferred to another entity.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2020 is included in the following notes.

Impairment of financial instruments
The Credit Union assesses of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of estimated credit losses.

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in *Note 8*.

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 for the tax liability including the related interest and penalties in the current tax provision. Management believes it has 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.

Impairment of financial instruments
The Credit Union uses key assumptions in estimating recoverable cash flows.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments - Central 1 deposits

These deposit instruments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. If investments are available for sale, they are reported at fair value.

Financial assets and financial liabilities

i) Recognition and initial measurement

The Credit Union initially recognizes member loans, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) 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 FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

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.

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, the Credit Union 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, the Credit Union 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.

Business model assessment
The Credit Union 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;

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- 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 the Credit Union's 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.

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, the Credit Union 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, the Credit Union considers:

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

Reclassifications
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. There we no changes to any of the Credit Union business models during the current year.

iii) Derecognition

Financial Assets
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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From January 1, 2018 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 the Credit Union is recognized as a separate asset or liability.

In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage Housing Corporation that issue bonds to third party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program. Through the program, the Credit Union issues securities backed by residential mortgages that are insured against borrower's default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union's securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received. For more details, see *Note 24*.

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

iv) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Credit Union 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, the Credit Union 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
The Credit Union 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, the Credit Union currently 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.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Credit Union of similar transactions.

vi) Designation of fair value through profit or loss

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

Financial liabilities
The Credit Union has designated certain financial liabilities as at FVTPL where the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments - Central 1 deposits

These deposit instruments are classified under amortized cost and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost.

Equity Instruments

These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value.

For those equity instruments designated as FVOCI upon origination or initial transition to IFRS 9, changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized in other comprehensive income.

If an irrevocable election upon origination or upon initial transition to IFRS 9 has not been made for an equity instrument, than the equity instrument is designated as FVTPL. Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized in profit and loss.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in either profit or loss or other comprehensive income depending on the classification of the equity instrument.

On sale of equity instruments designated as FVOCI, 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. The amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging

The Credit Union designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Credit Union makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

These hedging relationships are discussed below.

Fair value hedges
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The amount recognized in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Other non-trading derivatives
If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognized immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Embedded derivatives
Derivatives may be embedded in another contractual arrangement (a host contract). The Credit Union accounts for an embedded derivative separately from the host contract when:
- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Members' loans
Member loans include:
- loans and advances 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;
- 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets
The Credit Union recognizes loss allowances for estimated credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments (loans and advances);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at an amount equal to lifetime ECL except for financial instruments on which credit risk has not increased significantly since their initial recognition, which are measured as 12-month ECL.

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.

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 the Credit Union in accordance with the contract and the cash flows that the Credit Union 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 the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

See also *Note 12*.

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, the Credit Union assesses whether financial assets are credit-impaired. For details regarding how the Credit Union determines credit impairment refer to *Note 12*.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it was reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

Loan securitization

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist and substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value minus incremental direct transaction costs and are subsequently measured at amortized cost unless the secured borrowing has been designated as at FVTPL.

When the Credit Union designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Credit Union assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized and was written up as detailed in *Note 14.* Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and Equipment	0 - 20 years
Motor Vehicles	5 years
Land improvements	15 years
Parking Lot	15 years

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

Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life, but no more than 7 years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Member deposits

Member deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Credit Union designates liabilities at FVTPL.

Pension plan

The Credit Union participates in a defined benefit plan administered by Credential Asset Management. The Credit Union accounts for the plan by recognizing contributions as an expense in the year to which they relate, as provided in *Note 29.*

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts payable and other payables

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

Provisions

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

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.

Membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Credit Union designates liabilities at FVTPL.

Patronage distributions

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

Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use

Measurement and recognition of leases as a lessee

At lease commencement date, the Credit Union recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate, which has been deemed to be the prime rate, since the Credit Union does not currently borrow.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, there is an option to include right-of-use assets in property and equipment and lease liabilities in trade and other payables, but they have been included in separate line items instead.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union as a lessor

The Credit Union's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Credit Union classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

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

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

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. Actual results could differ from these estimates.

Examples of significant estimates include:

- providing for amortization of property and equipment;
- the estimated useful lives of assets;
- the allowance for losses on loans;
- the recoverability of long-term investments;
- the recoverability of intangible assets;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets, and present value of future lease obligations.
- IFRS 16 requires entities to make certain judgements and estimations, and those that are significant should be disclosed here or within the asset and liability notes within the financial statements. Critical judgements are often required when an entity is, for example:
  - determining whether or not a contract contains a lease
  - establishing whether or not it is reasonably certain that an extension option will be exercised
  - considering whether or not it is reasonably certain that a termination option will not be exercised
  - determining whether or not variable leased payments are truly variable, or in-substance fixed
  - for lessors, determining whether the lease should be classified as an operating or finance lease.
  - Examples of key sources of estimation and uncertainty include:
    - calculating the appropriate discount rate to use
    - estimating the lease term
    - estimating variable lease payments dependant on an index or rate.

6. IFRSs NOT YET EFFECTIVE

Following is a listing of amendments, revisions and new International Financial Reporting Standards (IFRSs) issued and the effective date. Unless otherwise indicated, earlier application is permitted. The Credit Union is currently evaluating the impact of adopting the changes, which it intends to do when required.

IFRS 17 - Insurance contracts (annual periods beginning on or after January 1, 2021)

Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IAS 16 - Property, Plant and Equipment (annual periods beginning on or after January 1, 2022)

The amendments prohibit an entity from deducting from the cost of property, plant and equipment the proceeds from selling items produced before the asset is available for use. Instead, an entity will recognize such sales proceeds and related cost in profit or loss.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (annual periods beginning on or after January 1, 2022)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

7. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1. The average yield in the accounts at December 31, 2020 is 0.74% (2019 - 1.91%).

	2020	2019
Liquidity and bid reserve deposits - Canadian	**$ 74,393,534**	$ 58,465,000
Current account deposits - Canadian	**11,995,370**	9,859,986
Current account deposits - US	**1,977,421**	1,097,984
Bid reserve deposits - US	**135,554**	761,495
Accrued interest	**205,605**	268,953
Total Central 1 deposits	**88,707,484**	70,453,418
Concentra deposit account	**25,000,000**	5,000,000
Other cash and deposit accounts	**8,791,652**	3,475,902
	$ 122,499,136	$ 78,929,320

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 8% of total assets, less any cash on hand, 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. At maturity, these deposits are reinvested at market rates for various terms.

Current deposits at Central 1 are due within one year. The carrying amounts for deposits at Central 1 approximate fair value due to having similar characteristics as cash and cash equivalents. The liquidity deposits are typically due within five years. However, they were sold on January 4, 2021, so are classified as available for sale at the end of 2020, and were therefore revalued to fair value.

8. INVESTMENTS

Equity Instruments

	Measurement basis	**2020**	2019
Central 1 Credit Union - Class A	FVOCI	**$ 135,484**	$ 135,126
Central 1 Credit Union - Class E	FVTPL	**63**	63
Central 1 Credit Union - Class F	FVOCI	**1,434,659**	1,453,198
CUPP Services	FVTPL	**90,181**	90,181
Stabilization Central Credit Union Shares	FVTPL	**219**	219
BC Co-operative Association	FVTPL	**1,612**	1,612
East Kootenay Columbia Investment Co-op	FVTPL	**500**	500
CU CUMIS Wealth Holdings LP	FVTPL	**2**	2
Subtotal		**1,662,720**	1,680,901
Accrued Dividends - Central 1 Shares		**43,040**	97,874
		$ 1,705,760	$ 1,778,775

The Credit Union is a member of a national financial services entity named Central 1. The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the direction of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. The Credit Union is not intending to dispose of any 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.

Class E Central 1 shares are redeemable at $100 per share. Class F shares having a par value of $1 per share. Due to the uncertainty of future redemptions of Class E shares, the Credit Union has deemed that cost is an appropriate proxy of fair value for this class of shares.

The Board of Directors of Central 1 approved the redemption of all Class F shares at par value effective January 1, 2021. The redemption was completed on January 8, 2021 and the redemption price of $1,434,659 was paid to the Credit Union on that date.

The CUPP Services shares are participating preference shares. There is no separately quoted market value for these shares; however, as these are preferred shares, fair value is determined to be carrying value.

BC Cooperative Association and East Kootenay Columbia Investment Co-op are cooperatives. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value of the shares.

There is no separately quoted market value for the units of CU CUMIS Wealth LP. However fair value is determined to be equivalent to cost as upon redemption of the units the credit union would be entitled to its initial capital contribution and any unpaid accrued distributions (which will be a nominal amount).

8. INVESTMENTS *(continued)*

		2020		2019
Investments with Significant Influence (at cost)				
Kootenay Insurance Services Ltd. - Investment	$	**2,834,728**	$	2,762,861
Kootenay Insurance Services Ltd. - Shares		**100**		100
0948859 B.C. Ltd. - Investment		**720,612**		626,915
0948859 B.C. Ltd. - Shares		**100**		100
	$	**3,555,540**	$	3,389,976

The Credit Union holds 25% of the voting shares of Kootenay Insurance Services Ltd. and 33.33% of the voting shares of 0948859 B.C. Ltd. (o/a MoneyWorks). The shares are non-participating and are recorded at cost.

Investments with Significant Influence (equity method)				
Kootenay Risk Services Ltd. - Opening accumulated equity income	$	**19,103**	$	3,460
Current year income (loss)		**(4,529)**		15,643
Kootenay Risk Services Ltd. - Accumulated equity income	$	**14,574**	$	19,103
	$	**5,275,874**	$	5,187,854

The Credit Union holds 25% of the voting shares of Kootenay Risk Services Ltd. and the investment is recorded using the equity method.

Summarized financial information for investments with significant influence has been excluded from the financial statements.

9. INVENTORY

Inventory is comprised of land for resale, plus related carrying costs. Inventory has been valued at the lower of cost and market value. Market value is determined by British Columbia Assessment Authority, comparative sales in the region (if any) and market conditions.

		2020		2019
Original cost	$	**525,000**	$	525,000
Accumulated carrying costs				
Utilities		**25,215**		12,300
Strata fees		**13,359**		8,145
Property transfer tax		**5,250**		5,250
Property tax		**6,911**		4,614
Legal fees		**4,606**		4,606
	$	**580,341**	$	559,915

10. DERIVATIVE ASSETS

	Asset	Liability	Notional
2020			
Index-linked option contracts	**$ 241,743**	**$ -**	**$ 2,148,565**
2019			
Index-linked option contracts	$ 217,767	$ -	$ 1,945,178

Equity options are transactions in which the Credit Union manages its exposure to changes in the value of index-linked deposit products. Equity options purchased by the Credit Union, for a premium, provide the right but not the obligation, to buy or sell to the writer of the option, an underlying stock index. These options contracts are transacted on an over-the-counter basis. The two parties exchange cash flows on a specified notional amount for a predetermined period based on the increase or decrease in an underlying stock market index versus a fixed interest rate. Notional amounts are not exchanged.

11. MEMBERS' LOANS

	2020	2019
Residential mortgages	**$ 199,711,517**	$ 187,103,738
Commercial mortgages and loans	**83,570,420**	83,672,915
Commercial revolving credits	**2,555,523**	2,580,247
Personal loans	**21,628,578**	20,959,491
Personal Revolving Credits	**16,351,651**	19,586,048
Accrued interest receivable	**767,700**	1,279,142
Subtotal	**324,585,389**	315,181,581
Deduct: Allowance for impaired loans	**(898,174)**	(1,411,711)
	$ 323,687,215	$ 313,769,870

Terms and conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 7%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2020 was 3.00% (2019 - 4.25%).

The interest rate offered on fixed rate loans being advanced at December 31, 2020 ranges from 2.74% to 7.82%. 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 blended payments of principal and interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by promissory notes and personal property or investments, and others are secured by promissory notes only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments and personal guarantees.

Average yields to maturity

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

	2020	2019
Variable rate	**2.01**	4.15
Fixed rate due less than one year	**2.30**	3.53
Fixed rate due between one and five years	**3.37**	3.67

11. MEMBERS' LOANS *(continued)*

Credit quality of loans

It is not practical to value all collateral as at the year end date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis on the principal amount of loans (before impairment) is as follows:

	2020	2019
Unsecured loans	**$ 5,748,956**	$ 6,522,690
Loans secured by cash, member deposits, and government guarantees	**15,065,380**	13,414,724
Loans secured by other property	**10,739,865**	11,105,679
Real estate secured mortgages (non-insured)	**214,301,166**	207,619,653
Residential mortgages insured by government	**77,962,322**	75,239,693
	323,817,689	313,902,439
Accrued interest on above amounts	**767,700**	1,279,142
	$ 324,585,389	$ 315,181,581

For commercial loans, the credit union allocates a credit risk grade at initial recognition based on available information about the borrower. Under this system, the credit risk grades are defined as follows:

11. MEMBERS' LOANS *(continued)*

Risk Rating	Description	
1	Subsantantially Risk Free	Little or no risk evidenced. Sound financial position with liquidity and strong equity base. The financial obligations are fully secured by undoubted liquid security for the term of the loan.
2	Minimal Risk	Superior credit quality. The capacity for the payment of financial obligations is considered high. Lowest risk evidenced by liquid security which provides dollar for dollar coverage.
3	Moderate Risk	Strong credit quality. The capacity for the payment of financial obligations is substantial. Maybe vulnerable to future events, but qualify negative factors are considered to be manageable. Very low risk as evidenced by substantial security value.
4	Better Then Average Risk	Good credit quality. The capacity for the payment is considered acceptable. May be vulnerable to future events. Loans which exceed all normal lending criteria for security value and carrying capacity by a reasonable margin.
5	Average Risk	Adequate credit quality. Non-investment grade. Vulnerable to future events. Loans which exceed all normal lending criteria for security value and carrying capacity by a reasonable margin.
6	Acceptable Risk	Lessor credit quality then BB. Vulnerable to future events. Loans which meet all normal lending criteria for security value and a carrying capacity, including loans where weakness in one lending criterion is offset by a strength in another criterion.
7	Cautionary (Watch List) Risk	Higher risk of defaulting on financial obligations than risk rating 6. Loans which meet all normal lending criteria for security value and carrying capacity, including loans where weakness in one lending criterion is offset by a strength in another criterion.
8	Substandard Risk	Financial obligations are seen as highly likely to default. A weekness has become apparent or an undesirable feature has arisen so that the loan would not be approved if submitted on its current merits. The loan is still collectible on the basis of security.
9	Unsatisfactory Risk	Inevitable default. Security value and repayment capacity are anticipated to support full recovery of outstanding principal; however, interest may not be.
10	Unacceptable Risk (Write off)	Inevitable default. Loan is no longer adequately supported by security value and repayment capacity. Specific provisioning required.

The Credit Union does not have any commercial loans that originate in a credit risk grade of 7 or lower. Commercial loans are subject to ongoing monitoring, which may result in the member loan being moved to a different credit risk grade.

The Credit Union monitors residential mortgages and personal loans primarily by delinquency status. The Credit Union also receives annual credit score reports (beacon scores) for purposes of determining whether there was a significant increase in credit risk during the year.

11. MEMBERS' LOANS *(continued)*

The following tables set out information about the credit quality of member loans based on the Credit Union's credit risk rating grade. Residential mortgages and personal loans are not rated, therefore, information has been presented based on their credit score grouping. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

Residential mortgage and personal loans

Beacon Score grouping	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
800-900	$ 23,229,253	$ -	$ -	$ 23,229,253
710-799	148,390,907	2,278,885	117,821	150,787,613
650-709	41,963,983	451,967	-	42,415,950
600-649	12,252,134	1,838,356	-	14,090,490
550-599	1,849,496	1,733,957	7,555	3,591,008
Less than 500	815,081	2,762,351	-	3,577,432
	228,500,854	9,065,516	125,376	237,691,746
Accrued interest	364,114	14,473	200	378,787
ECL allowance	(243,862)	(199,666)	(60,914)	(504,442)
	$ 228,621,106	$ 8,880,323	$ 64,662	$ 237,566,091

Commercial loans

		12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
1	Substantially risk-free	$ 682,331	$ -	$ -	$ 682,331
2	Minimal risk	-	910,302	-	910,302
3	Moderate risk	431,719	1,574,880	-	2,006,599
4	Better than average risk	3,025,317	111,518	-	3,136,835
5	Average risk	26,056,968	1,795,805	-	27,852,773
6	Acceptable risk	41,045,747	9,541,493	-	50,587,240
7	Cautionary (Watch list) risk	949,863	-	-	949,863
8	Substandard risk	-	-	-	-
9	Unsatisfactory risk	-	-	-	-
10	Unacceptable risk (write-off)	-	-	-	-
		72,191,945	13,933,998	-	86,125,943
	Accrued interest	325,991	62,921	-	388,912
	Allowance for loan losses	(330,059)	(63,674)	-	(393,733)
	Net carrying amount	$ 72,187,877	$ 13,933,245	$ -	$ 86,121,122

Fair value

The fair value of member loans at December 31, 2020 was $328,325,000 (December 31, 2019 - $313,449,000).

The estimated fair value of the variable rate loans is assumed to be equal to the book value as the interest rates on these loans re-priced 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.

11. MEMBERS' LOANS *(continued)*

Concentration of risk

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

The majority of member loans are with members located in and around the East Kootenay region of British Columbia.

12. ALLOWANCE FOR LOAN LOSSES

The Credit Union recognized allowance for loan losses for ECL on member loans, and measures allowance for loan losses at each reporting period according to a three-stage ECL model, as follows:

Stage	1- No Significant Increase in Credit Risk Since Initial Recognition	2 - Significant Increase in Credit Risk Since Initial Recognition	3 - Credit-Impaired
Definition	From initial recognition of a financial asset to the date at which the asset has experienced a significant increase in credit risk relative to its initial recognition.	Following a significant increase in credit risk relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into Stage 1. A commercial loan that has experienced a significant increase in credit risk or default may migrate back to Stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers. For personal loans and residential mortgages, migration back to Stage 1 may occur if all signs of previous credit deterioration are remedied.	The Credit Union determines a significant increase in risk has occurred when: • The loan moves to the Credit Union's watch list; • A contractual payment is more than 30 days past due; • For personal loans and residential mortgages, the current credit score of the borrower(s) has decreased from the credit score at the time of origination so that certain thresholds established by the Credit Union have been breached; • For commercial loans, the current internal risk rating has decreased from the internal risk rating at the time of origination so that certain thresholds established by the Credit Union have been breached. Additionally, the Credit Union incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: • A breach of contract such as a default or delinquency in interest or principal payments; • A significant financial difficulty of the borrower; • The restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise; • Payment of a loan is overdue 90 days or more; 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.

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Stage	**1- No Significant Increase in Credit Risk Since Initial Recognition**	**2 - Significant Increase in Credit Risk Since Initial Recognition**	**3 - Credit-Impaired**
ECL methodology	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss).	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).	
Collective or individual assessment	Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, industry, geographical location, type of loan security, the		Each credit-impaired member loan is individually assessed.
Application of ECL methodology	Expected credit loss of a group of member loans is measured on the basis of a loss rate approach. The Credit Union develops loss rates for member loans in Stage 1 and Stage 2 based on historical default and loss experiences for those types of member loans. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvances loans, unused lines of credit, letters of credit). For undrawn loan commitments, the Credit Union uses a factor of 70.25% to estimate the exposure at default for these commitments.		The probability of default on credit-impaired member loans is 100%. Therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward-looking information	Local unemployment rates, interest rate forecasts, credit environment, housing price indices and other relevant economic variables impacting subsets of the Credit Union's members.		

Significant Increase to Risk Thresholds - Residential Mortgages and Personal Loans

In determining whether or not a significant increase to risk has occurred on a residential mortgages and personal loans, the Credit Union reviews on an annual basis the credit scores (Beacon Scores) of the borrowers associated with the loans. If the Beacon Scores associated with a specific credit facility breach a certain threshold relative to its original grouping at origination, the Credit Union has deemed there to be a significant increase in risk for that specific facility. The below tables identify the thresholds for each of the Beacon Score groupings that the Credit Union uses in determining whether a significant increase in credit risk exists.

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Residential Mortgages, HELOC, and Revolving Retail	
Initial Beacon Range	**Threshold**
800-900	680
710-799	640
650-709	620
600-649	580
550-599	549

Retail Instalment Loans	
Initial Beacon Range	**Threshold**
800-900	700
710-799	660
650-709	640
600-649	590
550-599	549

Significant Increase to Risk Thresholds - Commercial Loans

In determining whether or not a significant increase to risk has occurred on commercial loans, the Credit Union reviews on an annual basis the internal risk ratings associated with the loans. If the internal risk rating associated with a specific credit facility breaches a certain threshold relative to its rating at origination, the Credit Union has deemed there to be a significant increase in risk for that specific facility. The below table identifies the thresholds for each of the internal risk ratings that the Credit Union uses in determining whether a significant increase in credit risk exists.

	Commercial Loan Risk Rating at Reporting Date										
	From/To	1	2	3	4	5	6	7	8	9	10
Commercial Loan Risk Rating at Initial Recognition	1				Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 3	Stage 3
	2					Stage 2	Stage 2	Stage 2	Stage 2	Stage 3	Stage 3
	3						Stage 2	Stage 2	Stage 2	Stage 3	Stage 3
	4							Stage 2	Stage 2	Stage 3	Stage 3
	5							Stage 2	Stage 2	Stage 3	Stage 3
	6							Stage 2	Stage 2	Stage 3	Stage 3
	7								Stage 2	Stage 3	Stage 3
	8									Stage 3	Stage 3

Reconciliation of Allowance for Loan Losses

The following tables show reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan.

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Movements of Expected Credit Loss Amounts in Residential Mortgage Portfolio:

	Stage 1 ECL Allowance	Stage 2 ECL Allowance	Stage 3 ECL Allowance	Total ECL Allowance	2019
Beginning balance	$ 32,894	$ 21,494	$ 2,108	$ 56,496	$ 67,364
Stage 1 loans					
New Stage 1 loans	24,542	-	-	24,542	5,732
Transfer to Stage 1	6,978	(6,978)	-	-	-
Change in Stage 1 ECL estimates	17,339	-	-	17,339	(15,210)
Transfer to Stage 1 (substantially modified)	-	-	-	-	-
Subtotal of Stage 1 loans	48,859	(6,978)	-	41,881	(9,478)
Stage 2 loans					
New Stage 2 loans	-	25,953	-	25,953	4,207
Transfer to Stage 2	(767)	2,875	(2,108)	-	-
Change in Stage 2 ECL estimates	-	-	-	-	9,905
Transfer to Stage 2 (substantially modified)	-	-	-	-	-
Subtotal of Stage 2 loans	(767)	28,828	(2,108)	25,953	14,112
Stage 3 loans					
New Stage 3 loans	-	-	18,403	18,403	-
Transfer to Stage 3	-	-	-	-	-
Change in Stage 3 ECL estimates	-	-	-	-	-
Transfer to Stage 3 (substantially modified)	-	-	-	-	-
Subtotal of Stage 3 loans	-	-	18,403	18,403	-
Net remeasurement of loss allowance resulting from transfer between 12 month (Stage 1) and lifetime (Stage 2 or Stage 3)	48,092	21,850	16,295	86,237	4,634
Net remeasurement of allowance for loan losses	-	-	-	-	-
Bad debt write-offs	-	-	(18,403)	(18,403)	(5,231)
Recoveries of bad debt previously written off	-	-	-	-	-
Financial assets that have been derecognized (including scheduled and unscheduled	-	-	-	-	(10,271)
Changes due to modifications that did not result in derecognition	-	-	-	-	-
Balance at December 31	**$ 80,986**	**$ 43,344**	**$ -**	**$ 124,330**	**$ 56,496**

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Movements of Expected Credit Loss Amounts in Retail Loan Portfolio and Lines of Credit:

	Stage 1 ECL Allowance	Stage 2 ECL Allowance	Stage 3 ECL Allowance	Total ECL Allowance	2019
Beginning balance	$ 95,568	$ 101,424	$ 58,150	$ 255,142	$ 241,937
Stage 1 loans					
New Stage 1 loans	14,538	-	-	14,538	18,234
Transfer to Stage 1	59,526	(59,526)	-	-	-
Change in Stage 1 ECL estimates	-	-	-	-	(27,957)
Transfer to Stage 1 (substantially modified)	-	-	-	-	-
Subtotal of Stage 1 loans	74,064	(59,526)	-	14,538	(9,723)
Stage 2 loans					
New Stage 2 loans	-	87,030	-	87,030	11,921
Transfer to Stage 2	(6,544)	27,656	(21,112)	-	-
Change in Stage 2 ECL estimates	-	-	-	-	62,309
Transfer to Stage 2 (substantially modified)	-	-	-	-	-
Subtotal of Stage 2 loans	(6,544)	114,686	(21,112)	87,030	74,230
Stage 3 loans					
New Stage 3 loans	-	-	36,009	36,009	-
Transfer to Stage 3	(212)	(262)	474	-	-
Change in Stage 3 ECL estimates	-	-	-	-	46,521
Transfer to Stage 3 (substantially modified)	-	-	-	-	-
Subtotal of Stage 3 loans	(212)	(262)	36,483	36,009	46,521
Net remeasurement of loss allowance resulting from transfer between 12 month (Stage 1) and lifetime (Stage 2 or Stage 3)	67,308	54,898	15,371	137,577	111,028
Net remeasurement of allowance for loan losses	-	-	-	-	-
Bad debt write-offs	-	-	(12,607)	(12,607)	(27,440)
off	-	-	-	-	-
Financial assets that have been derecognized (including scheduled and	-	-	-	-	(70,383)
Changes due to modifications that did not result in derecognition	-	-	-	-	-
Balance at December 31	**$ 162,876**	**$ 156,322**	**$ 60,914**	**$ 380,112**	**$ 255,142**

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Movements of Expected Credit Loss Amounts in Commercial Loan Portfolio:

	Stage 1 ECL Allowance	Stage 2 ECL Allowance	Stage 3 ECL Allowance	Total ECL Allowance	2019
Beginning balance	$ 133,047	$ 2,616	$ 885,547	$ 1,021,210	$ 1,021,210
Stage 1 loans					
New Stage 1 loans	59,833	-	-	59,833	59,833
Transfer to Stage 1	2,313	(2,313)	-	-	-
Change in Stage 1 ECL estimates	96,443	-	-	96,443	96,443
Trsf to Stage 1 (substantially modified)	-	-	-	-	-
Subtotal of Stage 1 loans	158,589	(2,313)	-	156,276	156,276
Stage 2 loans					
New Stage 2 loans	-	236	-	236	236
Transfer to Stage 2	(1,308)	1,308	-	-	-
Change in Stage 2 ECL estimates	-	25,015	-	25,015	25,015
Trsf to Stage 2 (substantially modified)	-	-	-	-	-
Subtotal of Stage 2 loans	(1,308)	26,559	-	25,251	25,251
Stage 3 loans					
New Stage 3 loans	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Change in Stage 3 ECL estimates	-	-	63,962	63,962	63,962
Trsf to Stage 3 (substantially modified)	-	-	-	-	-
Subtotal of Stage 3 loans	-	-	63,962	63,962	63,962
Net remeasurement of loss allowance resulting from transfer between 12 month (Stage 1) and lifetime (Stage 2 or Stage 3)	157,281	24,246	63,962	245,489	245,489
Net remeasurement of allowance for loan losses	-	-	-	-	-
Bad debt write-offs	-	-	(2,432)	(2,432)	(2,432)
Recoveries of bad debt previously written off	-	-	127,698	127,698	127,698
Financial assets that have been derecognized (including scheduled and unscheduled payments)	(77,185)	(540)	(214,168)	(291,893)	(291,893)
Changes due to modifications that did not result in derecognition	-	-	-	-	-
Balance at December 31	**$ 213,143**	**$ 26,322**	**$ 860,607**	**$ 1,100,072**	**$ 1,100,072**
Total allowance for loan losses, December 31	**$ 573,920**	**$ 263,340**	**$ 60,914**	**$ 898,174**	**$ 1,411,711**

12. ALLOWANCE FOR LOAN LOSSES *(continued)*

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding at December 31:

	2020	2019
Period of delinquency		
30 to 90 days	**$ 811,646**	$ 439,290
Over 90 days	**110,330**	1,270,226
Total loans in arrears	**921,976**	1,709,516
Total loans not in arrears	**322,765,239**	312,060,354
Total loans	**$ 323,687,215**	$ 313,769,870

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

The Credit Union has a lease for a building located in Elkford, BC. With the exception of short-term leases and leases of low-value underlying assets, the total lease asset is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Credit Union revenue) are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property and equipment (see *Note 14*). The Credit Union has applied IFRS 16 using the modified retrospective approach, but does not require restatement of prior periods.

The table below describes the nature of the Credit Union's leasing activities by type of right-of-use asset recognised on balance sheet:

				Number of leases with			
Right-of-use asset	Number of right-of-use assets leased	Range of remaining term (months)	Average remaining lease term (months)	Extension options	Options to purchase	Variable payments linked to an index	Termination options
Building	1	39	39	5 years	No	No	No

Right-of-use assets

Additional information on the right-of-use assets by class of assets is as follows:

	Asset	Carrying amount	Additions	Amortization	Impairment
Building	$ 350,837	$ 282,381	$ -	$ 68,456	$ -

The right-of-use assets are included in a separate line on the statement of financial position.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	December 31, 2020	December 31, 2019
Current	$ 31,535	$ 30,603
Non-current	256,878	290,744
	$ 288,413	$ 321,347

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities is as follows:

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITY *(continued)*

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
December 31, 2019						
Lease payments	$ 39,690	$ 39,690	$ 39,690	$ 39,690	$ 39,690	$ 198,450
Finance charges	(9,072)	(8,155)	(7,210)	(6,237)	(5,235)	(35,909)
Net present values	$ 30,618	$ 31,535	$ 32,480	$ 33,453	$ 34,455	$ 162,541
December 31, 2018						
Lease payments	$ 39,690	$ 39,690	$ 39,690	$ 39,690	$ 39,690	$ 198,450
Finance charges	(9,087)	(8,170)	(7,225)	(6,253)	(5,251)	(35,986)
Net present values	$ 30,603	$ 31,520	$ 32,465	$ 33,437	$ 34,439	$ 162,464

Lease payments not recognised as a liability

The Credit Union has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

Sale and leaseback transactions

There have been no sale and leaseback transactions in the current year.

14. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2020 Net book value**	2019 Net book value
Land	$ 1,258,918	$ -	**$ 1,258,918**	$ 1,258,918
Buildings	5,896,354	2,542,484	**3,353,870**	3,476,169
Motor Vehicles	70,022	70,022	**-**	1,735
Furniture and Equipment	4,539,185	4,013,013	**526,172**	465,882
Leasehold Improvements	136,883	130,924	**5,959**	7,976
Parking Lot	99,851	34,962	**64,889**	66,391
Buildings - Right-of-Use Asset	350,837	68,456	**282,381**	316,609
	$ 12,352,050	$ 6,859,861	**$ 5,492,189**	$ 5,593,680

As a result of appraisals prepared by Rocky Mountain Appraisal on January 19, 20 and 25, 2010 the carrying value of the lands owned by the Credit Union was increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 16. The Credit Union owns three parcels of land located in Cranbrook and Fernie BC, with a combined historical cost of $363,376. The fair value of these lands, as determined from the appraisal prepared by Rocky Mountain Appraisal is $845,000. No impairment in the fair value has accrued in 2020.

The following assets included above are held under lease :

	Cost	Accumulated amortization	**2020 Net book value**	2019 Net book value
Buildings - Right-of-Use Asset	$ 350,837	$ 68,456	**$ 282,381**	$ 316,609

15. INTANGIBLE ASSETS

	2020	2019
Computer Software		
Costs	**$ 1,383,643**	$ 1,380,843
Accumulated amortization	**(1,376,531)**	(1,327,643)
	$ 7,112	$ 53,200

16. OTHER ASSETS

	2020	2019
Prepaid expenses and accounts receivable	**$ 655,516**	$ 1,186,305
Due from related parties	**28,172**	25,696
	$ 683,688	$ 1,212,001

17. MEMBERS' DEPOSITS

	2020	2019
Demand deposits	**$ 199,754,613**	$ 157,202,415
Term deposits	**126,496,549**	113,526,717
Registered savings plans	**23,957,410**	26,036,612
Registered Retirement Income Funds	**15,921,935**	15,397,766
Registered Education Savings Plans	**2,343,616**	2,186,027
Tax-Free Savings Accounts	**35,879,143**	33,204,196
	404,353,266	347,553,733
Accrued Interest Payable	**1,842,700**	2,102,944
	$ 406,195,966	$ 349,656,677

Terms and conditions

Demand deposits are due on demand and bear interest at 0% to 0.75% at December 31, 2020. The interest rates on Member Advantage accounts range from 0.05% to 0.65%. Interest is paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits issued on December 31, 2020 range from 0.00% to 0.90%.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above and may also pay interest semi-annually. The variable rate RRSPs bear interest at rates up to 0.15% at December 31, 2020.

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, semiannual, or annual basis. The regular withdrawal amount vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the term deposits described above. The interest rates on tax-free savings accounts issued on December 31, 2020 range from 0.00% to 0.90%.

Included in deposits is an amount of $1,609,250 denominated in US dollars (2019 - $1,555,712).

Fair value

The fair value of members deposits and shares at December 31, 2020 was $408,857,000 (2019 - $348,591,000)

17. MEMBERS' DEPOSITS *(continued)*

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.

Average yield to maturity

Members' deposits bear interest at both variable and fixed rates with an average yield of 0.90% at December 31, 2020.

Concentration of risk

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

A substantial amount of member deposits are with members located in and around the East Kootenay region of British Columbia.

18. MEMBERS' SHARES

At the Annual General Meeting held on April 13, 1991 the membership of the East Kootenay Community Credit Union authorized the establishment of four classes of shares:

"A" Equity Membership

"B" Non-Voting Equity Shares

"C" Voluntary Equity Shares

"D" Non Equity Shares

Rights and privileges attached to the various classes are set out in Credit Union Rules 2.1 to 2.16.

As at December 31, the three classes of shares consisted of the following issued and fully paid shares:

	2020	2019
"A" Equity Membership Shares	**$ 1,680,857**	$ 1,593,244
"C" Voluntary Equity Shares	**991,586**	1,075,010
	$ 2,672,443	$ 2,668,254
"D" Non Equity Shares	**$ 1,190,234**	$ 1,122,213

Investment 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 Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transactions costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

18. MEMBERS' SHARES *(continued)*

Membership shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $5 in membership shares. 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 "A", "B" and "C" shares are not insured by Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital *(See Note 27)*, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as equity.

Distributions to members

	2020	2019
Patronage distributions	**$ 140,648**	$ 142,839
Dividends	**66,422**	80,145
Subtotal	**207,070**	222,984
Dividends on Non Equity Shares (included in Finance Expense)	**5,431**	5,075
	$ 212,501	$ 228,059

19. DEFERRED INCOME TAXES

Deferred income taxes are calculated on timing differences between amounts claimed as expenses or revenues on the financial statements and the corporation income tax return. Such differences may include claims for amortization of property, plant and equipment being different from rates of capital cost allowance allowed under the Income Tax Act and amounts that have been amortized over an expected useful life that are allowable for full write off in the year of acquisition under the Income Tax Act.

The adoption of IFRS allowed the Credit Union to increase the carrying value of its land and investment in East Kootenay Community Financial Services Ltd. to fair value. Those increases also gave rise to deferred income tax that was calculated on the income that would otherwise be taxable if those assets were sold at the fair value.

The deferred income taxes reflected on the Statement of Financial Position include both of the above components as follows:

	2020	2019
Arising from timing differences, accounted for in operations	**$ 134,850**	$ 112,485
Arising from fair values, accounted for in retained earnings and other comprehensive income	**781,233**	506,394
	$ 916,083	$ 618,879

20. DEFERRED INCOME

Deferred income consists of unearned premiums on securitized mortgages that arose as a result of differences between the fair value and book value of the mortgages at the time of securitization. The premiums on the securitized mortgages are recognized in revenue over the remaining period to maturity of the individual mortgages in the securitized packages.

21. LOANS PAYABLE

	2020	2019
National Housing Act mortgage-backed securities *(Note 24)*	$ **17,144,812**	$ 24,771,652
Salmon Arm Savings and Credit Union guarantee for securitized residential mortgages *(Note 24)*	**3,006,606**	3,372,203
	$ **20,151,418**	$ 28,143,855

22. ACCUMULATED OTHER COMPREHENSIVE INCOME

As described in Note 5 the Credit Union invests in both Equity Instruments and Hedges (in the form of Interest Rate Swaps). IFRS requires the values of these investments to be reported at Fair Value, less the applicable amount of income tax that would be payable if the Fair Value was realized, which is recorded as Deferred Income Taxes. By their nature, the Fair Value of these investments fluctuates with market conditions. In addition, the method of reporting the Fair Value of the Hedges depends on whether the Hedge is considered to be effective or ineffective.

Adjustments to Comprehensive Income and Deferred Income Taxes arising from the treatment of both Equity Instruments and Hedges are set out below:

	2020	2019
Unrealized gain on available for sale liquidity assets	$ **883,534**	$ -
Deferred tax on available for sale liquidity assets	**(238,554)**	-
Revaluation of swaps to fair value	**-**	(10,535)
Deferred tax on swaps	**-**	2,844
	644,980	(7,691)
Prior year accumulated revaluation of intangible assets of Kootenay Insurance Services Ltd.	**131,119**	389,010
Revaluation surplus allocated to decrease in ICBC licences in Kootenay Insurance Services Ltd. (net of deferred taxes)	**-**	(257,891)
Adjustment to value of equity investment	**(5,814)**	-
Deferred income tax rate adjustment related to other comprehensive income	**(2,700)**	-
	122,605	131,119
Ending balance, accumulated other comprehensive income	$ **767,585**	$ 123,428

These changes are recorded in the Statement of Comprehensive Income and in the Deferred Income Tax account as at December 31, 2020 and the comparative figures for 2019.

23. INCOME TAXES

The Credit Union incurs tax at the general corporate rate of 27.0% for taxable income that exceeds the $500,000 Business Limit. The Business Limit is reduced by a formula when the Taxable Capital of the associated companies exceeds $10,000,000 in the previous year, and is completely eliminated when the Taxable Capital of the associated companies exceeds $15,000,000.

The Taxable Capital of the associated companies at December 31, 2020 was in excess of $15,000,000.

British Columbia has a preferred tax rate available for credit unions that meet certain criteria, which can reduce the British Columbia portion of the tax by up to 10%.

	2020	2019
Income before income taxes	**$ 1,766,183**	$ 1,826,656
Increase (decrease) resulting from:		
Non-deductible expenses	**26,382**	31,450
Adjustment to reserve for allowance for losses on loans	**(51,354)**	8,119
Equity income from subsidiaries	**4,529**	(15,643)
Capital cost allowance in excess of amortization of property, plant and equipment	**3,359**	(24,287)
Right-of-use asset deductible amortization	**(34,228)**	(34,228)
Community donations	**(85,852)**	(46,551)
Member rewards	**(207,070)**	(222,984)
Non-taxable income from equity investment	**(271,377)**	(231,285)
Taxable income	**$ 1,150,572**	$ 1,291,247
Income taxes	**$ 195,836**	$ 219,697
Income tax rate	**17.02 %**	17.01 %

24. SECURITIZATIONS

The Credit Union periodically enters into agreements with third parties for securitization of residential mortgages. The Credit Union determines whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its Statement of Financial Position in accordance with IFRS 9. Requirements for derecognition include an assessment of whether the Credit Union's rights to contractual cash flows have expired or transferred, or whether an obligation exists to pay the cash flows collected on the underlying asset. The derecognition standards also include an assessment of whether substantially all of the risks and rewards of ownership have transferred.

NHA MBS Securitizations

In September 2014, the Credit Union became an approved issuer of mortgage-backed securities as defined under the National Housing Act ("NHA"), whereby the Credit Union sells mortgages through the NHA mortgage-backed security program ("NHA MBS program"). The Credit Union has determined that transfers of mortgages through the NHA MBS program do not meet the derecognition requirements outlined under IFRS 9 and therefore the mortgages are retained on the Statement of Financial Position and a corresponding liability is also reported on the Statement of Financial Position. The Credit Union has elected, as its accounting policy, to determine the business model based on the accounting result of the securitizations through the NHA MBS program. As such, the held-to-collect business model is considered to be met for NHA MBS securitizations and the Credit Union accounts for the securitized mortgages at amortized cost. The balance outstanding of mortgages transferred through the NHA MBS program as at December 31, 2020 was $17,222,076 (2019 - $24,801,199), with a corresponding liability of $17,144,812 (2019 - $24,771,652), as identified in Note *21*.

During the year the Credit Union did not securitize any additional mortgages through the NHA MBS program. There were no discounts or premiums in 2020. The Credit Union initially recognizes discounts on securitizations as prepaid expenses and amortizes the discounts over the maximum contractual life of the securitized mortgage pool.

Other securitizations with Salmon Arm Savings Credit Union

In November 2013, the Credit Union entered into a transfer arrangement with Salmon Arm Savings Credit Union ("SASCU") that also did not meet the derecognition requirements of IFRS 9. The Credit Union has elected, as its accounting policy, to determine the business model based on the cash flow result of the securitizations through the NHA MBS program. As such, the held-to-collect business model is not considered to be met for this portfolio and the Credit Union accounts for the securitized mortgages at fair value. As the provisions of the transfer arrangement provide that under certain circumstances the Credit Union will be required to repurchase the mortgages utilizing the same pricing model under the original transfer agreement, the corresponding liability is also adjusted to fair market value. As at December 31, 2020, the balance of mortgages transferred to SASCU totaled $3,006,606 (2019 - $3,372,203) (fair market value) with a corresponding liability of $3,006,606 (2019 - $3,372,203) (fair market value).

24. SECURITIZATIONS *(continued)*

	2020	2019
Residential mortgages transferred but not derecognized		
Carrying value of securitized residential mortgages	**$ 20,114,343**	$ 28,145,938
Securitized mortgages liquidated prior to year end for which liability exists	**-**	-
Unamortized discount on transfer of securitized mortgages	**199,269**	305,956
Increase to reflect fair value of securitized residential mortgages	**114,339**	27,465
	20,427,951	28,479,359
Liability for guarantee on securitized residential mortgages		
Liability for guarantee on securitized residential mortgages *(Note 21)*	**20,151,418**	28,143,854
	20,151,418	28,143,854
Net asset (liability) of securitized residential mortgages	**$ 276,533**	$ 335,505

The securitized mortgages mature as follows:

Securitized Mortgage Pool	**Maturity Dates**
NHA MBS #1	Between May 2020 and September 2020
NHA MBS #2	Between April 2022 and August 2022
NHA MBS #3	Between December 2023 and May 2023
NHA MBS #4	Between August 2022 and November 2022
NHA MBS #5	Between June 2023 and September 2023
Salmon Arm Savings Credit Union	Between March 2021 and December 2025

The Credit Union also enters into agreements to sell mortgage pools. Unlike the mortgage securitizations, the Credit Union does not retain any financial interest in these sold mortgages and substantially all of the risks and rewards are transferred. As part of the agreements, the Credit Union continues to act as administrative agent on these mortgages.

During the year the Credit Union did not sell any mortgages (2019 - NIL).

25. RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and any entities controlled or jointly controlled by directors and management.

	2020	2019
Compensation		
Salaries and other short-term benefits	**$ 1,015,292**	$ 1,002,916
Total pension and other post-employment benefits	**146,795**	149,031
	$ 1,162,087	$ 1,151,947
Loans to key management personnel		
Aggregate value of loans advanced	**$ 1,757,649**	$ 1,610,127
Total value of lines of credit advanced	**68,754**	139,693
Unused value of lines of credit	**345,000**	290,307
	$ 2,171,403	$ 2,040,127
Interest received on loans advanced	**$ 29,983**	$ 32,982
Deposits from key management personnel	**$ 1,051,357**	$ 536,692

Loans to key management personnel

The Credit Union's policy for lending to key management personnel 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; however, as part of its remuneration and benefit package the Credit Union offers all staff members a reduction from current interest rates subject to specific maximum amounts as approved by the Board of Directors.

Deposits from key management personnel

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

25. RELATED PARTY TRANSACTIONS *(continued)*

	2020	2019
Associates		
0948859 BC Ltd. (o/a) MoneyWorks		
Administration income	$ **14,400**	$ 14,400
Rental income	**13,988**	17,275
CU CUMIS Wealth Distributions	**(11,089)**	(4,977)
	$ **17,299**	$ **26,698**
Kootenay Insurance Services Ltd.		
Management fee income	$ **80,000**	$ 80,000
Rental income	**40,533**	40,533
	$ **120,533**	$ **120,533**
Kootenay Risk Services Ltd.		
Administration fee income	$ **4,320**	$ 4,200
Professional fees expense	**(158,305)**	(113,321)
	$ **(153,985)**	$ **(109,121)**

These transactions are in the normal course of business and have been recorded at the exchange amount, which is the amount of consideration.

26. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

December 31, 2020	**Mandatorily at FVTPL**	**Designated as at FVTPL**	**FVOCI - debt instruments**	**FVOCI - equity instruments**	**Amortized cost**	**Total carrying amount**
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 22,764,444	$ 22,764,444
Liquidity deposits	-	-	883,554	-	57,645,554	58,529,108
Bid deposits	-	-	-	-	41,000,000	41,000,000
Derivative financial					-	
instruments	241,743	-	-	-	-	241,743
Investments	135,554	-	-	1,570,206	-	1,705,760
Loans to members						
Measured at fair value	-	2,892,267	-	-	-	2,892,267
Measured at amortized cost	-	-	-	-	320,925,423	320,925,423
	$ 377,297	$ 2,892,267	$ 883,554	$ 1,570,206	$ 442,335,421	$ 448,058,745
Financial liabilities						
Accounts payable	$ -	$ -	$ -	$ -	$ 3,629,339	$ 3,629,339
Member deposits					-	
Measured at fair value	-	2,113,965	-	-	-	2,113,965
Measured at amortized cost	-	-	-	-	402,297,631	402,297,631
Members' shares	-	-	-	-	1,190,234	1,190,234
Mortgage securitization liab.		-				
Measured at fair value	-	2,892,267	-	-	-	2,892,267
Measured at amortized cost	-	-	-	-	17,259,151	17,259,151
	$ -	$ 5,006,232	$ -	$ -	$ 424,376,355	$ 429,382,587

26. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE *(continued)*

December 31, 2019	**Mandatorily at FVTPL**	**Designated as at FVTPL**	**FVOCI - debt instruments**	**FVOCI - equity instruments**	**Amortized cost**	**Total carrying amount**
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 15,464,320	$ 15,464,320
Liquidity deposits	-	-	-	-	48,465,000	48,465,000
Bid deposits	-	-	-	-	15,000,000	15,000,000
Derivative financial instruments	217,767	-	-	-	-	217,767
Investments	190,451	-	-	1,588,324	-	1,778,775
Loans to members						
Measured at fair value	-	3,046,881	-	-	-	3,046,881
Measured at amortized cost	-	-	-	-	310,722,989	310,722,989
	$ 408,218	$ 3,046,881	$ -	$ 1,588,324	$ 389,652,309	$ 394,695,732
Financial liabilities						
Accounts payable	$ -	$ -	$ -	$ -	$ 1,459,810	$ 1,459,810
Member deposits						
Measured at fair value	-	2,162,945	-	-	-	2,162,945
Measured at amortized cost	-	-	-	-	347,702,537	347,702,537
Members' shares	-	-	-	-	1,122,213	1,122,213
Mortgage securitization liab.						
Measured at fair value	-	3,046,881	-	-	-	3,046,881
Measured at amortized cost	-	-	-	-	25,096,974	25,096,974
	$ -	$ 5,209,826	$ -	$ -	$ 375,381,534	$ 380,591,360

An analysis of instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

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

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

All of the investments are classified under level 2. See *Note 8* for investments.

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

27. FINANCIAL INSTRUMENT RISK MANAGEMENT

General objectives, policies and processes

The Board of Directors has overall responsibility for determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing the 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 Financial 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 or credit obligations.

Risk measurement

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

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

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

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits include Board of Directors 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, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property in and around Cranbrook, British Columbia. 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.

27. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

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.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific 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 Union 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:

Total liquidity	11%
Pooled liquidity	10%
Core liquidity	6%

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 weekly (daily while COVID-19 is affecting the economy).

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

The Credit Union is required to measure its capital adequacy based on the BC Financial Services Authority ("BCFSA") regulations. Based on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weighting factor. The regulatory ratio is computed and must meet a minimum capital to risk-weighted ratio of 8%. The Credit Union manages its capital based on the statutory requirements applied to its assets on a monthly basis and reported to the Board. There have been no significant changes from the previous year in the exposure to risk, or policies, procedures and the methods used to measure the risk and/or capital adequacy.

27. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

As at the year end date, the position of the Credit Union is as follows:

	2020	2019
• Risk weighted assets	$159,877,927	$158,153,488
• Capital adequacy ratio	17.76%	16.68%
• Risk weighted asset ratio	34.96	39.01

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

Market risk

Market risk is the risk that the fair value of 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 price rates.

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the regulatory bodies in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of British Columbia as required by Credit Union regulations. For the year-ended 2020, the Credit Union was in compliance with this policy.

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

27. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	$ 139,622,026	1.79	$ 263,254,542	0.92	$ (123,632,516)
4 - 12 months	68,150,209	2.94	78,637,384	1.42	$ (10,487,175)
1 - 2 years	71,358,708	3.66	27,601,791	2.20	$ 43,756,917
2 - 7 years	163,428,214	3.24	31,845,452	2.34	$ 131,582,762
	$ 442,559,157		$ 401,339,169		$ 41,219,988

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of the 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 rate of 1% could result in an increase to net interest income of $702,000 (2019 - decrease of $308,000) while a decrease in interest rates of 1% could result in a decrease to net interest income of $446,000 (2019 - increase of $170,000).

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 United States dollar deposits and loans denominated in United States dollars. Foreign currency changes are monitored by the Credit Union for effectiveness of its foreign exchange mitigation activities and holdings are adjusted from time to time.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

28. COMMITMENTS

Credit Facilities

The Credit Union has available to it, through Central 1 Credit Union, a clearing facility of $2,318,500 ($CDN 2,000,000 and $USD 250,000) and a demand facility of $7,000,000 bearing interest at 20 basis points over the Overnight Index Swap Rate for 7 day loans or 50 basis points over the CDOR for loans between one months and three months per annum secured by a commercial security agreement. At year-end, the balance outstanding on the demand facility was NIL (2019 - 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:

	2020	2019
Consumer		
Unadvanced loans	**$ 2,431,319**	$ 2,851,690
Unused lines of credit	**25,867,497**	24,880,482
	$ 28,298,816	$ 27,732,172
Commercial		
Unadvanced loans	**$ 1,784,662**	$ 3,656,964
Unused lines of credit	**8,940,741**	7,522,885
Letters of credit	**2,024,943**	2,303,825
Weighted letters of credit	**630,932**	775,053
	$ 13,381,278	$ 14,258,727

Contractual obligations

The Credit Union has an agreement with Fiserv Canada which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. The agreement automatically renews on an annual basis.

Capital expenditures

The Credit Union has a material commitment for a capital expenditure of approximately $600,000 for a payment system, which was disbursed subsequent to the year-end.

Off balance sheet mortgages and loans under administration

Off balance sheet mortgages and loans under administration by the Credit Union are comprised of loans that have either been syndicated or sold in its capacity as an agent. Off balance sheet mortgages and loans are not included in the statement of financial position and have a value at year end as follows:

	2020	2019
Sold mortgage (retail)	**$ 15,061,114**	$ 33,760,584
Syndicated mortgages and loans (commercial)	**2,349,710**	4,124,270
	$ 17,410,824	$ 37,884,854

29. PENSION PLAN

The BC Credit Union Employees' Pension Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. East Kootenay Community Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. As of September 30, 2020, this Division covered about 3,620 active employees and approximately 1,185 retired plan members, with reported assets of approximately $923.6M.

At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan as at December 31, 2018 indicated a going concern surplus of $31.6M and a solvency deficiency of $99.5M, based on market value assets of approximately $735M. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is for the reporting date of December 31, 2021 although the Trustees have the discretion of conducting a valuation for an earlier reporting date.

East Kootenay Community Credit Union paid $411,384 (2019 - $407,777) in employer contributions to the plan in fiscal year 2020.