COASTAL COMMUNITY
CREDIT UNION

Consolidated Financial Statements
(Expressed in thousands of dollars)

COASTAL COMMUNITY CREDIT UNION

And Independent Auditors' Report thereon

Year ended December 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the accompanying notes are the responsibility of the management of Coastal Community Credit Union (the Credit Union).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include, where appropriate, estimates based on the best judgment of management.

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

The Board of the Credit Union carries out its responsibilities with regard to the consolidated financial statements mainly through its Audit and Risk Committee (the Committee). The Committee reviews the annual consolidated financial statements and recommends them to the Board for approval. The Committee meets periodically with management, internal auditors and the external auditors. Following these meetings, the Committee meets privately with the auditors to ensure free and open discussion of any subject the Committee or the auditors wish to pursue. The Committee also recommends the engagement or reappointment of the external auditors, reviews the scope of the audit and approves the fees of the external auditors for audit and non-audit services.

These consolidated financial statements, audited by KPMG LLP, have been approved by the Board, on the recommendation of the Audit and Risk Committee.

Adrian Legin
President and Chief Executive Officer

Barbara Coe, CPA, CGA
Chief Financial and Risk Officer

March 24, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of Coastal Community Credit Union

Opinion

We have audited the consolidated financial statements of Coastal Community Credit Union (the Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- 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 the Credit Union 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 the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- 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
March 24, 2021

COASTAL COMMUNITY 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		$ 289,383	$ 69,957
Investments	6	318,866	206,339
Investment in joint venture	25	29,887	29,681
Loans to members	7	2,406,494	2,393,527
Premises and equipment	9	23,054	25,717
Intangible assets	9	1,632	1,434
Deferred income tax asset	15	1,327	1,405
Income taxes receivable		418	707
Other assets	10	9,513	8,158
		$ 3,080,574	$ 2,736,925
Liabilities and Members' Equity			
Member deposits	11	$ 2,714,937	$ 2,366,519
Borrowings	12	131,983	157,595
Other liabilities	14, 24	38,061	34,371
Derivative financial instruments	13	5,501	744
Members' shares	17	3,539	3,733
		2,894,021	2,562,962
Members' equity:			
Retained earnings		189,461	174,574
Accumulated other comprehensive loss		(2,908)	(611)
		186,553	173,963
		$ 3,080,574	$ 2,736,925

Commitments	23
Subsequent event	26

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

Approved on behalf of the Board:

Evelyn Clark
Chair, Board of Directors

John Newall
Chair, Audit and Risk Committee

COASTAL COMMUNITY CREDIT UNION

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

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

	Notes	2020	2019
Interest income:			
Interest on loans to members		$ 83,085	$ 88,359
Other		3,067	2,485
		86,152	90,844
Interest expense:			
Interest on member deposits		22,925	27,327
Other		6,214	4,298
		29,139	31,625
Net interest income		57,013	59,219
Loan impairment expense (recovery)	8	1,805	(42)
Other income	18	25,051	19,312
		80,259	78,573
Operating expenses:			
Chequing, electronic and other services		4,135	4,260
Data processing		5,227	4,496
Depreciation and amortization		3,858	4,160
Employee salaries and benefits		37,979	37,849
Occupancy		3,273	3,235
Other operating and administrative		8,441	11,083
		62,913	65,083
Income from operations		17,346	13,490
Provision for income taxes	15		
Current income tax		2,381	2,288
Deferred income tax		78	198
		2,459	2,486
Net income from continuing operations		14,887	11,004
Discontinued operations, net of tax			
Earnings from discontinued operations		-	16,763
Net income		14,887	27,767
Other comprehensive loss, net of tax:			
Items that were or may be reclassified to net income:			
Change in unrealized losses on cash flow hedges		(2,327)	(1,287)
Reclassification of unrealized losses on cash flow hedges		30	729
		(2,297)	(558)
Comprehensive income		$ 12,590	$ 27,209

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

COASTAL COMMUNITY CREDIT UNION

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

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

	Cash flow hedges	Accumulated other comprehensive loss	Retained earnings	Total
Balance, December 31, 2018	$ (53)	$ (53)	$ 146,807	$ 146,754
Net income	-	-	27,767	27,767
Other comprehensive loss	(558)	(558)	-	(558)
Balance, December 31, 2019	(611)	(611)	174,574	173,963
Net income	-	-	14,887	14,887
Other comprehensive loss	(2,297)	(2,297)	-	(2,297)
Balance, December 31, 2020	$ (2,908)	$ (2,908)	$ 189,461	$ 186,553

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

COASTAL COMMUNITY 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):		
Operating activities:		
Receipts:		
Interest on loans to members	$ 83,435	$ 88,037
Fees and commissions	19,879	17,597
Other interest income	2,981	2,455
Dividends	839	401
Other non-interest income	37	1,951
	107,171	110,441
Disbursements:		
Interest paid to members	(29,424)	(28,352)
Distributions to members	(44)	(56)
Operating expenses	(54,053)	(64,935)
Income taxes	368	(1,322)
	(83,153)	(94,665)
Net increase in loans to members	(15,122)	(58,899)
Net increase in member deposits	348,703	109,086
Cash provided by operating activities	357,599	65,963
Investing activities:		
Net increase in investments	(110,973)	(13,007)
Disposal of discontinued operation, net of cash disposed of	-	(4,342)
Net increase in premises and equipment	(937)	(1,409)
Net increase in intangible assets	(457)	7,788
Cash used in investing activities	(112,367)	(10,970)
Financing activities:		
Net decrease in members' shares	(194)	(192)
Net decrease in borrowings	(25,612)	(29,991)
Cash used in financing activities	(25,806)	(30,183)
Increase in cash and cash equivalents	219,426	24,810
Cash and cash equivalents, beginning of year	69,957	45,147
Cash and cash equivalents, end of year	$ 289,383	$ 69,957

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

1. Reporting entity:

Coastal Community Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act (British Columbia). The operation of the Credit Union is subject to the Financial Institutions Act (British Columbia). The Credit Union is located in Canada and its registered office is 59 Wharf Street, Nanaimo, British Columbia. The Credit Union predominately serves members on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 24, 2021.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Basis of measurement:

These consolidated financial statements were prepared on the historical cost basis, except for financial assets held at fair value through profit or loss ("FVTPL") and derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. Financial information is presented in thousands of dollars.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(e) Assessment of COVID-19 impacts:

The global pandemic related to the outbreak of COVID-19 has introduced additional uncertainty on the assumptions used by management in making its judgments and estimates. If the pandemic is prolonged, it could further increase unemployment and business bankruptcies. The Credit Union's interest revenue may be impacted further should the demand for products and services be significantly reduced. As a result of changing economic and market conditions, the Credit Union may see economic credit deterioration and a slowdown in loan originations. The extent to which the pandemic continues to impact the Credit Union's operations and financial performance will depend on future developments, which are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic and actions taken by governments, and governmental and regulatory authorities, and other third parties in response to the pandemic.

3. Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its subsidiaries after the elimination of inter-company transactions and balances, as well as, the Credit Union's proportionate share of profit or loss from an equity investment. The Credit Union is a financial institution and these consolidated results incorporate the following integrated business lines:

- The Credit Union, providing full service retail and commercial lending and deposit products;
- The wholly-owned subsidiary Coastal Community Financial Management Inc. ("CCFMI"), providing financial planning advice, products and services, and life insurance; and
- 50% equity interest in 1200089 B.C. Ltd., a joint venture that owns Interior Savings Insurance Services Inc. ("ISISI"), Coastal Community Insurance Services (2007) Ltd. ("CCIS"), and CCIS' wholly-owned subsidiary Van Isle Insurance Services Ltd. ISISI and CCIS offer full service general insurance including home, business, auto, RV and travel insurance (Note 25).

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated, if based on an evaluation of the substance of its relationship with the Credit Union, and the SPE's risks and rewards, the Credit Union concludes that it controls the SPE. The Credit Union's activities have not resulted in any entity meeting the circumstances that would require an SPE to be consolidated within these consolidated financial statements.

4. Significant accounting policies:

(a) Financial instruments:

(i) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income ("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 (SPPI) on the principal amount outstanding.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

A debt security 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 an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. 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.

4. Significant accounting policies (continued):

(a) 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.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment:

The expected credit loss ("ECL") model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The 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 may be assessed to supplement any 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").

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment (continued):

The 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. The LGD is an estimate of the amount that may not be recovered in the event of default. The 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.

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.

4. Significant accounting policies (continued):

(b) Hedge accounting:

The new hedge accounting model under IFRS 9, *Financial Instruments* aims to simplify hedge accounting, align hedge accounting more closely with an entity's risk management activities, and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and eligible risks. The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB through a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39, *Financial Instruments: Recognition and Measurement* for hedge accounting requirements until an amended standard is effective. The Credit Union has elected to continue applying hedge accounting under IAS 39, but has adopted the new hedge accounting disclosures required by the related amendments to IFRS 7, *Financial Instruments: Disclosures*.

(c) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Land is carried at cost less any accumulated impairment losses. Depreciation is recognized in net income and is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful lives
Buildings	25 years
Leasehold improvements	Lesser of 10 years and term of lease
Furniture and equipment	5 to 10 years
Computer equipment	2 years

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

(d) Intangible assets:

Intangible assets include computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over the estimated useful lives as follows:

Asset	Useful lives
Banking system	5 to 10 years
Computer software	2 years

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

4. Significant accounting policies (continued):

(d) Intangible assets (continued):

Goodwill is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, excluding identifiable intangible assets which are recognized separately. Goodwill is not amortized, but is subject to a fair value impairment test at least annually. Other intangible assets, such as customer lists, are amortized using a straight-line basis over their useful lives, not exceeding ten years. The amortization of intangible assets is recorded in operating expenses.

(e) Derecognition of financial assets and liabilities:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

(f) Impairment of non-financial assets:

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

Impairment charges are included in net income.

(g) Income taxes:

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

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

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

4. Significant accounting policies (continued):

(g) Income taxes (continued):

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

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

(h) Member deposits:

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are measured at amortized cost, using the effective interest rate method.

(i) Derivative financial instruments and hedging:

The Credit Union, in accordance with its risk management strategies, enters into derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets when they have a positive fair value, and as liabilities when they have a negative fair value, in both cases shown on the consolidated statement of financial position.

Hedge accounting is applied to financial assets and financial liabilities only when all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecasted transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

4. Significant accounting policies (continued):

(i) Derivative financial instruments and hedging (continued):

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of variable rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in net income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net income.

If the Credit Union closes out its hedge position early, the cumulative unrealized gain or loss recognized in other comprehensive income is reclassified to net income using the effective interest method.

(j) Pension plans:

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting, as assets and liabilities are pooled and not tracked separately by employer group. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense on an accrual basis. The Credit Union also participates in a defined contribution plan as described in Note 16.

(k) Accounts payable and other payables:

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

(l) Provisions:

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

(m) Members' shares:

Members' shares are classified as liabilities according to their terms. Members' shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

4. Significant accounting policies (continued):

(n) Revenue recognition:

Interest income and expense for interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of comprehensive income using the effective interest method. The effective interest method calculates the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

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

Other interest revenue is recorded using the effective interest rate method. Dividends on equity instruments are recognized when the Credit Union's right to receive payment is established.

(o) Leases:

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: (i) in the lease term; (ii) the Credit Union's assessment of whether it will exercise a purchase option; (iii) a change in an index or a change in the rate used to determine the payments; and (iv) amounts expected to be payable under residual value guarantees.

(p) Foreign currency translation:

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

4. Significant accounting policies (continued):

(q) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

The Credit Union reports its interests in joint ventures over which it has joint control using the equity method. Under the equity method, investments in the joint ventures are initially accounted for at cost, and thereafter adjusted for post-acquisition changes in the Credit Union's share of the net assets of the joint venture, less any impairment in the value of an individual investment. Where losses of a joint venture exceed the Credit Union's interest in that joint venture, the excess is recognized only to the extent that the Credit Union has incurred legal or constructive obligations on behalf of the joint venture.

The Credit Union's earnings include its share of the joint venture's earnings. Distributions received from a joint venture reduce the carrying amount of the investment. All other net asset changes are recognized in equity. The financial statements of the joint venture are prepared for the same reporting period as the Credit Union.

(*i*) Impairment of investment in joint venture:

An investor assesses whether there is an indication that its net investment in the joint venture is impaired. IFRS provides potential indicators, including significant financial difficulty of the investee, and significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If objective evidence of impairment exists, the investor performs an impairment test. The net investment is tested as one single asset under IFRS, by comparing its carrying amount to the recoverable amount (the higher of value in use and fair value less costs to sell.) This includes any fair value adjustments and goodwill arising from the acquisition of the investment. Impairment testing for joint ventures requires significant judgments and estimates to be made.

(r) Discontinued operations:

A discontinued operation is a component of the Credit Union's business, the operations and cash flows of which can be clearly distinguished from the rest of the Credit Union and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

4. Significant accounting policies (continued):

(r) Discontinued operations (continued):

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

(s) Standards issued but not yet effective:

At December 31, 2020, a number of standards and amendments to standards had been issued by the IASB but are not yet effective for these consolidated financial statements. Those which are relevant to the Credit Union's consolidated financial statements are set out below:

(*i*) Interest rate benchmark reform:

In August 2020, the IASB finalized its Phase 2 response to the ongoing IBOR and other interest rate benchmark reform by issuing a package of amendments to IFRS standards which focus on accounting and disclosure matters that will arise once an existing benchmark is replaced with an alternative benchmark rate. The amendments provide practical expedients if contract modifications result directly from IBOR reform and occur on an economic equivalent basis. In these cases, changes may be accounted for by updating the effective interest rate. Further, existing hedging relationships are not required to be discontinued if changes in hedge documentation are required solely by IBOR reform. The amendments are effective for the Credit Union's fiscal year beginning January 1, 2021 with early adoption permitted. The Credit Union is in the process of assessing the impact of these amendments.

5. Critical accounting estimates and judgments:

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

(a) Use of estimates and judgments - 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 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.

5. Critical accounting estimates and judgments (continued):

(a) Use of estimates and judgments - Expected credit loss allowance (continued):

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.

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.

The COVID-19 pandemic has directly impacted the measurement of the ECL. A higher level of uncertainty with respect to future economic outlook has resulted in an increased reliance on management's judgment to determine the data and assumptions used in the ECL model.

Management has applied adjustments for the quantitative and qualitative impacts of the unprecedented macroeconomic scenarios. Adjustments to the ECL have included the support programs the Credit Union provided to its members, such as the loan payment deferral program, which would not, all else being equal, automatically trigger a SICR to that member. Government led support programs initiated to directly support those impacted by COVID-19 have also been considered.

However, these may not completely mitigate future losses and permanent impacts to the local economy; therefore, management judgement has been applied with respect to the degree that various government support programs are expected to limit credit losses.

(*i*) Payment deferrals:

In response to the COVID-19 pandemic, the Credit Union implemented various relief measures to assist our members during COVID-19 including a loan payment deferral program. The agreement to a payment deferral on its own does not represent a SICR for an individual borrower that required 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.

The majority of the accounts that have benefited from the deferral program have resumed payment after the deferral periods have ended.

(Expressed in thousands of dollars, unless otherwise indicated)

5. Critical accounting estimates and judgments (continued):

(a) Use of estimates and judgments - Expected credit loss allowance (continued):

(*i*) Payment deferrals (continued):

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 accounts		Balance	Number of accounts		Balance	Number of accounts		Balance
Residential and personal	17	$	4,580	12	$	3,491	29	$	8,071
Commercial	1		490	1		688	2		1,178
Total	18	$	5,070	13		4,179	31		9,249

(*ii*) 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 considers 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 Canadian economy. To mitigate the economic impact, government and the central bank 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, has led to continuously changing macroeconomic assumptions. Hindsight cannot be used, so while these evolving assumptions may result in future forecasts that differ from those used in the ECL estimation as at December 31, 2020, those changes will be reflected in future years.

The primary macroeconomic variable that is the most sensitive in impacting ECL over the next 12-months and the remaining forecast period thereafter, used to estimate ECL is the BC unemployment rate. For the retail and small business portfolios, unemployment rates are based on monthly data from 2005 to 2020. For the large business portfolio, unemployment rates are based on annual data from 1983 to 2019.

	Base-case scenario		Upside scenario		Downside scenario	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
BC unemployment rate:						
Retail and small business	7.20%	5.93%	5.93%	5.93%	8.20%	5.93%
Large business	8.38%	8.23%	5.23%	8.23%	13.61%	8.23%

(Expressed in thousands of dollars, unless otherwise indicated)

5. Critical accounting estimates and judgments (continued):

(b) Use of estimates - Fair value of financial instruments:

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

The methods and assumptions applied, and the valuation techniques used, in determining the fair value of financial instruments are disclosed in Notes 6, 13 and 20.

6. Investments:

	2020	2019
Term deposits with Central 1	$ 219,535	$ 191,329
Term deposits with financial institutions	85,000	-
Equity instruments, classified as FVTPL:		
Central 1 shares	10,474	10,948
Other	865	865
Other investments, classified as amortized cost:		
Principal and interest reinvestment account pledged as collateral on CMB obligation	1,121	990
Accrued interest and dividends	1,871	2,207
	$ 318,866	$ 206,339

Credit Unions in British Columbia must maintain liquid investments with Central 1 at a minimum of 8% of their deposit and debt liabilities less cash on hand. At maturity, deposits with Central 1 are reinvested at market rates for various terms. See Note 21 for the average yield on the accounts.

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

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

(Expressed in thousands of dollars, unless otherwise indicated)

6. Investments (continued):

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union. Dividends on these shares are at the discretion of the Central 1 Board of Directors.

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

Class F shares are recorded at their cost of $1 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares. The shares were redeemed at par in January 2021 as per note 26 Subsequent Event.

Other equity instruments are recorded at cost. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, cost is the best representation of fair value.

7. Loans to members:

	2020	2019
Residential mortgages	$ 1,748,577	$ 1,737,723
Personal loans	67,730	79,910
Commercial loans	592,498	576,103
	2,408,805	2,393,736
Accrued interest receivable	4,702	5,052
Allowance for impaired loans (note 8)	(7,013)	(5,261)
Loans to members	$ 2,406,494	$ 2,393,527

At December 31, 2020, the Credit Union had $132,924 (2019 - $157,869) of residential mortgages which had been securitized in the Canada Mortgage Bonds program and are included in the consolidated statement of financial position as the securitization transactions do not meet the requirements for derecognition. Residential mortgages that have been securitized through the Canada Mortgage Bonds program and pledged as collateral for secured borrowings are disclosed in Note 12.

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maximum term of ten years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the member's credit worthiness.

The interest rate offered on fixed rate loans varies with the type of security offered and the member’s credit worthiness.

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(a) Terms and conditions (continued):

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

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

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

(b) Average yields to maturity:

See Note 21 for the average yields on loans to members.

(c) Credit quality and credit risk exposures:

The following tables set out information about the credit quality of the Credit Union's loans measured at amortized cost and other credit risk exposures, by category of loss allowance at December 31, 2020. The amounts in the tables represent the carrying amounts of loans and committed amounts under loan commitments and letters of credit.

Risk Level	Stage 1	Stage 2	Stage 3	2020	2019
RESIDENTIAL MORTGAGES					
Very low	$ 34,062	$ -	$ -	$ 34,062	$ 30,526
Low	296,188	-	-	296,188	251,195
Medium	1,145,156	44,529	-	1,189,685	1,189,199
High	202,237	34,891	-	237,128	254,022
Very High	12,387	166,708	-	179,095	202,630
Default	-	36,794	-	36,794	43,965
Total	1,690,030	282,922	-	1,972,952	1,971,537
Loss allowance	(913)	(2,986)	-	(3,899)	(2,165)
	$ 1,689,117	$ 279,936	$ -	$ 1,969,053	$ 1,969,372

Risk Level	Stage 1	Stage 2	Stage 3	2020	2019
PERSONAL LOANS					
Very low	$ 14,002	$ -	$ -	$ 14,002	$ 12,041
Low	41,201	34	-	41,235	40,253
Medium	63,430	2,450	-	65,880	71,161
High	7,150	2,348	15	9,513	10,574
Very High	429	6,477	5	6,911	8,031
Default	-	1,260	52	1,312	2,130
Total	126,212	12,569	72	138,853	144,190
Loss allowance	(170)	(491)	(72)	(733)	(543)
	$ 126,042	$ 12,078	$ -	$ 138,120	$ 143,647

(Expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(c) Credit quality and credit risk exposures (continued):

Risk Level	Stage 1	Stage 2	Stage 3	2020	2019
COMMERCIAL LOANS					
Very low	$ 7,508	$ 281	$ -	$ 7,789	$ 7,504
Low	30,563	2,132	-	32,695	39,688
Medium	101,847	20,357	1	122,205	96,226
High	136,453	274,762	5	411,220	348,529
Very High	104,969	40,979	-	145,948	171,134
Default	193	2,161	231	2,585	15,832
Total	381,533	340,672	237	722,442	678,913
Loss allowance	(899)	(1,272)	(210)	(2,381)	(2,553)
	$ 380,634	$ 339,400	$ 27	$ 720,061	$ 676,360

(d) Fair value:

See note 21 for the fair value of loans to members.

The estimated fair value of variable rate loans approximates book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks. Level 2 inputs are used to measure the fair value.

(e) Concentration of risk:

There are no individual members or related groups of members with loans exceeding 10% of members' equity.

The majority of member loans are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

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

The Government of Canada ("GOC") has implemented a CEBA program to support Canadian businesses that have been adversely impacted by COVID-19. Eligible businesses that are approved by the GOC will have access to interest-free, partially forgivable loans of up to $60 made to qualifying small businesses and not-for-profit organizations 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 the CEBA program are not recognized on the consolidated balance sheet 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 costs associated with administering the loans, which is recognized in the consolidated statement of income.

(Expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses:

Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, December 31, 2019	$ 629	$ 1,536	$ -	$ 2,165
Provisions for credit losses:				
Transfers to Stage 1	364	(364)	-	-
Transfers to Stage 2	(50)	50	-	-
Transfers to Stage 3	-	-	-	-
Originations	226	538	-	764
Maturities	(102)	(455)	-	(557)
Remeasurements	(154)	1,685	-	1,531
Net write-offs	-	(4)	-	(4)
Balance, December 31, 2020	$ 913	$ 2,986	$ -	$ 3,899
PERSONAL LOANS				
Balance, December 31, 2019	$ 117	$ 368	$ 58	$ 543
Provisions for credit losses:				
Transfers to Stage 1	62	(62)	-	-
Transfers to Stage 2	(7)	12	(5)	-
Transfers to Stage 3	-	(8)	8	-
Originations	12	25	-	37
Maturities	(7)	(35)	(27)	(69)
Remeasurements	(7)	309	52	354
Net write-offs	-	(118)	(14)	(132)
Balance, December 31, 2020	$ 170	$ 491	$ 72	$ 733
COMMERCIAL LOANS				
Balance, December 31, 2019	$ 1,574	$ 859	$ 120	$ 2,553
Provisions for credit losses:				
Transfers to Stage 1	498	(398)	(100)	-
Transfers to Stage 2	(123)	123	-	-
Transfers to Stage 3	-	(13)	13	-
Originations	177	206	-	383
Maturities	(149)	(156)	-	(305)
Remeasurements	(1,078)	651	177	(250)
Net write-offs	-	-	-	-
Balance, December 31, 2020	$ 899	$ 1,272	$ 210	$ 2,381
TOTAL LOANS TO MEMBERS				
Balance, December 31, 2019	$ 2,320	$ 2,763	$ 178	$ 5,261
Provisions for credit losses:				
Transfers to Stage 1	924	(824)	(100)	-
Transfers to Stage 2	(180)	185	(5)	-
Transfers to Stage 3	-	(21)	21	-
Originations	415	769	-	1,184
Maturities	(258)	(646)	(27)	(931)
Remeasurements	(1,239)	2,645	229	1,635
Net write-offs		(122)	(14)	(136)
Balance, December 31, 2020	$ 1,982	$ 4,749	$ 282	$ 7,013

(Expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

Reconciliation of allowance for credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, December 31, 2018	$ 687	$ 1,748	$ -	$ 2,435
Provisions for credit losses:				
Transfers to Stage 1	278	(278)	-	-
Transfers to Stage 2	(393)	393	-	-
Transfers to Stage 3	-	-	-	-
Originations	132	205	-	337
Maturities	(86)	(557)	-	(643)
Remeasurements	11	25	-	36
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 629	$ 1,536	$ -	$ 2,165
PERSONAL LOANS				
Balance, December 31, 2018	$ 163	$ 330	$ 124	$ 617
Provisions for credit losses:				
Transfers to Stage 1	49	(49)	-	-
Transfers to Stage 2	(102)	127	(25)	-
Transfers to Stage 3	(6)	(28)	34	-
Originations	10	21	-	31
Maturities	(15)	(90)	(88)	(193)
Remeasurements	18	57	13	88
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 117	$ 368	$ 58	$ 543
COMMERCIAL LOANS				
Balance, December 31, 2018	$ 1,351	$ 810	$ 125	$ 2,286
Provisions for credit losses:				
Transfers to Stage 1	84	(84)	-	-
Transfers to Stage 2	102	(102)	-	-
Transfers to Stage 3	-	-	-	-
Originations	272	94	-	366
Maturities	(136)	(124)	-	(260)
Remeasurements	(99)	265	(5)	161
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 1,574	$ 859	$ 120	$ 2,553
TOTAL LOANS TO MEMBERS				
Balance, December 31, 2018	$ 2,201	$ 2,888	$ 249	$ 5,338
Provisions for credit losses:				
Transfers to Stage 1	411	(411)	-	-
Transfers to Stage 2	(393)	418	(25)	-
Transfers to Stage 3	(6)	(28)	34	-
Originations	414	320	-	734
Maturities	(237)	(771)	(88)	(1,096)
Remeasurements	(70)	347	8	285
Net write-offs	-	-	-	-
Balance, December 31, 2019	$ 2,320	$ 2,763	$ 178	$ 5,261

(Expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

Analysis of loans that are individually impaired or potentially impaired based on age of repayments outstanding:

	2020		2019	
	Carrying value	Stage 3	Carrying value	Stage 3
Period of delinquency:				
Less than 30 days	$ 5	$ 5	$ 4	$ 4
30 to 90 days	-	-	543	-
Over 90 days	605	5	680	-
Total loans in arrears	610	10	1,227	4
Total loans not in arrears	2,408,195	272	2,392,509	174
	$ 2,408,805	$ 282	$ 2,393,736	$ 178

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses:

Significant increase in credit risk:

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assesses at each reporting date whether there has been a SICR for a financial asset. In assessing whether a SICR has occurred, the Credit Union considers quantitative factors, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when the risk rating of a loan has increased significantly at the reporting date compared to the origination date. For residential mortgages, personal loans and small business loans, SICR is assessed based on the credit score of the member.

For large business commercial loans, SICR is assessed based on the debt-service, working capital and debt-to-equity ratios.

For all loans to members, a SICR is considered to have occurred when the financial assets are more than 30-days past maturity and outstanding.

As permitted by IFRS 9, loans to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, the Credit Union has grouped its financial assets into segments on the basis of shared credit risk characteristics for each component of the ECL calculation.

8. Allowance for credit losses (continued):

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses (continued):

Significant increase in credit risk (continued):

Probability of default:

The 12-month PDs for residential mortgages, personal loans are based on historical credit score data for Canadian credit unions. The 12-month PDs for commercial loans are based on Moody's corporate default data.

The lifetime PDs for all loans to members are calculated based on the 12-month PDs for the financial assets and the expected remaining life of the financial assets, assuming a constant default rate during the lifetime of the financial assets.

Loss given default:

The LGD reflects the Credit Union's estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is estimated based on the historical loss experience of the Credit Union taking into account the loan product, the net amount written off, and the gross exposure.

Forward-looking information and macroeconomic factors:

The forward-looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. In determining the FLI input to the ECL calculation, management makes forecasts of multiple probability-weighted-forward looking and macroeconomic scenarios. The forward looking and macroeconomic factor considered in determining the FLI inputs to the Credit Union's ECL calculation was the unemployment rate.

Exposure at default:

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan.

The starting point for determining EAD is the principal and interest payments of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on the Credit Union's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

(Expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses (continued):

Significant increase in credit risk (continued):

Credit-impaired financial assets:

When identifying loans to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, the Credit Union determines whether indicators of a borrower's unlikeliness to pay exist.

The Credit Union the quantitative thresholds of contractually 90 days in arrears for identifying loans to members that are credit-impaired.

(b) Key assumptions in determining the allowance for credit losses:

Analysis of loans with repayments past due but not regarded as individually impaired:

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 2,551	$ 150	$ 13	$ 2,714
Over 90 days	267	57	772	1,096
Balance, December 31, 2020	$ 2,818	$ 207	$ 785	$ 3,810

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 3,191	$ 234	$ 315	$ 3,740
Over 90 days	1,585	58	600	2,243
Balance, December 31, 2019	$ 4,776	$ 292	$ 915	$ 5,983

(Expressed in thousands of dollars, unless otherwise indicated)

9. Premises, equipment and intangible assets:

	Premises and equipment							Intangible assets
Cost:	ROU*	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2018	$ -	$ 3,056	$ 11,979	$ 12,961	$ 8,692	$ 19,262	$ 55,950	$ 30,490
Adoption of IFRS 16	12,393	-	-	-	-	-	12,393	-
Additions	828	-	7	1,718	1,083	916	4,552	1,755
Transfers	-	-	(2)	(1,083)	(340)	(613)	(2,038)	(599)
Disposals	-	-	-	(723)	(5,629)	(9,072)	(15,424)	(22,192)
Balance, December 31, 2019	13,221	3,056	11,984	12,873	3,806	10,493	55,433	9,454
Additions	-	-	16	1,396	600	1,232	3,244	1,278
Transfers	-	-	-	(787)	(245)	(650)	(1,682)	(821)
Disposals	(193)	(618)	-	(1,343)	(119)	(733)	(3,006)	-
Balance, December 31, 2020	$ 13,028	$ 2,438	$ 12,000	$ 12,139	$ 4,042	$ 10,342	$ 53,989	$ 9,911

	Premises and equipment							Intangible assets
Accumulated depreciation and amortization:	ROU*	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2018	$ -	$ -	$ 6,944	$ 9,287	$ 7,770	$ 16,867	$ 40,868	$ 21,103
Amortization	1,633	-	311	728	652	715	4,039	206
Transfers	-	-	-	-	134	(134)	-	-
Disposals	-	-	-	(684)	(5,592)	(8,915)	(15,191)	(13,289)
Balance, December 31, 2019	1,633	-	7,255	9,331	2,964	8,533	29,716	8,020
Amortization	1,519	-	311	761	425	585	3,601	259
Transfers	-		-	-	-	-	-	-
Disposals	(193)	-	-	(1,343)	(119)	(727)	(2,382)	-
Balance, December 31, 2020	$ 2,959	$ -	$ 7,566	$ 8,749	$ 3,270	$ 8,391	$ 30,935	$ 8,279
Net book value:								
Balance, December 31, 2020	$ 10,069	$ 2,438	$ 4,434	$ 3,390	$ 772	$ 1,951	$ 23,054	$ 1,632
Balance, December 31, 2019	11,588	3,056	4,729	3,542	842	1,960	25,717	1,434

*Right-of-Use Asset under IFRS 16.

(Expressed in thousands of dollars, unless otherwise indicated)

10. Other assets:

	2020	2019
Accounts receivable	$ 3,910	$ 1,267
Prepaid expenses	3,246	4,215
Deferred broker fee expense	2,357	2,676
	$ 9,513	$ 8,158

11. Member deposits:

	2020	2019
Demand	$ 1,674,200	$ 1,336,521
Term	758,908	751,174
Registered plans	268,241	264,951
Other	13	13
	2,701,362	2,352,659
Accrued interest payable	13,575	13,860
	$ 2,714,937	$ 2,366,519

(a) Terms and conditions:

Demand deposits are due on demand. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed or variable rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity.

Registered plans can be fixed or variable rate with terms and conditions similar to those described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

(b) Average yields to maturity:

See Note 21 for the average yields on member deposits.

11. Member deposits (continued):

(c) Fair value:

See Note 21 for the fair value of member deposits.

The estimated fair value of demand deposits and variable rate deposits approximates book value, as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and options. Level 2 inputs are used to measure the fair value.

(d) Concentration of risk:

There are no member deposits held by an individual or a related group of members which exceed 2% of member deposits. The majority of member deposits are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

12. Borrowings:

The Credit Union maintains operating lines of credit with Central 1 and another financial institution.

The Credit Union's Board of Directors has approved an overall borrowing limit of $280,700 with Central 1 (2019 - $268,100). As of December 31, 2020, $109,400 (2019 - $103,400) of this limit was authorized which includes a $400 US dollar line of credit (2019 - $400). The authorized credit facility is secured by a registered Commercial Security Agreement.

The other facility is authorized to a maximum of $50,000 (2019 - $50,000) and is secured by a first charge against specific insured residential mortgages to a maximum of 110% of the outstanding balance.

At December 31, 2020, none of these credit facilities were drawn (2019 - nil).

During the year, the Credit Union did not participate in the Canada Mortgage Bond program (2019 - $15,520). At December 31, 2020, the carrying amount of secured borrowings was $131,983 (2019 - $157,595). The carrying amount of the assets held as security was $132,924 (2019 - $157,869), which comprises of residential mortgages. The Credit Union receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in Note 21(e)(*ii*).

(Expressed in thousands of dollars, unless otherwise indicated)

13. Derivative financial instruments:

	2020			2019		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk:						
Pay fixed/receive floating interest rate swaps	$ -	$ 5,046	$ 145,000	$ 562	$ 1,473	$ 175,000
Accrued interest	-	455	-	235	68	-
Total fair value before adjustments	$ -	$ 5,501	$ 145,000	$ 797	$ 1,541	$ 175,000
Adjustment for master netting agreements	$ -	$ -	$ -	$ (797)	$ (797)	$ -
	$ -	$ 5,501	$ 145,000	$ -	$ 744	$ 175,000

(Expressed in thousands of dollars, unless otherwise indicated)

14. Other liabilities:

		2020		2019
Accounts payable and accruals	$	25,050	$	20,045
Deferred fee income		1,398		1,378
Lease liabilities		10,428		11,767
Other		1,185		1,181
	$	38,061	$	34,371

For additional details regarding lease liabilities, see Note 24.

15. Income taxes:

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

		2020		2019
Current tax expense:				
Based on current year taxable income	$	2,381	$	2,280
Adjustments for under (over) provision in prior periods		-		8
		2,381		2,288
Deferred tax recovery:				
Origination and reversal of temporary differences		78		198
	$	2,459	$	2,486

The significant components of the tax effect of the amounts recognized in other comprehensive income are comprised of:

		2020		2019
Current tax:				
Change in unrealized losses on cash flow hedges	$	241	$	(263)
Reclassification of unrealized losses on cash flow hedges		(711)		149
	$	(470)	$	(114)

(Expressed in thousands of dollars, unless otherwise indicated)

15. Income taxes (continued):

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2019 - 27%) are as follows:

	2020	2019
Income before income taxes	$ 15,049	$ 29,584
Expected taxes based on the statutory rate	4,063	7,988
Reduction due to credit union additional deduction	(1,483)	(3,058)
Non-deductible portion of expenses and other items	(121)	(2,444)
	$ 2,459	$ 2,486

The movement in 2020 deferred tax liabilities and assets are:

2020	Opening balance	Recognized in net income	Transition to IFRS 16	Components of Discontinued Operations	Closing balance
Deferred tax liabilities:					
Other	$ 2,248	$ (536)	$ -	$ -	$ 1,712
	2,248	(536)		-	1,712
Deferred tax assets:					
Loan provisions	867	282	-	-	1,149
Other	2,786	(896)	-	-	1,890
	3,653	(614)	-	-	3,039
Net deferred tax asset	$ (1,405)	$ 78	$ -	$ -	$ (1,327)

The movement in 2019 deferred tax liabilities and assets are:

2019	Opening balance	Recognized in net income	Transition to IFRS 16	Components of Discontinued Operations	Closing balance
Deferred tax liabilities:					
Other	$ -	$ -	$ 2,248	$ -	$ 2,248
	-	-	2,248	-	2,248
Deferred tax assets:					
Loan provisions	903	(36)	-	-	867
Other	307	86	2,000	393	2,786
	1,210	50	2,000	393	3,653
Net deferred tax asset	$ (1,210)	$ (50)	$ 248	$ (393)	$ (1,405)

(Expressed in thousands of dollars, unless otherwise indicated)

15. Income taxes (continued):

	2020	2019
Deferred tax liabilities:		
Deferred tax liabilities to be settled within 12-months	$ -	$ -
Deferred tax liabilities to be settled after more than 12-months	1,712	2,248
	1,712	2,248
Deferred tax assets:		
Deferred tax assets to be settled within 12-months	497	953
Deferred tax assets to be settled after more than 12-months	2,542	2,700
	3,039	3,653
Net deferred tax asset	$ (1,327)	$ (1,405)

16. Pension plans:

The Credit Union and its employees contribute and participate in two pension plans offered and administered by Central 1.

(a) Group registered retirement savings plan:

Employer contributions for the majority of employees are made to a group retirement savings plan at a percentage of annual salary. Employer contributions made during the year totaled $3,549 (2019 - $3,437). Employees contributed a total of $873 (2019 - $747) during the year.

(b) Defined benefit pension plan:

The defined benefit pension plan is a multi-employer defined benefit plan with several active contributors from various credit unions. The Credit Union requires employees to make contributions, while the Credit Union assumes the remaining costs required to pay the employees' pension. The Plan is governed by a 12-member Board of Trustees which is responsible for overseeing the investment management of the Plan assets. The administration of the benefits is managed by Morneau Sheppel through the Credit Union Pension & Benefits Trust Member Service Centre. The Plan at September 30, 2020 has about 3,630 active employees and approximately 1,185 retired plan members. Total plan assets are $924 million.

(Expressed in thousands of dollars, unless otherwise indicated)

16. Pension plans (continued):

(b) Defined benefit pension plan (continued):

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation was performed as at December 31, 2018, indicating a going concern surplus of $31.6 million, and a solvency deficiency of $99.5 million. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer's own unfunded liability. The deficit is targeted to be financed over time through increased contributions. Employer contributions made during the year totaled $171 (2019 - $187). Employees contributed a total of $74 (2019 - $77) during the year.

The next actuarial valuation is scheduled for December 31, 2021 with results available in mid-2022.

17. Members' shares:

			2020
	Authorized units		Outstanding
Class A membership equity	Unlimited	$	2,548
Class B investment equity	140		991
		$	3,539

			2019
	Authorized units		Outstanding
Class A membership equity	Unlimited	$	2,619
Class B investment equity	140		1,114
		$	3,733

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

(Expressed in thousands of dollars, unless otherwise indicated)

17. Members' shares (continued):

(a) Terms and conditions:

(*i*) Class A Membership equity shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold a minimum of $5 and a maximum of $1,000 in membership shares. These membership shares have voting rights and are redeemable at par only when a membership is withdrawn or terminated. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC). These shares are classified as a liability because they are available for redemption at the option of the member.

(*ii*) Class B Investment equity shares:

Investment shares are voting as a separate class, can be issued only to members of the Credit Union and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are classified as a liability because they are available for redemption at the option of the member. Investment shares are closed to new purchases at this time.

(*iii*) Unissued shares:

The Credit Union has authorized, but has not issued or has outstanding, share classes as follows: Class C to Class P Equity shares, Class Q to Class Y Preferred Equity shares and Class Z Non-Equity shares. Class C to J equity shares are only issued to a CCCU member, Class K to P equity shares are issued to either a CCCU member or a person who is not a CCCU member. Each class consists of an unlimited number of shares containing various rights and restrictions as approved at the 2012 annual general meeting of the Credit Union.

(b) Distributions to members:

	2020	2019
Dividends on membership shares	$ 13	$ 23
Dividends on investment shares	10	28
	$ 23	$ 51

Distributions to members are recognized in net income in other operating and administrative expense.

(Expressed in thousands of dollars, unless otherwise indicated)

18. Other income:

		2020		2019
Building and property income	$	589	$	218
Dividends on FVTPL investments		471		764
Insurance administration fees		722		966
Insurance and financial commissions		5,703		5,666
Member account service fees		4,784		5,524
Member loan fees		3,049		2,598
Mortgage payout fees		2,968		1,213
Other service income		2,216		2,142
Safety deposit box fees		209		221
Central 1 investment gain		4,340		0
	$	25,051	$	19,312

In 2020, the Credit Union recognized a modification gain of $4,340 on deposits held as investments with 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, *Subsequent Event.*

19. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and their close family members.

		2020		2019
Compensation:				
Salaries and other short-term employee benefits	$	2,544	$	2,412
Total pension and other post-employment benefits		181		178

		2020		2019
Loans to key management personnel:				
Aggregate value of loans advanced	$	2,519	$	4,129
Aggregate value of unadvanced loans		734		698
Total value of lines of credit advanced		115		95
Unused value of lines of credit		495		357

19. Related party transactions (continued):

Loans must satisfy all normal lending criteria as set out in the Credit Union's Investment and Lending Policy and Lending Services Manual. All loans are subject to the same approval process as afforded regular member loans and in addition, the approval of staff and related party loans are to be in accordance with established processes.

	2020	2019
Deposits from key management personnel:		
Aggregate value of deposits	$ 7,681	$ 8,515

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

20. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the financial reporting date. The fair values of financial assets and liabilities with floating interest rates are assumed to equal their book values, as the interest rates on these instruments automatically re-price to market rates. Fair values of other financial assets and liabilities are assumed to approximate their carrying values, primarily due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. Fair values have not been determined for any other assets or liabilities that are not a financial instrument. Due to the judgment used in calculating fair value amounts, fair values are not necessarily comparable among financial institutions.

The calculation of estimated fair values is based on market conditions at the financial reporting date and may not be reflective of future fair value.

Assets and liabilities that are measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

(Expressed in thousands of dollars, unless otherwise indicated)

20. Financial instrument classification and fair value (continued):

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

The following table illustrates the classification of the Credit Union's financial instruments. There were no transfers between the levels of the fair value hierarchy for the years ended December 31, 2020 and 2019.

	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Financial investments FVTPL:				
Equity instruments:				
Central 1 shares	$ -	$ 10,802	$ -	$ 11,644
Other membership shares	-	865	-	865
Financial assets at amortized cost:				
Cash and cash equivalents	-	289,383	-	69,957
Term deposits with Central 1	-	221,040	-	192,839
Term deposits with financial institutions	-	85,038	-	-
Principal and interest reinvestment account pledged as collateral on CMB obligation	-	1,121	-	991
Loans to members	-	2,406,494	-	2,393,527
Total assets	$ -	$ 3,014,743	$ -	$ 2,669,823

	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Financial liabilities at amortized cost:				
Member deposits	$ -	$ 2,714,937	$ -	$ 2,366,519
Borrowings	-	131,983	-	157,595
Other liabilities	-	36,651	-	32,941
Financial liabilities at fair value:				
Interest rate swaps	-	5,501	-	744
Total liabilities	$ -	$ 2,889,072	$ -	$ 2,557,799

The following table discloses the carrying amount and fair value by classification of the Credit Union's financial instruments, including derivatives. Differences between the carrying value and fair value of the Credit Union's financial instruments are due primarily to changes in interest rates. The Credit Union normally expects to hold the instruments to maturity, so carrying values have not been adjusted to reflect the differences. The table does not include assets and liabilities that do not meet the definition of a financial instrument:

(Expressed in thousands of dollars, unless otherwise indicated)

20. Financial instrument classification and fair value (continued):

2020	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 289,383	$ 289,383	$ -
Investments	318,866	323,765	4,899
Loans to members	2,406,494	2,451,212	44,718
Other assets	3,910	3,910	-
Member deposits	(2,714,937)	(2,728,263)	(13,326)
Borrowings	(131,983)	(137,392)	(5,409)
Derivative instruments	(5,501)	(5,501)	-
Other liabilities	(36,651)	(36,651)	-
Members' shares	(3,539)	(3,539)	-
Net financial instruments	$ 126,042	$ 156,924	$ 30,882

2019	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 69,957	$ 69,958	$ 1
Investments	206,339	206,960	621
Loans to members	2,393,527	2,405,193	11,666
Other assets	1,266	1,266	-
Member deposits	(2,366,519)	(2,368,369)	(1,850)
Borrowings	(157,595)	(161,324)	(3,729)
Derivative instruments	(744)	(744)	-
Other liabilities	(32,941)	(32,941)	-
Members' shares	(3,733)	(3,733)	-
Net financial instruments	$ 109,557	$ 116,266	$ 6,709

21. Financial instrument risk management:

(a) General objectives, policies and processes:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management (ERM) framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. The Board has established the Audit and Risk Committee, comprised of five Directors, to oversee the financial reporting and audit and risk management processes. The Committee receives quarterly risk reporting from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

21. Financial instrument risk management (continued):

(b) Credit risk:

Credit risk is the risk of a financial loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

(*i*) Risk measurement:

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

(*ii*) Objectives, policies and processes:

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

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

Reports summarizing delinquency, write-offs, and allowances are reviewed and approved quarterly by the Investment and Lending Committee of the Board of Directors.

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

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(b) Credit risk (continued):

(*iii*) Exposures to credit risk:

	2020	2019
On statement of financial position exposure:		
Loans to members	$ 2,413,507	$ 2,398,788
Term deposits with Central 1	221,040	192,839
Term deposits with financial institutions	85,038	-
Central 1 shares	10,802	11,644
	2,730,387	2,603,271
Off statement of financial position exposure:		
Undisbursed loans	82,211	74,782
Unutilized lines of credit	333,688	315,317
Letters of credit	4,830	5,752
	420,729	395,851
Maximum exposure to credit risk	$ 3,151,116	$ 2,999,122

For details of inputs, assumptions and estimation techniques for measuring expected credit losses, see note 8.

(c) Liquidity risk:

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

(*i*) Risk measurement:

The Financial Institutions Act ("FIA") requires credit unions to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective Credit Union specific and market conditions and the related behaviour of its members and counterparties.

21. Financial instrument risk management (continued):

(c) Liquidity risk (continued):

(*ii*) Objectives, policies and processes:

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows.
- Monitoring the maturity profiles of financial assets and liabilities.
- Maintaining diversified funding sources which include committed borrowing facilities as explained in Note 12.
- Monitoring the liquidity ratios monthly.

Management annually reviews its liquidity plan for various scenarios.

The Board of Directors receives quarterly liquidity reports. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates and currency rates. See Notes 21(e) and 21(f) for more details on interest rate risk and currency risk.

(e) Interest rate risk:

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

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

21. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

(*i*) Risk measurement:

Interest rate risk is measured by its impact to earnings (“earnings-at-risk” or “EaR”) and its impact to the fair value of equity (“economic value of equity” or “EVE”). The EaR metric measures the impact changes in interest rates have on the 12-month financial margin forecast. The EVE metric measures the longer-term impact that interest rates have on the equity of the Credit Union. The amount of interest rate risk that the Credit Union will undertake depends on income and capital positions, and the risk appetite established by the Board of Directors.

(*ii*) Objectives, policies and processes:

The objective for managing interest rate risk is to comply with the maximum EaR and EVE limits as established in the Investment and Lending Policy. The Asset Liability Committee (“ALCO”) reviews monthly simulations of the impact on EaR and EVE for various interest rate scenarios. The Investment and Lending Committee reviews the simulation model results quarterly.

The Investment and Lending Policy is reviewed annually by the Investment and Lending Committee with updates being recommended to the Board of Directors for approval. For the year ended December 31, 2020, the Credit Union was in compliance with its interest rate risk policy limits.

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

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

	Variable rate	Less than 1 year	Over 1 to 5 years	Over 5 years	Non-rate sensitive	2020 Total
Assets:						
Cash and cash equivalents	$ -	$ 233,011	$ -	$ -	$ 56,372	$ 289,383
Effective interest rate	-	*0.31%*	-	-		*.25%*
Investments	57,505	140,390	107,761	-	13,210	318,866
Effective interest rate	*.53%*	*.70%*	*1.86%*	-		*1.03%*
Loans to members	559,620	476,549	1,372,501	134	(2,310)	2,406,494
Effective interest rate	*3.70%*	*3.04%*	*3.23%*	*6.35%*		*3.31%*
Other assets	-	-	-	-	65,831	65,831
Effective interest rate	-	-	-	-		-
	$ 617,125	$ 849,950	$ 1,480,262	$ 134	$ 133,103	$ 3,080,574
Asset yield	3.40%	1.90%	3.13%	6.35%		2.71%
Liabilities:						
Member deposits	$ 741,161	$ 1,544,502	$ 415,698	$ -	$ 13,576	$ 2,714,937
Effective interest rate	*.05%*	*.70%*	*2.02%*	-		*.72%*
Borrowings	-	34,072	97,911	-	-	131,983
Effective interest rate	-	*2.52%*	*2.80%*	-		*2.73%*
Other liabilities	-	-	-	-	41,600	41,600
Effective interest rate	-	-	-	-		-
Derivative financial instruments	5,501	-	-	-	-	5,501
Effective interest rate	-	-	-	-		-
Members' equity	-	-	-	-	186,553	186,553
Effective interest rate	-	-	-	-		-
	$ 746,662	$ 1,578,574	$ 513,609	$ -	$ 241,729	$ 3,080,574
Total liability cost	.05%	.74%	2.17%			.75%
Interest rate swaps (notional amount):						
Asset	$ -	$ 145,000	$ -	$ -	$ -	$ 145,000
Liability	-	(20,000)	(125,000)	-	-	(145,000)
2020 net mismatch	$ (129,537)	$ (603,624)	$ 841,653	$ 134	$ (108,626)	$ -
2019 net mismatch	$ (108,077)	$ (489,970)	$ 689,144	$ 262	$ (91,359)	$ -

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

The expected timing and amount of interest payments related to the hedged portion of the Credit Union's variable rate deposits are as follows:

December 31, 2020	< 1 year	1 - 5 years	Total
Assets	$ -	$ -	$ -
Liabilities	2,273	3,127	5,400
Net cash outflow	$ 2,273	$ 3,127	$ 5,400

December 31, 2019	< 1 year	1 - 5 years	Total
Assets	$ -	$ -	$ -
Liabilities	31	828	859
Net cash outflow	$ 31	$ 828	$ 859

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

The expected change to net interest income as a result of an immediate change in interest rates is as follows:

	2020	2019
1 per cent increase in rates	$ 2,946	$ 817
1 per cent decrease in rates	(1,208)	(1,555)

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

(f) Currency risk:

Currency risk is the impact on the Credit Union from the difference in the balances of foreign currency denominated assets and liabilities and from foreign currency transactions with members.

The Credit Union's currency risk is related to USD, GBP and Euro member accounts and transactions.

21. Financial instrument risk management (continued):

(f) Currency risk (continued):

(*i*) Risk measurement:

The Credit Union's foreign currency asset and liability balances are measured and monitored daily. Foreign exchange rates charged to members and currency purchase costs are monitored daily.

(*ii*) Objectives, policies and processes:

The Credit Union manages currency risk by limiting the unhedged foreign exchange exposures to the limits established in the Investment and Lending Policy. Foreign exchange risk is mitigated by investing the USD, GBP and Euro deposits in investments denominated in the same currencies. As a result, there would be no significant impact to net income if there was an increase or decrease in foreign exchange rates.

Management reviews its foreign exchange plan annually. The Investment and Lending Committee receives quarterly foreign exchange reports. For the year ended December 31, 2020, the Credit Union's exposures to foreign exchange risk were within policy.

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

22. Capital management:

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated regularly and provides a forecast of capital requirements over a three-year period.

Capital requirements are regulated by the BC Financial Services Authority ("BCFSA"). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained.

The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk weighted asset levels. At December 31, 2020, the Credit Union has met its minimum regulatory requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

23. Commitments:

(a) Credit:

The Credit Union made commitments to members for loans that had not been disbursed, unutilized portions of lines of credit and unexpired letters of credit as follows:

	2020	2019
Undisbursed loans	$ 82,211	$ 74,782
Unutilized lines of credit	333,688	315,317
Letters of credit	4,830	5,752

(b) Contractual:

The Credit Union has a banking system hosting agreement that renews annually each September with annual hosting costs of $392. The Credit Union is also committed to annual banking system software maintenance costs of approximately $935 to 2021.

(c) Other provisions:

The Credit Union is subject to litigation. Provisions are recorded for management's best estimate of the Credit Union's liability related to legal disputes for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether claims will be settled in or out of court or if the Credit Union will be successful in defending any actions.

24. Lease obligations:

(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 5-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:

Balance at January 1, 2020	$ 11,588
Additions to right-of-use assets	0
Depreciation	(1,519)
Balance at December 31, 2020	$ 10,069

(Expressed in thousands of dollars, unless otherwise indicated)

24. Lease obligations (continued)

(b) Lease liabilities:

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2020:

Less than one year	$	1,780
Between one and five years		7,426
More than five years		2,991
Total undiscounted lease obligations	$	12,197
Lease liabilities included in statement of financial position		
Current	$	1,902
Non-current		8,526
Total	$	10,428

The Credit Union has used a weighted average incremental borrowing rate of 3.78% (2019 - 3.76%) to discount its lease obligations.

25. Investment in joint venture:

Effective April 1, 2019, the Credit Union held an equity interest in the joint venture 1200089 B.C. Ltd. The joint venture is held 50% by the Credit Union and 50% by Interior Savings Credit Union ("ISCU").

	2020	2019
Opening interest in joint venture	$ 29,681	$ 29,243
Inter-company eliminations and amortization	(562)	(385)
Share of total comprehensive income	768	823
Carrying value of interest in joint venture – December 31	$ 29,887	$ 29,681
Percentage ownership interest	50%	50%

Assets	$ 20,219	$ 18,679
Intangible assets and goodwill	31,261	30,867
Liabilities	(9,552)	(9,154)
Net assets (100%)	41,928	40,392
Credit Union's share of net assets (50%)	20,964	20,196

(Expressed in thousands of dollars, unless otherwise indicated)

25. Investment in joint venture (continued):

	2020	2019
Commission income	$ 24,043	$ 18,993
Operating expenses	(22,047)	(16,747)
Income tax expense	(460)	(600)
Profit and total comprehensive income (100%)	1,536	1,646
Credit Union’s share of profit and total comprehensive income (50%)	768	823
Dividends received by the Credit Union	$ -	$ -

26. Subsequent event:

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

In the new structure, effective January 1, 2021, the Credit Union now maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as high-quality liquidity assets.

To transition to this new structure, on January 1, 2021 the deposits held in the mandatory liquidity pool by the Credit Union of $213,917 were extinguished in exchange for a portfolio of high-quality liquid assets which 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 $9,559 in January 2021.

For commentary on our 2020 corporate performance, please see Coastal Community's 2020 Annual Report — available on our website at cccu.ca.

COASTAL COMMUNITY CREDIT UNION