Consolidated Financial Statements of

BLUESHORE FINANCIAL CREDIT UNION

And Independent Auditors' Report thereon

Year ended December 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the Financial Institutions Act of British Columbia and International Financial Reporting Standards and include amounts based on informed judgments and estimates of the expected effects of events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel, the application of accounting and administrative policies and procedures necessary to ensure adequate internal control transactions, assets and records, as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and those assets are safeguarded against unauthorized use or disposition.

The Board of Directors has appointed an Audit Committee, comprised of at least three Directors of the Credit Union. The committee meets regularly with management, the internal auditors and the external auditors to review accounting, reporting, auditing, internal control and financial risk matters. The external and internal auditors may access this committee, without management present, to discuss the results of their work if required.

KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements and their report follows. They have had full and free access to the records of the Credit Union, the internal auditors and the Audit Committee of the Board.

Chris Catliff
President and Chief Executive Officer

Richard Butterworth
Chief Financial Officer

February 18, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of BlueShore Financial Credit Union

Opinion

We have audited the consolidated financial statements of BlueShore Financial Credit Union ("BlueShore"), which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing BlueShore'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 BlueShore or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BlueShore'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 BlueShore's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause BlueShore to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 18, 2021

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2020, with comparative information for 2019

	Notes	2020	2019
Assets			
Cash and cash equivalents	24	$ 163,434	$ 177,605
Interest-bearing deposits with financial institutions		372,791	370,589
Other financial assets	7	35,739	40,475
Derivative financial instruments	8	15,917	8,624
Loans and advances to members	9	4,173,527	4,098,648
Premises and equipment	11, 12	65,054	68,769
Intangible assets	11	6,499	7,306
Other assets	13	6,363	8,177
Income taxes receivable		-	1,118
Deferred income tax	23	1,760	2,029
		$ 4,841,084	$ 4,783,340
Liabilities			
Members' deposits	14	$ 4,286,784	$ 4,222,050
Derivative financial instruments	8	4,053	9,081
Borrowings	15	25,086	25,081
Securitized borrowings	16	203,532	253,491
Accounts payable and accrued liabilities		24,685	17,813
Lease liabilities	12	9,016	9,704
Retirement benefit liability	17	4,023	3,697
Income taxes payable		2,211	-
Deferred income tax	23	2,438	331
Membership and preferred equity shares	18	1,360	1,337
		4,563,188	4,542,585
Members' Equity			
Equity shares	18	47,618	46,362
Retained earnings		219,129	195,913
Accumulated other comprehensive income (loss)		11,149	(1,520)
		277,896	240,755
Commitments and contingencies	24		
		$ 4,841,084	$ 4,783,340

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

Approved on behalf of the Board on February 18, 2021:

Allan Achtemichuk Director   ________________ Director

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

	Notes	2020	2019
Interest income	19	$ 169,560	$ 171,590
Interest expense	19	89,035	93,539
Net interest income		80,525	78,051
Provision for credit losses	9	4,995	2,498
Fee and commission income	20	19,592	15,770
Other income	20	10,852	2,359
Net interest and other income		105,974	93,682
Non-interest expenses:			
Salary and employee benefits	21	45,866	42,062
Building and occupancy	22	9,573	8,708
General and administrative	22	18,560	20,851
		73,999	71,621
Net operating income		31,975	22,061
Community investment		320	227
Income before income taxes		31,655	21,834
Provision for income taxes:	23		
Current		4,484	3,807
Deferred		2,376	(733)
		6,860	3,074
Net income		$ 24,795	$ 18,760

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

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Net income	$ 24,795	$ 18,760
Other comprehensive income for the year that was or may be reclassified to the consolidated statement of income, net of tax:		
Net change in unrealized gains on cash flow hedges	11,557	5,104
Net amount transferred to net income on cash flow hedges	3,782	(394)
Income tax relating to these items	(2,608)	(801)
Item that will never be reclassified to the consolidated statement of income:		
Remeasurement of retirement benefit liability	(75)	(227)
Income tax relating to these items	13	39
	12,669	3,721
Comprehensive income	$ 37,464	$ 22,481

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

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Equity shares, beginning of year	$ 46,362	$ 39,812
Shares issued, net of redemptions	1,256	6,550
Equity shares, end of year	47,618	46,362
Retained earnings, beginning of year	195,913	179,164
Reclassification from accumulated other comprehensive loss	-	(388)
Net income	24,795	18,760
Dividends on equity shares, net of tax	(1,579)	(1,623)
Retained earnings, end of year	219,129	195,913
Accumulated other comprehensive loss, beginning of year	(1,520)	(5,629)
Reclassification to retained earnings	-	388
Net change in unrealized gains on cash flow hedges	11,557	5,104
Net amount transferred to net income on cash flow hedges	3,782	(394)
Remeasurement of retirement benefit liability	(75)	(227)
Income tax relating to these items	(2,595)	(762)
Accumulated other comprehensive income (loss), end of year	11,149	(1,520)
Total members' equity	$ 277,896	$ 240,755

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

BLUESHORE FINANCIAL CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Net income for the year	$ 24,795	$ 18,760
Adjustments for non-cash items:		
Amortization	8,300	7,333
Fair value gain on investment	(9,393)	-
Provision for credit losses	4,995	2,498
Deferred income tax	2,376	(733)
Provision for income taxes	4,484	3,807
Interest income	(169,560)	(171,590)
Interest expense	89,035	93,539
Lease expense from right-of-use assets	(1,789)	(1,716)
	(46,757)	(48,102)
Changes in operating assets and liabilities:		
Interest paid	(95,753)	(80,917)
Interest received	170,057	170,480
Interest-bearing deposits with financial institutions	7,191	41,413
Loans and advances to members	(80,371)	(275,459)
Other financial assets	4,138	(21,614)
Derivative financial instruments	2,943	4,195
Other assets	1,814	(4,214)
Taxes paid	(3,427)	(7,043)
Members' deposits	71,764	242,313
Other liabilities	7,198	2,641
	38,797	23,693
Investments:		
Purchase of premises and equipment	(2,164)	(8,620)
Purchase of intangible assets	(825)	(1,909)
Income received on other financial assets	598	1,584
	(2,391)	(8,945)
Financing:		
Increase in borrowings	5	10,026
(Payments) Receipts from securitized borrowings	(49,959)	19,949
Dividends paid on equity shares	(2,476)	(1,623)
Increase in net membership and investment shares	1,830	6,550
Preferred equity shares issuance	23	31
	(50,577)	34,933
Increase (decrease) in cash and cash equivalents	(14,171)	49,681
Cash and cash equivalents, beginning of year	177,605	127,924
Cash and cash equivalents, end of year	$ 163,434	$ 177,605

The accompanying notes form an integral part of these financial statements.

1. General information:

BlueShore Financial Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia (“the Act”). The Credit Union serves members principally in the Lower Mainland and the Sea to Sky Corridor of British Columbia. The Credit Union is an integrated financial institution that provides a wide range of financial products and services including consumer and commercial lending, deposit taking and wealth management services.

The Credit Union is domiciled in British Columbia and its registered office is located at 1250 Lonsdale Avenue, North Vancouver, BC, V7M 2H6.

The consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on February 18, 2021.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The significant accounting policies applied in the preparation of the consolidated financial statements are set out in note 3. The consolidated financial statements comply with the requirements of IFRS. These requirements have been applied consistently for the years ended December 31, 2020 and 2019.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets held at fair value through other comprehensive income or loss (“FVOCI”), financial assets and financial liabilities held at fair value through profit or loss (“FVTPL”) and all derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is also the Credit Union’s functional currency.

(d) Use of judgments and estimates:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2. Basis of presentation (continued):

(d) Use of judgments and estimates (continued):

Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 4 and 5.

3. Significant accounting policies:

(a) Consolidation of subsidiaries:

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and its wholly owned active subsidiaries:

- BlueShore Capital Corporation
- BlueShore Leasing Ltd.
- BlueShore Strata Finance Ltd.
- BlueShore Transport Finance Ltd.
- BlueShore Wealth Ltd.
- Morningside Properties Ltd.
- 0977916 B.C. Ltd.

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies across all subsidiaries.

The Credit Union has a 50% stake in a joint venture with Capital West Mortgage Inc., which manages Pacifica Mortgage Investment Corporation, and the Credit Union holds 50% of the shares of BlueShore Pacifica Alternative Mortgage Centre Inc.

The primary purpose of the joint venture is to provide management and mortgage services to Pacifica Mortgage Investment Corporation, a British Columbia based company making loans to borrowers on the security of mortgages on real property situated in British Columbia. BlueShore Pacifica Alternative Mortgage Centre Inc. sources mortgages for both Pacifica Mortgage Investment Corporation and BlueShore Financial Credit Union.

BlueShore does not control Capital West Mortgage Inc. and accordingly, it is not consolidated in the financial statements of the Credit Union.

3. Significant accounting policies (continued):

(a) Consolidation of subsidiaries (continued):

Intercompany balances, and income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Intercompany losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

(b) Foreign currency translation:

Transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition. Non-monetary items denominated in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognized immediately in the consolidated statement of income. Such gains and losses are presented net, and are included in fee and commission income.

When a valuation gain or loss is recognized in net income, any related foreign exchange gain or loss is recognized in net income. When a valuation gain or loss is recognized in other comprehensive income, any related foreign exchange gain and loss component is recognized in net income. For non-monetary available-for-sale financial assets, any foreign exchange gain and loss related to a valuation gain or loss is presented in other comprehensive income, and is included in the available-for-sale fair value reserve in members' equity.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with less than three months maturity from the original date of issuance, including cash on hand, cheques and other items in transit with original maturities of three months or less.

3. Significant accounting policies (continued):

(d) Financial instruments

(*i*) Recognition, classification and measurement:

The following table shows the measurement categories in accordance with IFRS 9 for the Credit Union's financial assets and liabilities:

	Measurement category
Financial assets	
Cash and cash equivalents	Amortized cost/FVTPL
Interest-bearing deposits with financial institutions	Amortized cost/FVOCI
Other financial assets	FVTPL
Derivative financial instruments	FVTPL
Loans and advances to members	Amortized cost
Other assets	Amortized cost
Financial liabilities	
Members' deposits	Amortized cost
Derivative financial instruments	FVTPL
Borrowings	Amortized cost
Securitized borrowings	Amortized cost
Accounts payable and accrued liabilities (including retirement benefit liability and current income taxes)	Amortized cost
Membership and preferred equity shares	Amortized cost

All financial assets are initially recorded at fair value and subsequently 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 FVTPL:

- the asset is held within a business model whose objective is to hold the asset 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.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*i*) Recognition, classification and measurement (continued):

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as 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 instrument 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.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or for financial assets for which an irrevocable election has been made to present subsequent changes in fair value in OCI, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*i*) Recognition, classification and measurement (continued):

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 asset is managed, and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘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, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(*ii*) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets. There were no changes to any of the Credit Union’s business models for the year ended December 31, 2020.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment:

The impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The expected credit loss ("ECL") model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk ("SICR") since origination (Stage 2) and credit impaired assets (Stage 3).

<u>Assessment of SICR</u>

The assessment of SICR considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and monitoring, and management judgment. The importance and relevance of each specific macroeconomic factor depends on the loan portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SICR. Qualitative factors are always assessed and considered to supplement any potential gap.

For certain instruments with low credit risk at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

<u>Measurement of ECL</u>

ECL are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD").

PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. LGD is an estimate of the amount that may not be recovered in the event of default. EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment (continued):

Credit-impaired and restructured financial assets

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

If the terms of a financial asset are renegotiated or modified, or a 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 how ECL is measured. 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 of the existing asset at the time of its derecognition.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities measured at FVOCI, the loss allowance is recognized in other comprehensive income (loss).

Write-off

Loan and debt securities are written off (either partially or in full) when there is no probable prospect of recovery.

(e) Foreclosed property:

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

These properties are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member’s other creditors. The sale of foreclosed properties may involve the use of third-party realtors and auctioneers.

3. Significant accounting policies (continued):

(f) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts have no initial net investment, or a net investment which would be smaller than a non-derivative contract, and are settled at a future date.

Derivatives are initially recognized at fair value on the date at which a derivative contract is entered into. They are subsequently re-measured at fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when *i)* their economic characteristics and risks are not closely related to those of the host contract *ii)* a separate instrument with the same terms would meet the definition of a derivative instrument and *iii)* the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

The Credit Union designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. The Credit Union periodically uses derivatives for economic hedging purposes to mitigate an identified financial risk.

IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until an amended standard is effective. The Credit Union has elected to continue applying hedge accounting under IAS 39.

(g) Cash flow hedges:

The Credit Union uses hedge accounting for derivatives designated as cash flow hedges provided that certain criteria are met. The Credit Union documents, at the inception of the relationship, the relationship between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the cash flows of the hedged items that are attributable to the risk being hedged.

3. Significant accounting policies (continued):

(g) Cash flow hedges (continued):

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in other comprehensive income (loss) ("OCI"). The gain or loss relating to the ineffective portion is recognized immediately in interest income or expense as appropriate. Amounts accumulated in OCI are reclassified to the consolidated statement of income in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in OCI at that time remains in OCI and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. However, when a forecast transaction is no longer expected to occur, or when the hedged item expires or is sold, the cumulative gain or loss that was deferred in OCI is recognized immediately in the consolidated statement of income.

(h) Securitization and derecognition of financial instruments:

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.

The Credit Union derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Credit Union also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

In the normal course of its operations, the Credit Union securitizes financial assets, specifically residential mortgages, as a source of liquidity. Asset securitization programs provide the Credit Union an immediate cash payment in exchange for the future payment stream from the securitized assets.

3. Significant accounting policies (continued):

(h) Securitization and derecognition of financial instruments (continued):

After a securitization transaction, the Credit Union assesses the extent to which it has retained the risks and rewards of ownership of the securitized financial assets. If substantially all the risks and rewards have been retained, the financial assets remain on the consolidated statement of financial position. If substantially all the risks and rewards have been transferred, the financial assets are derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Credit Union assesses whether or not it has retained control of the financial assets. If it has not retained control, the assets are derecognized.

When the financial assets remain on the consolidated statement of financial position, the Credit Union recognizes the consideration received as a financial liability, classified as securitized borrowings on the consolidated statement of financial position. The difference between the yield on the underlying securitized assets and the interest cost paid to the investor is recorded as interest income as it is earned.

When the assets are derecognized, they are removed from the consolidated statement of financial position, the securitization is accounted for as a sale and the Credit Union records a gain or loss based on the present value of the net benefit derived from the transaction. The Credit Union has disclosed further information relating to securitization transactions in note 16.

(i) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(j) Interest income and interest expense:

Interest income and interest expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method.

The effective interest method is a method of calculating the amortized amount of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Credit Union estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, all fees paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (continued):

(k) Fee and commission income:

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest method. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as fee and commission income over the expected term of the loan using the effective interest method. Commitment fees are recorded over the expected term of the loan, unless the loan commitment will not be used. Loan discharge and administration fees are recorded directly to income when the loan transaction is complete.

(l) Non-financial assets:

(*i*) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation. Land is recognized at cost and is not depreciated.

Depreciation is calculated using the straight-line method to allocate cost to residual values over estimated useful lives, as follows:

Buildings	Up to 40 years
Leasehold improvements	Term of the lease period or reasonable estimate
Furniture fixtures and other assets	3 to 15 years

Premises and equipment are reviewed annually for impairment, or more frequently where events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use.

Premises and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(*ii*) Intangible assets:

The banking system and other computer software is capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 15 years. Depreciation expense is recognized in the consolidated statement of income as part of non-interest expenses.

3. Significant accounting policies (continued):

(m) Income tax:

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

(*i*) Current income tax:

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

(*ii*) Deferred income tax:

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(n) Employee benefits:

The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit plan:

A defined benefit plan is a pension or other post-employment plan that defines an amount of benefit that an employee will receive on retirement, dependent on one or more factors, such as age, years of service and compensation.

3. Significant accounting policies (continued):

(n) Employee benefits (continued):

(*i*) Defined benefit plan (continued):

The liability recognized in the Credit Union's consolidated statement of financial position in respect of its defined benefit plan is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using investments and indices denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the consolidated statement of comprehensive income. Past-service costs are recognized immediately in the consolidated statement of income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(*ii*) Participation in multi-employer defined benefit plan:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by the Credit Union Pension & Benefits Trust. The current funding requirement for employers participating under this plan is based on the assessment of the pooled assets and liabilities and which is predicated on the collective membership profile of the plan. For this reason, the assets and liabilities have not been tracked and administered separately by the Credit Union. Although the actuaries may be able to determine a breakdown of the benefit obligations based on each employer's individual demographic profile, there is insufficient information to determine the accumulated assets of each employer group. Accordingly, the Credit Union's participation in the multi-employer plan is accounted for as a defined contribution plan with contributions recognized in salary and benefits expense in the consolidated income statement.

(*iii*) Defined contribution plan:

The Credit Union provides defined contribution ("DC") pension arrangements to certain employees. Contributions to the plan are recognized as an expense in the consolidated statement of income. The Credit Union bears no further liability to employees beyond the initial contributions. The Credit Union has two DC plans, one of which has been grandfathered and no new employees are eligible to join. Contribution rates to the grandfathered plan vary from 5% to 7% depending on the employee's age. The open DC plan has a contribution rate of 4% plus 50% of employee's contribution up to a maximum of 6%.

3. Significant accounting policies (continued):

(n) Employee benefits (continued):

(*iv*) Defined contribution plan (unfunded):

The Credit Union provides unfunded DC pension arrangements to certain employees. The plan does not require regular contributions. The account balances, contributions and returns on investments are maintained on a notional basis with a defined contribution obligation recognized in the consolidated statement of financial position while service and interest costs are recognized as an expense in the consolidated statement of income.

(o) Equity and non-equity shares:

The capital of the Credit Union is divided into several classes of shares designated as equity and one class designated as non-equity, presented as member's equity and liabilities, respectively, on the consolidated statement of financial position. Equity shares are entitled to the residual interest in the equity of the Credit Union. With certain exceptions, all members of the Credit Union are required to own a minimum of 25 Class A membership equity shares. Equity shares are redeemable upon the occurrence of certain events and are transferable between members at the discretion of the Board. The Credit Union redeems, transfers or purchases equity shares, at a par value of one dollar, together with any dividends declared but unpaid. The directors limit the number of equity shares redeemed in any one year to 10% of the total outstanding, and redemptions would be restricted if they would reduce the Credit Union's capital below required levels. Dividends on equity shares presented as members' equity are recorded in the consolidated statement of changes in members' equity, net of tax, when approved. Dividends on equity shares presented as liabilities are recorded on the statement of financial position when approved by the Board.

(p) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with the contract.

3. Significant accounting policies (continued):

(q) Leases:

At inception of a contract, the Credit Union determines whether the contract is a lease contract. The determination of whether a contract is a lease contract depends on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The determining factors include the consideration of whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct. If the supplier has a substantive substitution right, then the asset is not identified;
- The Credit Union has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Credit Union has the right to direct the use of the asset. The Credit Union has this right when it has the decision-making rights as to how the asset is used.

At inception or on reassessment of a lease contract, the Credit Union allocates the consideration to each lease component on the basis of their relative stand-alone prices.

(i) The Credit Union as a lessee:

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease terms. The Credit Union will consider lease terms with extension options on a specific right-of-use asset basis and where it is likely that an extension option will be exercised, the end of useful life will include the extension option period. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Credit Union’s incremental borrowing rate (“IBR”). Generally, the Credit Union uses its IBR as the discount rate to measure the present value.

3. Significant accounting policies (continued):

(q) Leases (continued):

(i) The Credit Union as a lessee (continued):

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the rate or if the Credit Union changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to nil.

The Credit Union presents right-of-use assets in ‘premises and equipment’ (note 11) and lease liabilities in ‘lease obligations’ (note 12) in the statement of financial position.

The Credit Union has elected under IFRS 16, not to recognize right-of-use-assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in ‘Non-interest expenses’. Initial direct costs associated with measuring right-of-use assets are expensed when incurred.

(ii) The Credit Union as a lessor:

When the Credit Union acts as a lessor, it determines at lease commencement whether each lease is a finance or operating lease. To classify each lease, the Credit Union makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset.

If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Credit Union considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

3. Significant accounting policies (continued):

(q) Leases (continued):

(ii) The Credit Union as a lessor (continued):

When the Credit Union, is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If a head lease is a short-term lease to which the Credit Union applies the exemption described above, then it classifies the sub-lease as an operating lease. The Credit Union recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

4. Impact of COVID-19:

On March 11, 2020 the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization. The overall impact of the pandemic remains uncertain and is dependent on actions taken by government, businesses and individuals to limit the spread of the COVID-19 virus, as well as government policy responses and support efforts to mitigate the impact of the virus. As a result, the Credit Union continues to operate in an uncertain macroeconomic environment.

(a) Impact on estimates and assumptions:

The COVID-19 pandemic has given rise to heightened uncertainty as it relates to accounting estimates and assumptions and has increased the need for management to apply judgment in evaluating the economic and market environment and its impact on significant estimates, particularly in relation to the measurement of ECL and the forward-looking assumptions used in the ECL model.

Management has considered the quantitative and qualitative impacts of the unprecedented level of government and central bank support for the economy in addition to the specific support programs the Credit Union has provided to its members, such as the loan payment deferral program, which would not, all else being equal, automatically trigger a SICR in that member.

However, these relief efforts and support programs may not completely mitigate the impact of the pandemic in terms of damage to the local economy and on future credit losses. Therefore, management has applied judgement with respect to the degree that various government support programs are expected to limit credit losses. Actual results could differ from these estimates and assumptions. See note 9 for further details on the impact of COVID-19 to the ECL.

4. Impact of COVID-19 (continued):

(b) Canada Emergency Business Account ("CEBA") program:

The Government of Canada ("GoC") has implemented the CEBA program to support Canadian businesses that have been adversely impacted by COVID-19. Eligible small business and not-for-profit organizations that are approved by the GoC have been provided with access to interest-free, partially forgivable loans of up to $60 to help cover their operating costs during a period when their revenues have been temporarily reduced.

The CEBA program is underwritten by the GoC with the Credit Union acting as a credit facility administrator to provide loans to existing members that meet the underwriting standards of the GoC. Loans advanced under CEBA program are not recognized on the consolidated statement of financial position of the Credit Union as they are funded by the GoC and all of the resulting cash flows and associated risks and rewards, including any exposure to payment defaults and principal forgiveness, are assumed by the GoC. The Credit Union collects a servicing fee which is intended to reimburse the Credit Union for the costs associated with administering the loans, which is recognized in the consolidated statement of income.

5. Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its professional judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a material impact on the financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a SICR since origination (Stage 2). Credit impaired assets requires recognition of lifetime losses (Stage 3). The determination of a SICR takes into account many different factors and varies by loan product and risk segment, which requires experienced credit judgment.

In determining whether there has been a SICR and in calculating the amount of the ECL, the Credit Union must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the ECL allowance.

5. Use of estimates and judgements (continued):

(a) Expected credit loss allowance (continued):

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(b) Fair value of financial instruments:

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only market observable data. Where fair value cannot be reliably measured, these investments are recorded at cost. Refer to note 6(g).

(c) Securitizations and derecognition of transferred financial instruments:

Depending on the contractual arrangements, the Credit Union may not derecognize securitized residential mortgages and may instead recognize a secured borrowing; recognize only a portion of the assets up to the Credit Union’s remaining involvement in those assets; or may derecognize the assets and recognize, as separate assets or liabilities, any rights and obligations constituted or retained in the transfer. In assessing the derecognition criteria, management is often required to make judgments as to the extent to which cash flows are transferred and any continuing exposure to risks and rewards of the transferred receivables exist. The Credit Union has disclosed further information relating to securitization transactions in note 16.

(d) Retirement benefits:

The present value of retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the benefit obligation.

5. Use of estimates and judgements (continued):

(d) Retirement benefits (continued):

The assumptions used in determining the net cost for the retirement benefit plan includes the discount rate. The Credit Union determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the benefit obligations. In determining the appropriate discount rate, the Credit Union considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related benefit liability. Other key assumptions for benefit obligations are based in part on current market conditions. Refer to note 17.

(e) Income taxes:

The Credit Union computes an income tax provision which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until, in general, retained earnings reach five percent of amounts owing to members, including deposits and shares.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income.

The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year.

6. Financial risk management:

(a) Credit risk:

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities. The Credit Union is also exposed to other credit risks arising from derivatives and settlement balances with market counterparties.

6. Financial risk management (continued):

(a) Credit risk (continued):

Credit risk is the single largest risk for the Credit Union's business. Management therefore carefully manages and controls its exposure to credit risk, and reports at least quarterly to the Investment & Loan Committee ("ILC").

The estimation of credit exposure is complex and requires the use of financial models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The Credit Union has developed financial models to support the quantification of the credit risk, which are used for all key credit portfolios and form the basis for measuring default risk.

Credit risk valuation adjustments ("CVA") are applied to cover over-the-counter derivatives and other fixed income financial instruments, where the initial valuation discounts expected cash flows using a risk-free interest rate curve. As not all counterparties have the same credit risk as that implied by the risk-free curve, a CVA is necessary in order to incorporate the Credit Union's view of both counterparty credit risk and the Credit Union's own credit risk in the valuation of derivatives with a positive and negative fair value, respectively.

The Credit Union's CVA calculation incorporates collateral and any master netting arrangements that the Credit Union considers to be enforceable as inputs into the CVA calculation. The Credit Union's entity level credit risk is measured using an appropriate market proxy. The CVA is calculated based upon the current market risk exposure to a counterparty or entity for financial assets and liabilities measured or disclosed at fair value and is calculated as an adjustment to the fair values of the respective financial instruments as at the reporting date.

As a result of the geographical nature of the Credit Union's activities, the Credit Union has a concentration of credit risk as its principal lending activities are carried out within the Lower Mainland and Sea-to-Sky Corridor of British Columbia. The Credit Union's loan and lease portfolio has a geographic concentration of 99.45% (2019 - 99.50%) in British Columbia.

The Credit Union manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through ILC, places limits on the amount of credit risk accepted in relation to one member and/or sector. Overall risks are subject to periodic review where considered necessary. Limits on the Credit Union's overall credit risk tolerance are reviewed by the Board and ILC at least annually.

6. Financial risk management (continued):

(a) Credit risk (continued):

The Board has delegated responsibility for the governance of credit risk to ILC to oversee credit risk through the following:

- Formulating and recommending credit policies in consultation with business units. These policies provide guidance over collateral requirements, credit assessment, risk ratings assessments for commercial mortgages and business lending as well as a framework for reporting, and ensuring that appropriate legal documentation is completed. The policies ensure that the lending processes are compliant with regulatory and statutory requirements. These policies are reviewed at least annually.
- Establishing authorization limits for the approval and renewal of credit facilities. Authorization limits are assigned to business and retail unit credit officers for commercial mortgages, business and retail lending. Large credit facilities require the approval or review by the Management Credit Committee (“MCC”) or ILC or the Board as directed by policy.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits prior to approving the facilities. Renewals and reviews of facilities are subject to a similar process for commercial mortgages and business lending.
- Establishing limits on the exposure to counterparties for derivatives and securities, concentration in certain geographic areas and industries (for loan advances), as well as limits by issuer, credit rating band, and term to maturity (for securities). The Credit Union has collateral for many of its loans, which may include mortgages over residential properties, charges over business assets, and charges over financial instruments such as fixed income securities and equities. Longer term finance and lending to corporate entities or residential mortgages are generally secured forms of lending. Revolving credit facilities are both real estate and non-real estate secured.
- Ensuring that the Credit Union has master netting agreements in place with derivative counterparties with which it has a significant number of transactions. Master netting arrangements may result in a reduction of credit risk, as in the event of a default, all amounts with the counterparty may be terminated and settled on a net basis.
- Ensuring the Credit Union’s risk rating process is developed and maintained appropriately in order to categorize risk according to the degree of financial loss faced and to focus management on these risks. The risk rating system is used in determining where impairment provisions may be required for the commercial loan portfolio. The current risk rating framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are aligned with British Columbia Financial Services Authority (“BCFSA”) requirements.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(a) Credit risk (continued):

- The credit department is required to implement credit policies and procedures, with credit approval authorities delegated from ILC. The credit department reports on all credit related matters to management and MCC for monitoring and controlling all credit risks in its portfolios.
- Regular audits of business units and the credit department processes are undertaken by Internal Audit.
- Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or letters of credit. With respect to credit risk on commitments to extend credit, the Credit Union is potentially exposed to loss in an equal amount to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are conditional on the member satisfying specific financial covenants or are otherwise conditional in nature, for example, of limited duration or may be canceled without notice.

(b) Credit risk exposure:

At December 31, 2020, the maximum credit risk exposure of the Credit Union approximates the carrying value of all assets except for undrawn lines of credit. The classes of financial instruments for which the Credit Union has credit risk exposure are as follows:

	2020	2019
Exposure on the statement of financial position:		
Cash and cash equivalents	$ 163,434	$ 177,605
Interest-bearing deposits with financial institutions	372,791	370,589
Financial assets:		
FVOCI	35,739	40,475
Derivative financial instruments	15,917	8,624
Loans:		
Residential mortgages	2,621,705	2,576,436
Commercial loans	1,541,294	1,507,814
Consumer loans	16,103	16,351
Accrued interest	6,232	6,729
Accounts receivable	2,573	4,882
	4,775,788	4,709,505
Exposure off the statement of financial position:		
Credit instruments:		
Commitments to extend credit		
Term to maturity less than one year	97,435	87,769
Term to maturity more than one year	75,015	61,260
Unconditionally cancellable commitments to extend credit relating to lines of credit	412,479	382,980
	584,929	532,009
	$ 5,360,717	$ 5,241,514

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(b) Credit risk exposure (continued):

For exposures on the statement of financial position, the amounts reported are based on the net carrying amounts in the consolidated statement of financial position.

Management has categorized the portfolio with respect to net potential credit risk exposure as follows:

- Residential mortgages, which represent the largest potential credit exposure, are mitigated by secured collateral.
- 97.89% (2019 - 98.90%) of the commercial loans are categorized in the top three grades of the Credit Union's internal rating system and are secured against collateral.

Cash, cash equivalents and interest-bearing deposits with financial institutions have a low credit risk exposure as the majority of these assets are high quality investments with low risk counterparties. For the retail loan portfolio (residential and consumer loans), the Credit Union's underwriting methodologies and risk modeling is member based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on the collateral, although the collateral is an important mitigant when assessing credit risk. Decisions on consumer loans are based on an overall assessment of credit risk utilizing a scoring model that takes into account factors such as credit beacon scores and total-debt-service levels relative to income.

The non-retail portfolio (business and commercial loans) utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's experience, current and projected financial results, industry statistics, and economic trends that cumulate into a risk rating. This risk rating categorizes risk according to the degree of potential financial loss required. The current risk rating grades are aligned with BCFSA requirements, where RR1 is the characteristic of a fully secured loan and RR5 is the characteristic of a loan with poor risk rating. The leasing portfolio has been assessed, at origination, to have a RR3 risk rating.

The credit quality of the Credit Union's business and commercial loan portfolio, expressed in terms of the internal risk ratings discussed above, is shown in the table below:

Risk ratings	2020	2019
RR1	$ 14	$ 56
RR2	5,000	15
RR3	1,503,811	1,491,181
RR4	25,141	13,229
RR5	7,328	3,333
	$ 1,541,294	$ 1,507,814

No RR4 or RR5 loans are underwritten by the Credit Union and any balance is a result of a subsequent downgrade of a loan.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(b) Credit risk exposure (continued):

The following table sets out information about the credit risk level of the Credit Union’s loan portfolio by category of loss allowance at December 31, 2020.

	Stage 1	Stage 2	Stage 3	2020	2019
Residential					
Credit score >800 (excellent)	$ 1,340,518	$ 150	$ 1,076	$ 1,341,744	$ 1,235,284
Credit score 710-799 (good-very good)	876,659	74	-	876,733	872,605
Credit score 650-709 (fair-good)	287,304	-	-	287,304	304,263
Credit score 600-649 (poor)	65,176	10,002	-	75,178	127,820
Credit score <600 (less than satisfactory)	21,641	17,454	1,651	40,746	36,464
Total Residential	$ 2,591,298	$ 27,680	$ 2,727	$ 2,621,705	$ 2,576,436
Commercial					
IR1 - IR2 (excellent-good)	$ 109,022	$ -	$ -	$ 109,022	$ 126,601
IR3 - IR4 (satisfactory)	1,277,593	-	295	1,277,888	1,252,998
IR5 - IR6 (less than satisfactory)	118,501	412	2,741	121,654	108,749
IR7 - IR8 (unsatisfactory-watchlist)	-	15,946	11,241	27,187	14,826
IR9 - IR10 (credit impaired)	-	-	5,543	5,543	4,640
Total Commercial	$ 1,505,116	$ 16,358	$ 19,820	$ 1,541,294	$ 1,507,814
Personal					
Credit score >800 (excellent)	$ 7,298	$ -	$ 25	$ 7,323	$ 6,160
Credit score 710-799 (good-very good)	5,983	-	70	6,053	6,364
Credit score 650-709 (fair-good)	1,818	39	8	1,865	2,658
Credit score 600-649 (poor)	401	145	10	556	940
Credit score <600 (less than satisfactory)	84	203	19	306	229
Total Personal	$ 15,584	$ 387	$ 132	$ 16,103	$ 16,351
Total Members’ Loans	$ 4,111,998	$ 44,425	$ 22,679	$ 4,179,102	$ 4,100,601

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/ or market events.

Accordingly, the Credit Union has policies and procedures in place to manage its liquidity position to comply with both regulatory requirements and sound business practices.

6. Financial risk management (continued):

(c) Liquidity risk (continued):

(*i*) Management of liquidity risk:

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits established by the Board through ILC, and appropriate management committee. On an annual basis, the Board, through ILC, reviews the liquidity operating plan presented by management to ensure adherence to regulatory requirements. The Asset Liability Committee ("ALCO") oversees the operational adherence to the liquidity operating plan. ALCO approves liquidity management processes and strategies presented by the treasury department in addition to overseeing adherence to minimum liquidity limits, funding diversification, deposit concentration and diversification limits. Liquidity ratios based on Basel III and BCFSA requirements and regular stress testing results are reported monthly to ALCO.

The daily management of the Credit Union's liquidity is the responsibility of the treasury department under the direction of the Vice President, Treasurer and Chief Financial Officer. The Vice President, Treasurer reports on a monthly basis to ALCO. The treasury department manages liquidity by monitoring expected daily cash inflows and outflows versus actual inflows and outflows, projecting long-term cash requirements on a monthly basis and by developing funding channels to mitigate liquidity risk. The Credit Union's primary sources of funding are retail and wholesale deposits, securitization and wholesale borrowings.

Contingency plans exist for liquidity to satisfy funding requirements in the case of a general market disruption or adverse economic conditions. Proper execution of the contingency plan is the responsibility of the treasury department and ALCO. The liquidity contingency plan outlines the appropriate steps to follow and the stakeholders to notify.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(c) Liquidity risk (continued):

(*ii*) Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to members' deposits and borrowings. For this purpose, liquid assets may comprise the total value of cash and cash equivalents, interest-bearing deposits held at financial institutions, and financial assets.

	2020	2019
Cash and cash equivalents	$ 163,434	$ 177,605
Interest-bearing deposits held at financial institutions	372,791	370,589
	$ 536,225	$ 548,194

The Credit Union is required to maintain a minimum of 8% (2019 - 8%) liquidity at all times, based on total members' deposits and borrowings. The Credit Union's liquidity was greater than 8% at all times in 2020 and 2019.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total 2020
Members' deposits	$ 3,518,656	$ 634,710	$ 133,418	$ -	$ 4,286,784
Borrowings	86	-	25,000	-	25,086
Securitized borrowings	126,706	56,244	20,582	-	203,532
Membership and preferred equity shares	-	-	-	1,360	1,360
Other liabilities	46,426	-	-	-	46,426
	$ 3,691,874	$ 690,954	$ 179,000	$ 1,360	$ 4,563,188

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total 2019
Members' deposits	$ 3,564,183	$ 368,761	$ 288,601	$ 505	$ 4,222,050
Borrowings	81	-	-	25,000	25,081
Securitized borrowings	151,811	89,671	12,009	-	253,491
Membership and preferred equity shares	-	-	-	1,337	1,337
Other liabilities	40,626	-	-	-	40,626
	$ 3,756,701	$ 458,432	$ 300,610	$ 26,842	$ 4,542,585

6. Financial risk management (continued):

(d) Market risk:

In the normal course of its operations, the Credit Union engages in transactions that give rise to market risk. Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the risk-based return.

Management of market risks

The Board, through ILC, sets risk tolerance levels for the Credit Union. Within these boundaries, ALCO measures, monitors and manages the Credit Union's market risk profile. The policies for market risk management are reviewed annually by ILC, and approved by the Board.

The Credit Union has various policy and procedure statements that specify roles and responsibilities for senior management, treasury, and finance. Many of these policies fall under the responsibility of ILC.

(*i*) Interest rate risk:

Interest rate risk, inclusive of credit spread risk, is the risk of loss to the Credit Union due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; the maturity profile of assets and liabilities; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. For the Credit Union, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and re-price in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the Credit Union to enhance profitability.

Interest rate risk policies and processes:

The Credit Union meets its objectives for interest rate risk management by structuring the balance sheet to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

The treasury department, under the direction of ALCO, is responsible for managing interest rate risk. ALCO monitors the Credit Union's compliance with policy through monthly meetings by reviewing the interest rate risk profile of the Credit Union and by reviewing and approving recommended strategies from the treasury department.

6. Financial risk management (continued):

(d) Market risk (continued):

(*i*) Interest rate risk (continued):

Interest rate risk measurement techniques:

The Credit Union uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, the Credit Union will alter the product mix through the marketing of particular products, pricing initiatives, and the use of derivative instruments. Decisions on determining the appropriate mix of assets, liabilities and derivative instruments, including interest rate swaps and forward rate agreements, are based on economic conditions, member behavior, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

Note 8 discloses details of derivatives used for asset/liability management.

The Credit Union also uses several comprehensive analytical techniques to measure interest rate risk. Interest rate risk is measured primarily by simulation models that employ both current interest income and interest expense, and use market values to incorporate an economic perspective. Static gap, duration analysis, and rate shock analyses are also used as supplementary measurement, control and management tools.

Simulation models:

Simulation models enable the Credit Union to analyze interest rate risk in a dynamic environment. The models incorporate assumptions about pricing strategies, growth, volume and mix of new business, changes in the level, slope and curvature of the yield curve, interest rates and other related factors. The assumptions used in the model are monitored monthly and updated as required to reflect changing market conditions.

Simulation models can also be run to measure the impact on net interest income and market values of potential asset and liability management strategies in different economic environments to analyze risk and return tradeoffs.

Simulation models are also used to measure the potential impact of interest rate movements. The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming that no further loan portfolio hedging is undertaken. It further assumes that the prime rate cannot go below zero. These measures are based upon assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

6. Financial risk management (continued):

(d) Market risk (continued):

(*i*) Interest rate risk (continued):

	Net interest income 2020	Net interest income 2019
1% increase in interest rates	$ 386	$ (3,824)
1% decrease in interest rates	393	3,297

The market value risk technique gauges the impact on the market value of both financial assets and financial liabilities as well as off balance sheet instruments from a movement in interest rates. Market value risk is the present value of potential change in the financial margin over all future periods. It is an economic measure of a leading indicator of the potential impact on future income of an adverse movement in interest rates.

Interest rate risk analysis:

Gap analysis is another technique used by the Credit Union for asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then assessing whether the cash flows in each of the periods net to zero. The repricing periods are time horizons, based on either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities. Note 6(e) discloses the Credit Union’s gap position.

Duration analysis is a measure of interest rate exposure and provides an indication of when, on average, the present value of any financial instrument will be received. The Credit Union uses duration analysis to measure the sensitivity of asset and liability market values to a change in interest rates and provides an indication of long-term interest rate exposure.

Earnings at Risk analysis measures the volatility of the forecasted net interest income over the following 12-month period. The Credit Union uses Earnings at Risk to measure the variability of the financial margin based upon changes in the level, slope and curvature of the yield curve and the impact it may have on the book value of capital.

6. Financial risk management (continued):

(e) Interest rate sensitivity:

Interest rate sensitivity is a measure of how sensitive the Credit Union's financial position is to movements in interest rates. To manage interest rate risk, the Credit Union uses swaps and other derivative instruments. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change materially in subsequent periods based on member behaviour and the application of the Credit Union's asset and liability management policies.

The assumptions for the years ended December 31, 2020 and 2019 were as follows:

(*i*) Assets:

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Variable rate assets that are related to the Credit Union's prime rate or other short-term market rates are reported in the three months category.

Fixed rate and non-interest-bearing assets are reported based on expected account balance behaviour.

(*ii*) Liabilities:

Fixed rate liabilities, such as term deposits, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest-bearing deposits on which the member interest rate changes with prime or other short-term market rates are reported within the three months category.

Fixed rate and non-interest-bearing liabilities with no defined maturity are reported based upon expected account balance behaviour.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(e) Interest rate sensitivity (continued):

	Up to 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-interest sensitive	Total 2020
Assets:								
Cash and cash equivalents	$ 152,218	$ -	$ -	$ -	$ -	$ -	$ 11,216	$ 163,434
Loans and advances to members	1,303,629	755,832	739,468	408,252	345,762	614,352	6,232	4,173,527
Other assets and investments	27,053	93,763	56,813	61,225	73,909	20,000	171,360	504,123
Total assets	$ 1,482,900	$ 849,595	$ 796,281	$ 469,477	$ 419,671	$ 634,352	$ 188,808	$ 4,841,084
Liabilities and Members' equity:								
Members' deposits	$ 852,517	$ 1,894,720	$ 415,260	$ 219,449	$ 103,536	$ 29,882	$ 771,420	$ 4,286,784
Other liabilities	34,855	95,025	38,177	18,067	19,867	715	43,252	249,958
Borrowings	-	-	-	-	25,000	-	86	25,086
Preferred equity shares	-	-	-	-	-	-	1,360	1,360
Members' equity	-	-	-	-	-	-	277,896	277,896
Total liabilities and members' equity	$ 887,372	$ 1,989,745	$ 453,437	$ 237,516	$ 148,403	$ 30,597	$ 1,094,014	$ 4,841,084
On-balance sheet gap	$ 595,528	$ (1,140,150)	$ 342,844	$ 231,961	$ 271,268	$ 603,755	$ (905,206)	
Derivatives	(180,000)	(175,000)	175,000	90,000	65,000	25,000	-	
Total interest rate sensitivity gap	$ 415,528	$ (1,315,150)	$ 517,844	$ 321,961	$ 336,268	$ 628,755	$ (905,206)	
Cumulative gap	$ 415,528	$ (899,622)	$ (381,778)	$ (59,817)	$ 276,451	$ 905,206	$ -	

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(e) Interest rate sensitivity (continued):

	Up to 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-interest sensitive	Total 2019
Assets:								
Cash and cash equivalents	$ 169,770	$ -	$ -	$ -	$ -	$ -	$ 7,835	$ 177,605
Loans and advances to members	1,112,337	681,630	679,915	591,112	364,115	362,484	307,055	4,098,648
Other assets and investments	14,384	107,571	49,335	56,939	61,224	73,908	143,726	507,087
Total assets	$ 1,296,491	$ 789,201	$ 729,250	$ 648,051	$ 425,339	$ 436,392	$ 458,616	$ 4,783,340
Liabilities and Members' equity:								
Members' deposits	$ 445,556	2,230,737	275,721	93,040	196,194	92,913	887,889	$ 4,222,050
Other liabilities	18,396	133,211	71,224	18,447	12,009	-	40,830	294,117
Borrowings	-	-	-	-	-	25,000	81	25,081
Preferred equity shares	-	-	-	-	-	-	1,337	1,337
Members' equity	-	-	-	-	-	-	240,755	240,755
Total liabilities and members' equity	$ 463,952	$ 2,363,948	$ 346,945	$ 111,487	$ 208,203	$ 117,913	$ 1,170,892	$ 4,783,340
On-balance sheet gap	$ 832,539	$ (1,574,747)	$ 382,305	$ 536,564	$ 217,136	$ 318,479	$ (712,276)	
Derivatives	(575,000)	(50,000)	195,000	250,000	90,000	90,000	-	
Total interest rate sensitivity gap	$ 257,539	$ (1,624,747)	$ 577,305	$ 786,564	$ 307,136	$ 408,479	$ (712,276)	
Cumulative gap	$ 257,539	$ (1,367,208)	$ (789,903)	$ (3,339)	$ 303,797	$ 712,276	$ -	

(f) Foreign currency risk:

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial position of the Credit Union. Foreign currency risk arises in the ordinary course of business as the Credit Union meets member demands for foreign currency banking activities.

The Credit Union is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. The Credit Union holds a foreign currency position that is exposed to the risk of exchange rate movements in the spot market. This exposure has the potential of having a positive or negative effect on income. The Credit Union is exposed to this risk unless the foreign currency position is economically hedged, either naturally or synthetically. The impact of foreign currency risk will be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

6. Financial risk management (continued):

(f) Foreign currency risk (continued):

Foreign currency risk policies and procedures:

Foreign currency risk is managed daily by the treasury department and monitored by ALCO and ILC. The treasury department develops and implements management policies and processes to comply with the approved Investment & Lending Policy. The Credit Union may purchase foreign currency to hedge foreign currency risk of significant future foreign currency denominated payables. The Credit Union's foreign currency risk is insignificant.

(g) Fair value of financial instruments:

The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of the fair value of the Credit Union's cash and cash equivalents, demand deposits, and certain other financial assets and liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

(*i*) Loans:

In determining the fair value of loans, the Credit Union incorporates the following assumptions:

- For fixed rate and floating rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.
- The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of the Credit Union's loan portfolio.

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

(*ii*) Financial assets:

The fair value of financial assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates they believe to be reasonable.

(*iii*) Derivative instruments:

The fair value of derivative instruments is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data.

(*iv*) Deposits:

In determining the fair value of deposits, the Credit Union incorporates the following assumptions:

- For fixed rate, fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits re-price to market frequently. On that basis, fair value is assumed to equal carrying value.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

The table below sets out the fair values of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments.

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets carried at fair value:				
Cash and cash equivalents	$ 45,598	$ 45,598	$ 61,768	$ 61,768
Financial assets*	35,739	35,739	40,475	40,475
Derivative financial instruments	15,917	15,917	8,624	8,624
Assets carried at amortized cost:				
Cash and cash equivalents (with original maturity up to 3 months)	117,836	117,835	115,837	115,833
Loans and advances to members (net of allowance)	4,173,527	4,214,320	4,098,648	4,103,324
Interest-bearing deposits with financial institutions**	372,791	372,791	370,589	369,596
Other assets	8,123	8,123	11,324	11,324
	$ 4,769,531	$ 4,810,323	$ 4,707,265	$ 4,710,944
Liabilities carried at fair value:				
Derivative financial instruments	$ 4,053	$ 4,053	$ 9,081	$ 9,081
Liabilities carried at amortized cost:				
Members' deposits	4,286,784	4,313,303	4,222,050	4,238,605
Borrowings	25,086	25,086	25,081	25,081
Securitized borrowings	203,532	203,669	253,491	251,676
Accounts payable and accrued liabilities (including retirement benefit liability and current income taxes)	42,373	42,373	31,545	31,545
Membership and preferred equity shares	1,360	1,360	1,337	1,337
	$ 4,563,188	$ 4,589,844	$ 4,542,585	$ 4,557,325

* Includes certain investments in Central 1 shares and other investments in the amount of $21,307 (2019 - $20,227) of which the fair value cannot be reliably measured, and is therefore recorded at cost (note 7).

** Current portion	$ 106,412	$ 106,558	$ 121,956	$ 121,675

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

The following tables summarize the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value in the Credit Union's consolidated statement of financial position. Fair value measurements are analyzed according to a three-level fair value hierarchy, as outlined below. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on the Credit Union's own internal assumptions.

Level 1: Unadjusted quoted market prices in active markets for identical financial assets and financial liabilities.

Level 2: Inputs, other than quoted prices included within Level 1, are observable for the financial asset or financial liability either directly or indirectly.

Level 3: Entity level inputs which are not based upon market observable data.

The level in the fair value hierarchy within which the fair value is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy:

December 31, 2020	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	$ -	$ 97,254	$ -
Amortized cost	-	4,713,069	-
	$ -	$ 4,810,323	$ -
Financial liabilities:			
Fair value through profit or loss	$ -	$ 4,053	$ -
Amortized cost	-	4,585,791	-
	$ -	$ 4,589,844	$ -

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

December 31, 2019	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	$ -	$ 110,868	$ -
Amortized cost	-	4,600,076	-
	$ -	$ 4,710,944	$ -
Financial liabilities:			
Fair value through profit or loss	$ -	$ 9,081	$ -
Amortized cost	-	4,548,244	-
	$ -	$ 4,557,325	$ -

During the years ended December 31, 2020 and 2019, there were no transfers between the levels of the fair value hierarchy.

Valuation methodologies

Fair values for financial assets are determined based on quoted market prices (Level 1) when available. When a financial asset is not quoted in an active market, fair value is determined using quoted prices for similar instruments, other third party evidence or valuation techniques, including discounted future cash flows, that estimate the price at which an orderly transaction to sell the financial asset would take place between market participants at the measurement date under current market conditions. When using valuation techniques, the credit union maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The carrying amounts of cash and cash equivalents, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of the financial assets.

The fair values of loans, leases receivable and members' deposits with fixed rates and fixed maturity dates are measured as the present value of future cash flows. Other inputs to the valuation model for measuring fair values of fixed rate loans and leases receivable include scheduled loan amortization rates and estimated prepayment rates.

The fair values of securitization debt obligations are estimated based on the present value of the future cash flows, discounted using the credit union's current rate of borrowing (Level 2).

6. Financial risk management (continued):

(g) Fair value of financial instruments (continued):

The fair values of investments are based on quoted market prices (Level 1) except for the following:

- the fair values of investments in liquidity deposits, principal and interest reinvestment accounts are estimated based on the present value of future cash flows, discounted using current market interest rates for investments with similar risks and maturity dates (Level 2).
- the fair value of investments in Central 1 Class A and Class F shares is based on the redemption amount (Level 2), which equals cost.
- the fair value of investments in Central 1 Class E shares is estimated based on their cost, unless redemption is likely, in which case the fair value equals the redemption amount (Level 2). As permitted by IFRS 9, the cost of Central 1 Class E shares is considered an appropriate estimate of the fair value when there is insufficient more recent information available to measure fair value.
- as permitted by IFRS 9 in limited circumstances, the costs of investments in equity securities of other financial service providers are considered appropriate estimates of the fair values (Level 2) due to insufficient more recent information available to measure fair value.

(h) Regulatory and capital management:

Capital is managed within the framework, policies and limits established by the Board through ILC, and appropriate management committees. As an integral part of the Credit Union's strategy is to maintain a strong capital base, all elements of capital are monitored throughout the year. Capital plans are updated on an annual basis as a part of the Credit Union's normal budgeting cycle and are forecast over a three to five-year period to ensure an appropriate level of capital is maintained to sustain operations. Capital levels of the Credit Union are reviewed monthly and reported to the Board. The Credit Union makes quarterly and annual dividend payments on eligible shares at the discretion of the Board, within the context of its overall capital management plan.

(Amounts expressed in thousands of dollars unless otherwise stated)

6. Financial risk management (continued):

(h) Regulatory and capital management (continued):

The Financial Institutions Act (“FIA”) requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to its business. Capital levels for credit unions in British Columbia are regulated pursuant to capital regulations prescribed by BCFSA. Minimum capital standards are based on a total capital base to risk weighted assets (“RWA”) ratio of 8%, along with a requirement that at least 35% of the capital base consists of a credit union’s retained earnings.

The Internal Capital Target guideline issued by BCFSA sets a supervisory level of 10% for credit unions’ internal capital targets.

Regulatory capital is allocated to two tiers: Primary (“Tier 1”) and Secondary (“Tier 2”). Tier 1 comprises the more permanent components of capital and consists primarily of share capital and retained earnings adjusted for deferred income taxes. Tier 2 capital consists of preferred equity shares, subordinated debt and 50% of the Credit Union’s portion of retained earnings in the Credit Union Deposit Insurance Corporation (“CUDIC”), Central 1, and Stabilization Central Credit Union (“SCCU”). The capital base is defined as the total of Tier 1 and Tier 2 capital, less deductions, as prescribed by BCFSA.

The capital ratio is calculated by dividing the capital base by RWA, which are the Credit Union’s assets weighted according to relative risk (0% to 200%) as determined by BCFSA’s prescribed rules relating to on-balance sheet and off-balance sheet exposures.

The Credit Union’s capital ratio and capital base were greater than both the minimum regulatory and supervisory requirements at all times in 2020 and 2019.

	2020	2019
Capital:		
Tier 1 capital:		
Equity shares	$ 47,618	$ 46,362
Preferred equity shares	1,360	1,337
Retained earnings	219,129	195,913
Net deferred income tax	678	(1,698)
Total Tier 1 capital	268,785	241,914
Tier 2 capital:		
50% of proportion of retained earnings in CUDIC, Central 1, and SCCU	46,910	47,118
Subordinated debt and accrued interest	25,086	25,081
Total Tier 2 capital	71,996	72,199
Total capital	340,781	314,113
Deductions from capital:		
Intangible assets	(6,499)	(7,306)
Capital base	$ 334,282	$ 306,807

(Amounts expressed in thousands of dollars unless otherwise stated)

7. Other financial assets:

An analysis of FVTPL assets by remaining term to maturity is as follows:

December 31, 2020	Effective yield	Within 1 year	1 to 5 years	Over 5 years	2020
Financial assets fair value through profit or loss:					
Central 1 shares	4.22%	$ -	$ -	$ 20,118	$ 20,118
Other financial assets	0.17%	14,432	-	633	15,065
Accrued interest and dividends		-	-	556	556
		$ 14,432	$ -	$ 21,307	$ 35,739

December 31, 2019	Effective yield	Within 1 year	1 to 5 years	Over 5 years	2019
Financial assets fair value through profit or loss:					
Central 1 shares	5.37%	$ -	$ -	$ 18,650	$ 18,650
Other financial assets	0.62%	20,249	-	651	20,900
Accrued interest and dividends		-	-	925	925
		$ 20,249	$ -	$ 20,226	$ 40,475

The Credit Union subscribed for $1,051 of Central 1 Class F shares in both 2020 and 2019.

All Central 1 Class E shares are recorded at their cost of $0.01 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Included in the above FVTPL investments are reinvestment assets relating to the Canada Mortgage Bonds ("CMB") program of $14,432 (2019 - $20,249). These assets form part of the security for the mortgage-backed security debt liability of $203,532 (2019 - $253,491) as described in note 16.

(Amounts expressed in thousands of dollars unless otherwise stated)

8. Derivative financial instruments:

December 31, 2020	Notional amounts			Fair value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ -	$ 470,000	$ 470,000	$ 11,841	$ 7
Other:					
Market linked options	18,859	54,262	73,121	4,076	-
Embedded derivatives on market linked term deposits	18,610	54,229	72,839	-	4,046
Derivative contracts	37,469	578,491	615,960	15,917	4,053
Counterparty margin requirements	-	-	-	-	-
Total derivative contracts	$ 37,469	$ 578,491	$ 615,960	$ 15,917	$ 4,053

December 31, 2019	Notional amounts			Fair value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ 220,000	$ 965,000	$ 1,185,000	$ 3,266	$ 3,775
Other:					
Market linked options	18,586	49,799	68,385	5,358	-
Embedded derivatives on market linked term deposits	18,334	49,549	67,883	-	5,306
Derivative contracts	256,920	1,064,348	1,321,268	8,624	9,081
Counterparty margin requirements	-	-	-	-	-
Total derivative contracts	$ 256,920	$ 1,064,348	$ 1,321,268	$ 8,624	$ 9,081

The above table includes accrued interest on derivative financial instruments.

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They do not represent credit or market risk exposure.

Fair values based on quoted market prices are not available for the Credit Union’s derivative instruments. Consequently, fair values are derived using net present value and other valuation techniques and may not be indicative of the net realizable values.

8. Derivative financial instruments (continued):

The Credit Union hedges a portion of the interest rate risk that arises on variable interest cash flows on prime rate mortgages through interest rate derivatives. Interest income and expense reported in the consolidated statement of income include the reclassification of the effective portion of interest rate derivatives designated as hedging items in cash flow hedges from accumulated other comprehensive income (loss) in order to match the timing of the hedged interest cash flows recognized in the consolidated statement of income. Any ineffectiveness in the hedging relationship is recorded directly in the consolidated statement of income.

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over the counter derivative contracts in a gain position, without factoring in the impact of master netting agreements, totaled $15,917 as at December 31, 2020 (2019 - $8,624). The Credit Union manages this credit risk by only dealing with counterparties that meet or exceed a minimum credit rating. As at December 31, 2020, the Credit Union has master netting agreements in place with its derivative counterparties.

The Credit Union is subject to enforceable master netting arrangements in the form of International Swap and Derivatives Association (ISDA) agreements with derivative counterparties. Under the terms of these agreements, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreements. As at December 31, 2020, if all set-off rights were exercised, the net impact on the Credit Union's consolidated statement of financial position would be to decrease derivative financial instrument assets by $7 (2019 – $510) and to decrease derivative financial liabilities by $7 (2019 – $510).

Interest income and expense include the release from accumulated other comprehensive income (loss) of gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges either *(i)* as the hedged item is recorded in interest income (expense) or *(ii)* if the forecasted cash flows of the hedged item are no longer probable. The amount released is reported as a reclassification from accumulated other comprehensive income (loss).

From time to time, the Credit Union enters into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. During the year ended December 31, 2020, the Credit Union recognized $72 in unrealized gains from changes in the fair value of these derivatives inclusive of hedge ineffectiveness described in the paragraph above (2019 - unrealized gains $20). In 2020, no net losses occurred on derivatives (2019 - realized losses - nil).

(Amounts expressed in thousands of dollars unless otherwise stated)

8. Derivative financial instruments (continued):

The Credit Union has $72,839 (2019 - $67,883) of embedded derivatives on market linked term deposit products outstanding to its members. These term deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of baskets of securities. The Credit Union has purchased market linked options with a derivative counterparty to offset the exposure to the securities associated with these products. The Credit Union pays a fixed rate based on the notional amount at the inception of the market linked option contract. At the end of the term the Credit Union receives from the derivative counterparty payments equal to the amount that will be paid to the depositors based on the performance of the respective securities.

The purpose of the market linked options is to provide an economic hedge against market fluctuations and have fair values that vary based on changes in the values of the underlying baskets of securities. The fair value of these contracts amounted to $4,076 as at December 31, 2020 (2019 - $5,358) and is included as part of derivative financial instruments. The fair value of the embedded written option in the market linked term deposits amounted to $4,046 at December 31, 2020 (2019 - $5,306) and is included as part of derivative financial instruments. Although hedge accounting is not applied, these agreements continue to be effective as economic hedges. Gains/losses from interest rate and market linked derivative instruments are included in profit or loss as part of interest income (note 19).

9. Loans and advances to members:

(a) Loan maturities and rate sensitivities:

	Maturity term				Rate sensitivity		
December 31, 2020	Under 1 year	1 to 5 Years	Over 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$ 1,145,489	$ 1,476,215	$ 1	$ 2,621,705	$ 642,543	$ 1,979,162	$ 2,621,705
Commercial loans and finance leases receivable	910,379	616,119	14,796	1,541,294	402,648	1,138,646	1,541,294
Consumer loans	15,399	697	7	16,103	15,038	1,065	16,103
Accrued interest	6,232	-	-	6,232	6,232	-	6,232
Total loans	2,077,499	2,093,031	14,804	4,185,334	1,066,461	3,118,873	4,185,334
Allowance for credit losses				(14,268)			(14,268)
Deferred broker expenses				6,164			6,164
Deferred mortgage commitment fees				(3,703)			(3,703)
Total loans - net of allowance for credit losses				$ 4,173,527			$ 4,173,527

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(a) Loan maturities and rate sensitivities (continued):

	Maturity term				Rate sensitivity		
December 31, 2019	Under 1 year	1 to 5 Years	Over 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$1,221,021	$ 1,354,514	$ 901	$ 2,576,436	$ 759,603	$1,816,833	$ 2,576,436
Commercial loans and finance leases receivable	866,302	623,042	18,470	1,507,814	424,020	1,083,794	1,507,814
Consumer loans	15,652	695	4	16,351	14,590	1,761	16,351
Accrued interest	6,729	-	-	6,729	6,729	-	6,729
Total loans	2,109,704	1,978,251	19,375	4,107,330	1,204,942	2,902,388	4,107,330
Allowance for credit losses				(10,355)			(10,355)
Deferred broker expenses				5,532			5,532
Deferred mortgage commitment fees				(3,859)			(3,859)
Total loans - net of allowance for credit losses				$ 4,098,648			$ 4,098,648

(b) Payment deferrals:

In response to the COVID-19 pandemic, the Credit Union considered payment deferral requests from eligible members. The agreement to a payment deferral on its own does not represent a SICR for an individual borrower that would require migration from Stage 1 to Stage 2 under IFRS 9, nor are facilities with payment deferrals considered past due.

Loans that have migrated to Stage 2 have experienced a SICR. In assessing credit risk, we monitor the credit quality of impacted borrowers using sound credit risk management practices. The loan modifications due to payment deferrals did not result in any modification gains or losses.

Details regarding the number and balance of loans under payment deferral terms within Stages 1 and 2 as at December 31, 2020 are as follows:

	Stage 1		Stage 2		Total	
	Number of loans	Balance	Number of loans	Balance	Number of loans	Balance
Commercial	5	$ 20,204	-	$ -	5	$ 20,204
Residential	-	-	1	997	1	997
Total	5	$ 20,204	1	$ 997	6	$ 21,201

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(c) Forecasting forward-looking information:

Forward-looking information is incorporated into both the assessment of whether a loan has experienced a SICR since its initial recognition and the estimation of ECL. The ECL model includes the consideration of macroeconomic factors that are most closely correlated with credit risk in the relevant portfolios.

COVID-19 and the measures taken by government to limit its spread have had a material adverse impact on the economy. To mitigate the economic impact, government and the central bank have enacted policy measures to provide economic stimulus and financial support to individuals and businesses, and to reduce financial market volatility.

The forward-looking macroeconomic scenario described below reflects our best estimate as at December 31, 2020. The rapidly evolving nature of this pandemic and its impacts on the economy, along with government relief and stimulus programs, has led to continuously changing macroeconomic assumptions and forecasts. Hindsight cannot be used, to the extent that the evolving environment results in future forecasts that differ from those used in the ECL estimation as at December 31, 2020, those changes will be reflected in future periods.

The primary macroeconomic variables over the next 12 months and the remaining forecast period thereafter used to estimate ECL are as follows:

Forecast	Next 12 months	Remaining forecast period
Forward Looking Indicator:		
Prime rate	2.45%	2.92%
BC GDP change	4.76%	2.73%
BC unemployment rate	7.00%	5.50%
Average housing price change	1.40%	3.00%

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(d) Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, January 1, 2020	$ 2,180	$ 554	$ 401	$ 3,135
Provisions for credit losses:				
Transfers to Stage 1	295	(295)	-	-
Transfers to Stage 2	(137)	137	-	-
Transfers to Stage 3	-	(55)	55	-
Originations	1,249	-	-	1,249
Maturities	(578)	(99)	(225)	(902)
Remeasurements	498	697	1,062	2,257
Net write-offs	-	-	-	-
Balance, December 31, 2020	3,507	939	1,293	5,739
Commercial loans and finance leases receivable				
Balance, January 1, 2020	3,138	550	3,257	6,945
Provisions for credit losses:				
Transfers to Stage 1	152	(117)	(35)	-
Transfers to Stage 2	(35)	35	-	-
Transfers to Stage 3	(863)	(174)	1,037	-
Originations	2,645	-	-	2,645
Maturities	(713)	(180)	(2,613)	(3,506)
Remeasurements	(152)	208	2,905	2,961
Net write-offs	-	-	(898)	(898)
Balance, December 31, 2020	4,172	322	3,653	8,147
Consumer loans				
Balance, January 1, 2020	96	36	143	275
Provisions for credit losses:				
Transfers to Stage 1	2	(2)	-	-
Transfers to Stage 2	(52)	52	-	-
Transfers to Stage 3	(130)	-	130	-
Originations	328	-	-	328
Maturities	(85)	(33)	(3)	(121)
Remeasurements	(2)	3	84	85
Net write-offs	-	-	(186)	(186)
Balance, December 31, 2020	157	56	168	381
Total loans and advances to members				
Balance, January 1, 2020	5,414	1,140	3,801	10,355
Provisions for credit losses:				
Transfers to Stage 1	449	(414)	(35)	-
Transfers to Stage 2	(224)	224	-	-
Transfers to Stage 3	(993)	(229)	1,222	-
Originations	4,222	-	-	4,222
Maturities	(1,376)	(312)	(2,841)	(4,529)
Remeasurements	344	908	4,051	5,303
Net write-offs	-	-	(1,084)	(1,084)
Balance, December 31, 2020	$ 7,836	$ 1,317	$ 5,114	$ 14,267

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(d) Reconciliation of allowance for credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, January 1, 2019	$ 2,106	$ 766	$ 85	$ 2,957
Provisions for credit losses:				
Transfers to Stage 1	395	(395)	-	-
Transfers to Stage 2	(49)	49	-	-
Transfers to Stage 3	-	-	-	-
Originations	486	-	-	486
Maturities	(258)	(91)	(63)	(412)
Remeasurements	(500)	225	379	104
Net write-offs	-	-	-	-
Balance, December 31, 2019	2,180	554	401	3,135
Commercial loans and finance leases receivable				
Balance, January 1, 2019	2,730	720	1,725	5,175
Provisions for credit losses:				
Transfers to Stage 1	642	(453)	(189)	-
Transfers to Stage 2	(37)	37	-	-
Transfers to Stage 3	(1,682)	(90)	1,772	-
Originations	2,692	-	-	2,692
Maturities	(420)	(52)	(1,234)	(1,706)
Remeasurements	(787)	388	1,634	1,235
Net write-offs	-	-	(451)	(451)
Balance, December 31, 2019	3,138	550	3,257	6,945
Consumer loans				
Balance, January 1, 2019	103	49	106	258
Provisions for credit losses:				
Transfers to Stage 1	74	(74)	-	-
Transfers to Stage 2	(6)	6	-	-
Transfers to Stage 3	(8)	-	8	-
Originations	39	-	-	39
Maturities	(23)	(17)	(1)	(41)
Remeasurements	(83)	72	112	101
Net write-offs	-	-	(82)	(82)
Balance, December 31, 2019	96	36	143	275
Total loans and advances to members				
Balance, January 1, 2019	4,939	1,535	1,916	8,390
Provisions for credit losses:				
Transfers to Stage 1	1,111	(922)	(189)	-
Transfers to Stage 2	(92)	92	-	-
Transfers to Stage 3	(1,690)	(90)	1,780	-
Originations	3,217	-	-	3,217
Maturities	(701)	(160)	(1,298)	(2,159)
Remeasurements	(1,370)	685	2,125	1,440
Net write-offs	-	-	(533)	(533)
Balance, December 31, 2019	$ 5,414	$ 1,140	$ 3,801	$ 10,355

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(e) Loans past due but not impaired:

A loan is considered past due when a payment has not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (*i*) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (*ii*) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at December 31, 2020 and 2019 are as follows:

December 31, 2020	30 to 59 days	60 to 89 days	90 days	Total
Residential mortgages	$ 225	$ -	$ -	$ 225
Commercial loans and leases receivable	296	56	-	352
Consumer loans	-	-	-	-
	$ 521	$ 56	$ -	$ 577

December 31, 2019	30 to 59 days	60 to 89 days	90 days	Total
Residential mortgages	$ 226	$ -	$ -	$ 226
Commercial loans and leases receivable	1,284	45	-	1,329
Consumer loans	2	4	-	6
	$ 1,512	$ 49	$ -	$ 1,561

(Amounts expressed in thousands of dollars unless otherwise stated)

9. Loans and advances to members (continued):

(f) Leases receivable:

The investment in leases receivable and the present value of minimum lease payments receivable at the end of the reporting period are detailed below.

	2020	2019
Gross investment in leases receivable:		
Less than 1 year	$ 4,501	$ 5,790
Between 1 year and 5 years	64,743	72,577
Later than 5 years	11,847	10,062
	81,091	88,429
Unearned finance income on finance leases	(7,536)	(7,929)
Present value of minimum lease payments receivable	$ 73,555	$ 80,500
Present value of minimum lease payments receivable:		
Less than 1 year	$ 4,417	$ 5,706
Between 1 year and 5 years	59,472	66,477
Later than 5 years	9,666	8,317
	$ 73,555	$ 80,500

10. Assets pledged as collateral:

In the normal course of business, the Credit Union pledges mortgage assets and readily marketable securities to secure credit and clearing facilities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative and other financing activities. Standard risk management controls are applied with respect to asset pledging.

Assets which are pledged as collateral are related to proceeds from securitizations and other borrowings. The nature and carrying amounts of the assets pledged as collateral are as follows:

	2020	2019
Securitized loans	$ 205,575	$ 253,699
Mortgages	116,236	42,347
Assets with a general charge (Central 1 Credit Union)	175,137	175,149
Total assets pledged	$ 496,948	$ 471,195

(Amounts expressed in thousands of dollars unless otherwise stated)

11. Premises and equipment and intangible assets:

(a) Premises and equipment:

	Land	Buildings	Leasehold improvements	Furniture fixtures and other assets	Right-of-use assets	Total
Cost:						
Balance at January 1, 2020	$ 9,585	$ 49,102	$ 7,310	$ 13,500	$ 11,087	$ 90,584
Acquisitions	-	82	6	2,213	789	3,090
Disposals	-	(279)	(26)	(1,507)	-	(1,812)
Balance at December 31, 2020	$ 9,585	$ 48,905	$ 7,290	$ 14,206	$ 11,876	$ 91,862
Accumulated depreciation:						
Balance at January 1, 2020	$ -	$ 10,790	$ 2,094	$ 7,320	$ 1,611	$ 21,815
Disposals	-	(142)	(26)	(1,507)	-	(1,675)
Depreciation	-	2,003	669	2,350	1,646	6,668
Balance at December 31, 2020	$ -	$ 12,651	$ 2,737	$ 8,163	$ 3,257	$ 26,808

	Land	Buildings	Leasehold improvements	Furniture fixtures and other assets	Right-of-use assets	Total
Cost:						
Balance at January 1, 2019	$ 9,585	$ 45,220	$ 5,137	$ 11,859	$ -	$ 71,801
Opening IFRS 16 adjustment	-	-	-	-	8,802	8,802
Acquisitions	-	3,894	2,250	2,476	2,285	10,905
Disposals	-	(12)	(77)	(835)	-	(924)
Balance at December 31, 2019	$ 9,585	$ 49,102	$ 7,310	$ 13,500	$ 11,087	$ 90,584
Accumulated depreciation:						
Balance at January 1, 2019	$ -	$ 9,101	$ 1,659	$ 6,073	$ -	$ 16,833
Disposals	-	(12)	(77)	(835)	-	(924)
Depreciation	-	1,701	512	2,082	1,611	5,906
Balance at December 31, 2019	$ -	$ 10,790	$ 2,094	$ 7,320	$ 1,611	$ 21,815
Carrying amounts:						
Balance at December 31, 2020	$ 9,585	$ 36,254	$ 4,553	$ 6,043	$ 8,619	$ 65,054
Balance at December 31, 2019	9,585	38,312	5,216	6,180	9,476	68,769

(Amounts expressed in thousands of dollars unless otherwise stated)

11. Premises and equipment and intangible assets (continued):

(b) Intangible assets:

	Banking system	Other software	Total
Cost:			
Balance at January 1, 2020	$ 10,421	$ 5,160	$ 15,581
Acquisitions	453	372	825
Disposals	-	(820)	(820)
Balance at December 31, 2020	$ 10,874	$ 4,712	$ 15,586
Accumulated depreciation:			
Balance at January 1, 2020	$ 5,169	$ 3,106	$ 8,275
Disposals	-	(820)	(820)
Depreciation	646	986	1,632
Balance at December 31, 2020	$ 5,815	$ 3,272	$ 9,087

	Banking system	Other software	Total
Cost:			
Balance at January 1, 2019	$ 9,291	$ 5,128	$ 14,419
Acquisitions	1,130	779	1,909
Disposals	-	(747)	(747)
Balance at December 31, 2019	$ 10,421	5,160	15,581
Accumulated depreciation:			
Balance at January 1, 2019	$ 4,648	$ 2,947	$ 7,595
Disposals	-	(747)	(747)
Depreciation	521	906	1,427
Balance at December 31, 2019	$ 5,169	$ 3,106	$ 8,275
Carrying amounts:			
Balance at December 31, 2020	$ 5,059	$ 1,440	$ 6,499
Balance at December 31, 2019	$ 5,252	$ 2,054	$ 7,306

(Amounts expressed in thousands of dollars unless otherwise stated)

12. Lease liabilities:

(a) The Credit Union as a lessee: Right-of-use assets:

The Credit Union leases a number of branch and office premises. These leases typically run for a period of 10 years, with an option to renew the lease after that date.

The movement of right-of-use assets during the year ended December 31, 2020 is as follows:

		Total
Balance at January 1, 2020	$	9,476
Additions to right-of-use assets		789
Depreciation		(1,646)
Balance at December 31, 2020	$	8,619

		Total
Balance at January 1, 2019	$	8,802
Additions to right-of-use assets		2,285
Depreciation		(1,611)
Balance at December 31, 2019	$	9,476

(b) The Credit Union as a lessee: Lease liabilities:

		2020		2019
Maturity analysis – contractual undiscounted cash flows:				
Less than one year	$	1,777	$	1,914
One to five years		4,627		5,929
More than five years		4,125		5,244
Total undiscounted lease liabilities	$	10,529	$	13,087
Current portion of lease liabilities	$	1,503	$	1,479
Non-current portion of lease liabilities		7,513		8,225
Total lease liabilities included in other liabilities	$	9,016	$	9,704

Total interest expenses of $312 were incurred on lease liabilities in 2020 (2019 – $333).

(Amounts expressed in thousands of dollars unless otherwise stated)

12. Lease liabilities:

(c) The Credit Union as a lessor: Future minimum lease payments:

The Credit Union acts as lessor of certain branch and office premises. These leases have an average life of four years with an option to renew the lease after that date. Total lease payments of $0.4 million (2019 - $0.5 million) were received during the year ended December 31, 2020.

The future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

		2020		2019
No later than one year	$	539	$	454
Later than one year and no later than five years		1,162		1,568
	$	1,701	$	2,022

13. Other assets:

		2020		2019
Prepaid expenses and deposits	$	3,790	$	3,295
Accounts receivable		2,573		4,882
	$	6,363	$	8,177
Current	$	4,445	$	6,900
Non-current		1,918		1,277
	$	6,363	$	8,177

(Amounts expressed in thousands of dollars unless otherwise stated)

14. Members' deposits:

	2020	2019
Demand deposits	$ 836,619	$ 630,892
Term deposits	2,965,506	3,118,868
Registered deposits	443,602	424,204
Accrued interest and dividends payable	41,057	48,086
	$ 4,286,784	$ 4,222,050
Current	$ 3,518,656	$ 3,564,183
Non-current	768,128	657,867
	$ 4,286,784	$ 4,222,050

Term deposits include equity market linked deposits, which contain embedded derivatives as described in note 8.

15. Borrowings:

	2020	2019
Subordinated debt	$ 25,000	$ 25,000
Accrued interest payable	86	81
	$ 25,086	$ 25,081
Current	$ 86	$ 81
Non-current	25,000	25,000
	$ 25,086	$ 25,081

The Credit Union has granted a general security interest in its present and after acquired personal property as security for the revolving line of credit facility with Central 1 of $175,137 (2019 - $175,149). The Credit Union has revolving credit facilities with counterparties of $90,000 (2019 - $90,000). A specific assignment of mortgage loans has been pledged as security against certain facilities. Subordinated debt has an original term to maturity date of 10 years, maturing on December 13, 2029, and contains a right to prepay after 5 years at the Credit Union's option. The subordinated debt qualifies as Tier 2 capital for regulatory capital purposes and at December 31, 2020 bears a floating interest rate of 4.07% (2019 – 5.59%).

(Amounts expressed in thousands of dollars unless otherwise stated)

16. Securitized borrowings:

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of residential mortgages.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The table below sets out the carrying amounts of financial assets for CMB and mortgage-backed security debt liabilities.

	2020	2019
Mortgages receivable, including principal and interest reinvestment accounts	$ 205,575	$ 253,699
CMB & MBS program obligations and accrued interest	$ 203,532	$ 253,491

The Credit Union has $191,143 (2019 - $233,450) of residential mortgages categorized as loans held as security for the secured borrowing. As a result of the transaction, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The exposure to variability of future interest income and expense has been incorporated into the Credit Union's interest rate sensitivity calculations in notes 6(d) and 6(e).

(Amounts expressed in thousands of dollars unless otherwise stated)

17. Retirement benefit liability:

The Credit Union provides pension and other post-retirement benefits to employees through defined benefit, defined contribution (funded and unfunded) and multi-employer defined benefit plans.

The Credit Union funds the multi-employer defined benefit plan based on actuarially prescribed amounts. The defined benefit and defined contribution plans are paid directly by the Credit Union at the time of entitlement.

(a) Defined benefit and unfunded defined contribution plans:

The accrued benefit obligation was actuarially measured for accounting purposes as of December 31, 2020.

Retirement benefit liability:

	2020	2019	2018	2017	2016
Unfunded benefit obligation	$ 4,007	$ 3,471	$ 3,294	$ 2,670	$ 2,614
Actuarial adjustment	84	285	(90)	388	(162)
Retirement benefit obligation recognized	$ 4,091	$ 3,756	$ 3,204	$ 3,058	$ 2,452
Plan assets	(68)	(59)	(51)	(44)	(37)
Retirement benefit liability	$ 4,023	$ 3,697	$ 3,153	$ 3,014	$ 2,415

The movement in the retirement benefit liability is as follows:

	2020	2019
Unfunded benefit obligation at January 1	$ 3,756	$ 3,204
Current service cost	144	133
Interest cost	149	174
Benefit payments	(42)	(40)
Actuarial loss	84	285
Unfunded benefit obligation at December 31	$ 4,091	$ 3,756
Plan assets	(68)	(59)
Retirement benefit liability	$ 4,023	$ 3,697

(Amounts expressed in thousands of dollars unless otherwise stated)

17. Retirement benefit liability (continued):

(a) Defined benefit and unfunded defined contribution plans:

The movement in the retirement benefit liability is as follows (continued):

The amounts recognized in the consolidated statement of income were as follows:

		2020		2019
Current service cost	$	144	$	133
Interest cost		149		174
Other fees and expenses		45		14
Total included in salary and employee benefits (note 21)	$	338	$	321

The principal actuarial assumptions used were as follows:

	2020	2019
Discount rate	2.50%	3.00%
Inflation rate	2.00%	2.00%
Future salary increases	3.00%	3.00%
Future pension increases	1.00%	1.00%

Risks associated with the defined benefit and unfunded defined contribution plans:

The different plans expose the Credit Union to different risks such as:

(*i*) Interest rate risk:

A variation in bond rates will affect the value of the plan liabilities.

(*ii*) Longevity risk:

A greater increase in life expectancy than the one predicted by the mortality table used will increase the plan liabilities.

(*iii*) Inflation risk:

The defined benefit obligation is calculated taking into account an increase in level of salary and future cost of living adjustments. If actual inflation is greater than expected, it will result in an increase in the defined benefit obligation.

(Amounts expressed in thousands of dollars unless otherwise stated)

17. Retirement benefit liability (continued):

(b) Multi-employer pension plan:

The BC Credit Union Employees' Pension Plan is a contributory, multi-employer, multi-divisional 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. The 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 3,630 active employees and approximately 1,185 retired plan members, with reported assets of approximately $923.6 million.

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 $31.6 million and a solvency deficiency of $99.5 million, based on market value assets of approximately $735 million. 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.

The Credit Union paid $3.2 million in employer contributions to the plan in fiscal year 2020 (2019 - $3.1 million).

18. Shares:

The Credit Union has authorized an unlimited number of equity shares, each with a par value of one dollar. Outstanding shares consist of Class A membership shares, Class E Life Insurance Savings Non-equity shares, Class B Transaction Equity shares, Class C Investment Equity shares and Class E Equity shares.

	2020	2019
Membership and preferred equity shares	$ 1,360	$ 1,337
Transaction shares	$ 889	$ 938
Investment and Class E shares	46,729	45,424
Equity shares	$ 47,618	$ 46,362

(Amounts expressed in thousands of dollars unless otherwise stated)

18. Shares (continued):

Members are required to purchase membership shares and are permitted to purchase investment shares if certain conditions are met. Membership shares are redeemable at par only when a membership is withdrawn. Preferred equity shares are redeemable at fixed dates. In previous years, certain members were required to purchase transaction shares related to a loan transaction. Investment shares are specifically structured to provide an opportunity for members to invest in the capital structure of the Credit Union. Dividends on all shares are declared at the discretion of the Board.

19. Net interest income:

	2020	2019
Interest income:		
Interest from loans and advances to members	$ 155,981	$ 161,801
Interest on interest-bearing deposits with financial institutions	7,045	8,274
Central 1 investments	848	1,022
Net interest income and gains (losses) on derivative financial instruments	4,411	(1,073)
Mortgage commitment fees	3,677	4,104
Mortgage broker fees	(2,402)	(2,538)
	169,560	171,590
Interest expense:		
Interest on members' deposits	80,645	86,187
Interest on borrowed funds	7,401	6,507
Deposit agent commissions	989	845
	89,035	93,539
Net interest income	$ 80,525	$ 78,051

(Amounts expressed in thousands of dollars unless otherwise stated)

20. Fee and commission income and other income:

		2020		2019
Fee and commission income:				
Account services fees	$	1,652	$	1,824
Commission		10,574		9,364
Lending fees		7,366		4,582
	$	19,592	$	15,770
Other income:				
Other member income	$	1,427	$	1,735
Fair value gain on investments		9,393		-
Miscellaneous income		32		624
	$	10,852	$	2,359

In 2020, the Credit Union recognized a modification gain of $9,393 on interest-bearing deposits with financial institutions (Central 1), in anticipation of a transition to a new statutory liquidity structure on January 1, 2021. Further details of the transition are provided in note 26.

21. Salary and employee benefits:

		2020		2019
Salaries, commissions and bonuses	$	38,785	$	35,009
Benefits		3,312		3,435
Pension costs:				
Multi-employer plan		3,200		3,132
Other benefit plans		338		321
Defined-contribution plan		231		165
	$	45,866	$	42,062

(Amounts expressed in thousands of dollars unless otherwise stated)

22. Building and occupancy and general and administrative expenses:

		2020		2019
Building and occupancy:				
Amortization	$	6,668	$	5,906
Occupancy		2,905		2,802
	$	9,573	$	8,708
General and administrative expenses:				
Amortization of intangible assets	$	1,632	$	1,428
Bank charges		1,372		1,380
Board compensation, meetings and other expenses		472		580
Dues, fees and charges		3,230		4,809
Equipment rental and maintenance		284		548
General business		1,659		2,270
Human resources and training		535		693
Lien & title searches		477		481
Marketing		1,793		1,796
Office expenses		1,690		1,795
Technology		5,416		5,071
	$	18,560	$	20,851

23. Income taxes:

(a) Income tax expense:

		2020		2019
Current tax expense:				
Current year	$	4,484	$	3,807
Deferred tax expense:				
Origination and reversal of temporary differences		2,376		(733)
Total income tax expense	$	6,860	$	3,074

(Amounts expressed in thousands of dollars unless otherwise stated)

23. Income taxes:

(b) Reconciliation of effective tax rate:

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate table. The income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates of 27.0% (2019 - 27.0%) to income before income taxes. The reasons for the differences are as follows:

	2020	2019
Combined federal and provincial statutory tax rate	27.0%	27.0%
Credit union preferred rate reduction	(10.0%)	(10.0%)
Non-taxable and other items	4.7%	(2.9%)
	21.7%	14.1%

(c) Deferred tax assets and liabilities:

	Balance at December 31, 2019	Recognized in profit or loss	Reclass	Recognized in OCI	Balance at December 31, 2020
Deferred tax assets:					
Leasing assets	$ 775	$ (615)	$ -	$ -	$ 160
Pensions benefits	638	58	-	-	696
Allowance for impairment of loans	1,517	972	-	-	2,489
Loss carry forward	1,959	(158)	-	-	1,801
Total	$ 4,889	$ 257	$ -	$ -	$ 5,146
Deferred tax liabilities:					
Premises and equipment	$ 2,004	$ 918	$ -	$ -	$ 2,922
Deferred revenue	640	1,715	-	-	2,355
Land	547	-	-	-	547
Total	$ 3,191	$ 2,633	$ -	$ -	$ 5,824
Net deferred tax assets	$ 2,029	$ (269)	$ -	$ -	$ 1,760
Net deferred tax liabilities	331	2,107	-	-	2,438

Deferred taxes of the Credit Union that are expected to reverse in the future have been measured using a weighted average effective tax rate of 17.0% (2019 - 17.0%). All other entities have used the statutory applicable rate of 27.0% (2019 - 27.0%).

(Amounts expressed in thousands of dollars unless otherwise stated)

23. Income taxes (continued):

(d) Unrecognized deferred tax assets:

At December 31, 2020 and 2019, deferred tax assets for temporary differences related to investments in subsidiaries were not recognized because the Credit Union controls these assets.

24. Commitments and contingencies:

(a) Credit commitments:

The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire, terminate or be cancelled without being utilized.

	2020	2019
Undrawn lines of credit	$ 412,479	$ 382,980
Commitments to extend credit	168,606	140,788
Documentary letters of credit	3,844	8,241
	$ 584,929	$ 532,009

(b) Restricted cash:

Included within cash and cash equivalents, the Credit Union has restricted cash of $2,469 (2019 - $4,123) arising from securitization agreements in the ordinary course of business. This restricted cash is due to be paid to the recipient of the transferred receivables, but has not yet been remitted.

(c) Other commitments:

The Credit Union has a commitment to pay annual maintenance fees for its banking system and other information systems.

The Credit Union and Capilano University (the University) have an agreement whereby the Credit Union committed $1 million over a 15 year period to the University starting in 2011, which results in the University’s performing arts theatre at the North Vancouver campus being named the BlueShore Financial Centre for the Performing Arts.

(Amounts expressed in thousands of dollars unless otherwise stated)

24. Commitments and contingencies (continued):

(c) Other commitments (continued):

Outstanding commitments are as follows:

		2020		2019
Technology and Other Commitments	$	11,051	$	7,923
Central 1 Class F Shares		-		1,051
Capilano University		333		400
	$	11,384	$	9,374

(d) Contingencies:

In the ordinary course of business, the Credit Union has legal proceedings or other claims brought against it. No provisions are made unless the determination is likely and the amount can be reliably measured. The Credit Union has included provisions in its liabilities where appropriate. Based on current knowledge, the Credit Union expects the final determination of these proceedings or other claims will not have a material adverse effect on its consolidated statement of financial position or on operating results.

25. Related parties:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, Board of Directors, senior management, close family members of senior management and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by senior management or their close family members.

A number of transactions were entered into with senior management in the normal course of business:

		2020 Opening balance		2020 Activity		2020 Ending balance
Loans and deposits:						
Loans	$	7,912	$	(3,006)	$	4,906
Deposits		7,291		(147)		7,144
	$	15,203	$	(3,153)	$	12,050

(Amounts expressed in thousands of dollars unless otherwise stated)

25. Related parties (continued):

		2020		2019
Key management personnel compensation:				
Salaries and other short-term employee benefits	$	2,294	$	2,258
Total pension and other post-employment benefits		434		418
Other long-term benefits		818		808
	$	3,546	$	3,484

The above key management personnel compensation represents the total compensation (base salary, incentives, benefits and pension contributions) that was charged to salaries and employee benefits in the consolidated statement of income for the Chief Executive Officer and the executive management of the Credit Union, who have the authority and responsibility for planning, directing and controlling the activities of the Credit Union. In addition, members of the Board of Directors, in their capacity as Directors, received remuneration of $391 (2019 - $371) in aggregate.

26. Subsequent event:

Prior to 2021 the Credit Union maintained its statutory liquidity requirement in the form of interest-bearing deposits with Central 1. Central 1 invested the funds from these deposits in marketable securities that qualified as high-quality liquid assets (“HQLA”). As mandated by the Credit Union’s regulator (BCFSA), this structure changed on January 1, 2021.

In the new structure, the Credit Union now maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as HQLA.

To transition to this new structure, on January 1, 2021 the statutory liquidity deposits of $360,921 held in the mandatory liquidity pool at Central 1 were extinguished in exchange for a portfolio of HQLA of an equivalent amount. HQLA are now held in a trust, with the Credit Union the beneficiary, Central 1 the trustee and Credential Qtrade Securities Inc. the investment manager.

As part of this restructuring, Central 1 redeemed at par the Credit Union’s investment in Central 1 Class F shares for proceeds of $18,519 in January 2021.