CCEC Credit Union
Financial Statements
September 30, 2020

Contents

Management's Responsibility

To the Members of CCEC Credit Union:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

Jo Ha

Interim General Manager

Independent Auditor's Report

To the Members of CCEC Credit Union:

Opinion

We have audited the financial statements of CCEC Credit Union (the "Credit Union"), which comprise the statement of financial position as at September 30, 2020, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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.

Auditor's Responsibilities for the Audit of the Financial Statements *(Continued from previous page)*

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

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

Abbotsford, British Columbia
November 19, 2020

MNP LLP
Chartered Professional Accountants

CCEC Credit Union
Statement of Financial Position
As at September 30, 2020

	2020	*2019*
Assets		
Cash resources *(Note 5)*	**16,408,350**	8,753,758
Investments *(Note 6)*	**4,164,145**	17,243,111
Members loans *(Note 7)*	**25,537,669**	30,038,405
Income taxes recoverable	**57,949**	-
Other assets	**38,856**	39,835
Equipment and leaseholds *(Note 8)*	**61,774**	39,362
Intangible assets *(Note 9)*	**175,334**	210,604
	46,444,077	56,325,075
Liabilities		
Member deposits *(Note 10)*	**43,111,133**	53,321,947
Member shares *(Note 11)*	**187,262**	223,800
Accounts payable and accrued liabilities	**48,083**	188,945
Income taxes payable	**-**	169,246
Deferred tax liabilities *(Note 12)*	**9,800**	17,000
	43,356,278	53,920,938

Commitments *(Note 19)*

	2020	*2019*
Members' equity		
Retained earnings	**3,087,799**	2,404,137
	46,444,077	56,325,075

Approved on behalf of the Board

Martin Frost
Director

Helesia Luke
Director

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Comprehensive Income
For the year ended September 30, 2020

	2020	*2019*
Financial income		
Member loans	**1,114,980**	1,120,036
Investment income	**330,929**	560,418
	1,445,909	1,680,454
Financial expenses		
Member deposits	**234,660**	244,556
Financial margin	**1,211,249**	1,435,898
Other income *(Note 14)*	**984,134**	1,780,380
	2,195,383	3,216,278
Operating expenses *(Note 15)*	**1,347,736**	1,501,370
Operating income	**847,647**	1,714,908
Provision for loan impairment *(Note 19)*	**60,000**	335,371
Income before income taxes	**787,647**	1,379,537
Provision for income taxes *(Note 12)*		
Current	**111,185**	169,754
Deferred	**(7,200)**	18,900
	103,985	188,654
Comprehensive income	**683,662**	1,190,883

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Changes in Members' Equity
For the year ended September 30, 2020

	Retained earnings
Balance September 30, 2018	**1,116,320**
Comprehensive income	**1,190,883**
Reclassification of investments previously measured as fair value through profit and loss to amortized cost	**96,934**
Balance September 30, 2019	**2,404,137**
Comprehensive income	**683,662**
Balance September 30, 2020	**3,087,799**

The accompanying notes are an integral part of these financial statements

CCEC Credit Union
Statement of Cash Flows
For the year ended September 30, 2020

	2020	2019
Cash provided by (used for) the following activities		
Operating activities		
Comprehensive income	**683,662**	1,190,883
Depreciation	**60,552**	61,247
Deferred income taxes	**(7,200)**	18,900
Provision for impaired loans	**60,000**	335,371
Changes in working capital accounts		
Other assets	**979**	17,699
Income taxes recoverable	**(227,195)**	169,246
Accounts payable and accrued liabilities	**(140,862)**	99,133
Accrued interest on member loans	**2,362**	23,848
Accrued interest on member deposits	**(9,502)**	36,339
	422,796	1,952,666
Financing activities		
Net change in member deposits	**(10,201,310)**	(1,545,620)
Net change in member shares	**(36,539)**	(117,561)
	(10,237,849)	(1,663,181)
Investing activities		
Net change in member loans	**4,438,374**	(3,942,814)
Net change in investments	**13,078,965**	334,104
Purchases of equipment and leaseholds	**(47,694)**	(17,729)
Purchases of intangible assets	**-**	(5,768)
	17,469,645	(3,632,207)
Increase (decrease) in cash resources	**7,654,592**	(3,342,722)
Cash resources, beginning of year	**8,753,758**	12,096,480
Cash resources, end of year	**16,408,350**	8,753,758

1. Reporting entity

CCEC Credit Union (the "Credit Union") was formed pursuant to the Credit Union Incorporations Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia ("the Act").

The Credit Union serves members in the lower mainland area of British Columbia. The address of the Credit Union's registered office is 2248 Commercial Drive, Vancouver, British Columbia.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

These financial statements for the year ended September 30, 2020 were approved by the Board of Directors on November 19, 2020.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective October 1, 2019. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*

Leases

Effective October 1, 2019 (hereafter referred to as the "date of initial application"), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives*, and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the retained earnings at October 1, 2019. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards.

The application of the standard has resulted in a change in the Credit Union's accounting policy for recognition of leases.

Initial application of IFRS 16

There was no material impact on the financial statements from the retrospective application of IFRS 16 *Leases*.

3. Basis of preparation

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

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

3. Basis of preparation *(Continued from previous page)*

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Inflation
- Loan to Value ratios

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

3. Basis of preparation *(Continued from previous page)*

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Income taxes

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

4. Summary of significant accounting policies

The following principle accounting policies have been adopted in the preparation of these financial statements.

Cash resources

Cash and cash equivalents are comprised of cash on hand, demand deposits and term deposits with maturities of three months or less.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central 1 term deposits

Central 1 term deposits are accounted for at amortized cost.

Portfolio investments

Investments in securities are measured at fair value, with adjustments recognized in comprehensive income.

Member loans

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

4. Summary of significant accounting policies *(Continued from previous page)*

Equipment and leaseholds

Equipment and leaseholds are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of equipment and leaseholds have different useful lives, they are accounted for as separate items of equipment and leaseholds.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Assets are depreciated from the date capitalized. The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

	Years
Furniture and fixtures	3-15 years
Computer hardware	2-5 years
Leasehold improvements	5-10 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Intangible assets

The Credit Union's only intangible asset is computer software which is amortized to comprehensive income on a straight-line basis over 2 - 10 years. The useful life of computer software will be reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. Summary of significant accounting policies *(Continued from previous page)*

Leases (prior to October 1, 2019)

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and building are classified separately and the minimum lease payments are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease.

Assets under finance lease are amortized on a straight-line basis, over the shorter of the useful life and the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned by the Credit Union. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

All other leases are accounted for as operating leases, and payments are expensed on a straight-line basis over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leases (subsequent to October 1, 2019)

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after October 1, 2019.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

4. Summary of significant accounting policies *(Continued from previous page)*

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell.

Member deposits

Member deposits are initially recognized at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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

4. Summary of significant accounting policies *(Continued from previous page)*

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in comprehensive income for the current period.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Financial instruments - financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of member loans and Central 1 deposits.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

4. Summary of significant accounting policies *(Continued from previous page)*

- Fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and charges in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares in Central 1 and other portfolio investments.

Impairment

Expected credit loss model

The Credit Union's allowance for credit losses follows an expected credit loss ("ECL") impairment model. The ECL impairment model reflects the present value of cash shortfalls related to default events either over the following twelve months, or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased and probability-weighted amount which considers a variety of scenarios based on reasonable and supportable information. Forward -looking-information ("FLI") is incorporated into the estimation of ECL allowances, which involves significant judgement (see note 7 for additional details). The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;

- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and

- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

ECL stage development

On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within 12 months after the reporting date.

If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, the Credit Union compares the risk of default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days or more past due on its contractual payment obligations or the financial instrument has had an unfavourable movement in internal risk ratings. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union reverts to recognizing 12 months of ECL.

When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears is automatically considered impaired.

Recognition

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.assured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

4. Summary of significant accounting policies *(Continued from previous page)*

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either transfers the right to receive the contractual cash flows of the financial asset, or retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Financial instruments - financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

4. Summary of significant accounting policies *(Continued from previous page)*

Revenue recognition

The following describes the Credit Union's principal activities from which it generates revenue.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability. Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other revenue

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

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

Commission revenue is recognized in profit or loss on an accrual basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

Government grants

Government assistance related to COVID-19 relief programs are included in comprehensive income in the year in which the Credit Union qualifies for the benefits.

5. Cash resources

	2020	*2019*
Cash and current accounts	**10,797,696**	5,123,136
Term deposits maturing in less than three months	**5,610,654**	3,630,622
	16,408,350	8,753,758

6. Investments

	2020	2019
Central 1 term deposits and shares:		
Term deposits maturing beyond three months	**3,990,586**	16,997,456
Shares	**159,883**	231,979
Other	**13,676**	13,676
	4,164,145	17,243,111

Liquidity reserve deposit

The Credit Union is required to maintain on deposit with Central 1 an amount equal to 8% of the Credit Union's total deposits and borrowings. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice. At September 30, 2020, the Credit Union liquidity deposits equal 47.32% (2019 - 48.29%) of the Credit Union's total deposits and borrowings less any cash on hand. At September 30, 2020, the Credit Union's liquidity deposits exceeded the minimum required by approximately $16,950,000 (2019 - $21,485,000).

7. Member loans

Principal and allowance by loan type:

2020

	Principal	**Allowance for loan impairment (Note 19)**	**Net carrying value**
Residential mortgages	20,474,790	-	**20,474,790**
Personal and other	2,235,387	49,715	**2,185,672**
Commercial mortgages	2,784,872	-	**2,784,872**
Commercial loans	102,015	47,763	**54,252**
Accrued interest	38,083	-	**38,083**
Total	25,635,147	97,478	**25,537,669**

2019

	Principal	Allowance for loan impairment (Note 19)	Net carrying value
Residential mortgages	22,362,062	-	22,362,062
Personal and other	3,622,865	24,705	3,598,160
Commercial mortgages	3,553,229	-	3,553,229
Commercial loans	525,034	40,525	484,509
Accrued interest	40,445	-	40,445
Total	30,103,635	65,230	30,038,405

8. Equipment and leaseholds

	Equipment	*Leaseholds*	*Total*
Cost			
Balance at October 1, 2018	229,256	236,438	**465,694**
Additions	17,729	-	**17,729**
Disposals	(66,590)	-	**(66,590)**
Balance at September 30, 2019	180,395	236,438	**416,833**
Balance at October 1, 2019	180,395	236,438	**416,833**
Additions	47,694	-	**47,694**
Disposals	(24,583)	-	**(24,583)**
Balance at September 30, 2020	203,506	236,438	**439,944**
Depreciation and impairment losses			
Balance at October 1, 2018	205,739	212,153	**417,892**
Depreciation charge for the year	12,297	13,872	**26,169**
Disposals	(66,590)	-	**(66,590)**
Balance at September 30, 2019	151,446	226,025	**377,471**
Balance at October 1, 2019	151,446	226,025	**377,471**
Depreciation charge for the year	14,869	10,413	**25,282**
Disposals	(24,583)	-	**(24,583)**
Balance at September 30, 2020	141,732	236,438	**378,170**
Net book value			
At September 30, 2019	28,949	10,413	39,362
At September 30, 2020	**61,774**	**-**	**61,774**

9. Intangible assets

	Software
Cost	
Balance at October 1, 2018	**300,796**
Additions	**5,768**
Balance at September 30, 2019	**306,564**
Balance at October 1, 2019	**306,564**
Balance at September 30, 2020	**306,564**
Depreciation and impairment losses	
Balance at October 1, 2018	**60,882**
Depreciation charge for the year	**35,078**
Balance at September 30, 2019	**95,960**
Balance at October 1, 2019	**95,960**
Depreciation charge for the year	**35,270**
Balance at September 30, 2020	**131,230**
Net book value	
At September 30, 2019	210,604
At September 30, 2020	**175,334**

10. Member deposits

	2020	*2019*
Demand deposits	**19,905,257**	27,455,259
Plan 24	**6,831,603**	9,361,135
Term deposits	**7,393,943**	7,377,154
Registered plans	**8,864,928**	9,003,494
Accrued interest savings and deposits	**115,402**	124,905
	43,111,133	53,321,947

Total member deposits include $397,326 (2019 - $795,438) of US dollar deposits, denominated in Canadian dollars.

11. Member shares

Authorized:

Unlimited number of member shares, at an issue price of $1

Issued:

	2020	*2019*
Member shares classified as liability		
Member shares	**157,379**	187,577
Loan member shares	**29,883**	36,223
	187,262	223,800

Member shares are classified as liabilities in accordance with IFRIC 2 are redeemable at the option of the member, either on demand or on withdrawal from membership. The total amount of shares that are redeemable at September 30, 2020 as part of the Credit Union's share regulations are classified as liabilities.

Terms and conditions

The Credit Union is authorized to issue an unlimited number of non-transferable, voting member shares, redeemable at par. Each member is entitled to one vote. The ownership requirements are 100 shares for co-operatives and not-for-profit societies, 25 shares for youth members, 5 shares for junior members, and 50 shares for all others. Member shares may be redeemed when the account is closed.

In addition, the Credit Union requires borrowing members to purchase additional member shares based on the loan type and amount. The actual amount required is determined by the board of directors at their discretion. Loan member shares may be redeemed once the loan has been paid in full.

12. Income tax

Reasons for the difference between income 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	**787,647**	1,379,537
Income tax expense on the statutory rate	**212,664**	372,474
Preferred rate deduction	**(30,000)**	(28,740)
Items not deductible for tax purposes	**33,199**	456,348
Items deductible for tax purposes	**(21,628)**	(464,874)
Non-capital losses of previous years applied in the current tax year	**-**	(48,692)
Provincial low-rate deduction	**(83,050)**	(116,762)
Current income tax expense	**111,185**	169,754

The movement in 2020 deferred income tax assets and liabilities are:

	Oct 1, 2019	Change for the year	Sep 30, 2020
Deferred income tax assets:			
Allowance for impaired loans	11,400	5,700	**17,100**
Deferred income tax liabilities:			
Equipment and leaseholds	(28,400)	1,500	**(26,900)**
	(17,000)	7,200	**(9,800)**

The movement in 2019 deferred income tax assets and liabilities are:

	Oct 1, 2018	Change for the year	Sep 30, 2019
Deferred income tax assets:			
Allowance for impair loans	3,700	7,700	11,400
Non-capital loss carryforward	7,700	(7,700)	-
	11,400	-	11,400
Deferred income tax liabilities:			
Equipment and leaseholds	(9,500)	(18,900)	(28,400)
	1,900	(18,900)	(17,000)

13. Borrowings

The Credit Union has an operating line of credit and a term loan arrangement to a maximum borrowing position of $1,100,000 (2019 - $1,100,000). Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Central 1 and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment date. As at September 30, 2020, the Credit Union has not utilized this facility.

14. Other income

Included in other income is $167,699 related to government grants.

The Temporary Wage Subsidy ("TWS") was implemented by the Canadian government with the passing of Bill C-13 on March 25, 2020. The Canada Emergency Wage Subsidy ("CEWS") was implemented by the Canadian government with the passing of Bill C-14 on April 11, 2020, and expanded with the passing of Bill C-20 on July 27, 2020.

The Credit Union claimed and received $14,035 of TWS and $153,664 of CEWS related to eligible remuneration paid during the year.

Any subsidies received that are subsequently determined not to meet the eligibility criteria are subject to repayment with interest and possibly penalties in certain cases. Management believes the Credit Union has met the eligibility criteria for these subsidies and that they have been calculated correctly. As such, no contingent liability for repayment has been recorded in relation to these subsidies.

15. Operating expenses

	2020	*2019*
Central 1 service charges	**61,873**	90,428
Data processing	**91,125**	109,044
Depreciation	**60,552**	61,247
Directors' expenses	**8,202**	19,532
Insurance	**6,864**	6,043
Legal fees	**36,726**	28,887
Loan administration fees	**4,323**	3,418
Office and miscellaneous	**36,694**	47,748
Office premises and supplies	**211,341**	226,320
Promotions	**4,977**	16,929
Regulatory costs	**78,780**	138,048
Wages and benefits	**746,279**	753,726
	1,347,736	1,501,370

16. Related party transactions

Key management compensation of the Credit Union

Key management of the Credit Union are defined by IAS 24 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

Key management personnel ("KMP") are comprised of the General Manager, Assistant General Manager, Manager - Risk and Branch Operations, and Manager - Administration. Remuneration includes the following expenses:

	2020	*2019*
Salary and benefits	**326,496**	253,001

Transactions with key management personnel

There are no loans that are impaired in relation to loan balances with KMP.

There are no benefits or concessional terms and conditions applicable to KMP and their family members. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

16. Related party transactions *(Continued from previous page)*

	2020	2019
Lines of credit	**105,481**	1,252,219
Mortgages	**1,448,977**	1,139,503
Loans	**10,937**	15,843
	1,565,395	2,407,565

	2020	2019
During the year the aggregate value of loans disbursed to KMP amounted to:		
Lines of credit	**945,800**	575,000
Loans	**-**	5,000
	945,800	580,000

	2020	2019
Interest and other revenue earned on loans and revolving credit facilities to KMP	**29,405**	52,114
Total interest paid on deposits to KMP	**1,732**	3,766

	2020	2019
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**682,218**	723,708
Term deposits	**463,339**	533,170
Registered plans	**471,794**	574,048
	1,617,351	1,830,926

17. Capital management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

The Credit Union is required under provincial legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets; each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At September 30, 2020, the Credit Union had a capital base approximating 34.72% (2019 - 24.83%) of the risk-weighted value.

The Credit Union employs a forward looking capital plan that is reviewed by management and the Board of Directors. The capital plan forecasts the Credit Union's capital position over a five year period. The capital plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's investment and lending policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's capital resources and objectives.

17. Capital management *(Continued from previous page)*

There has been no change in the overall capital requirements strategy employed during the year ended September 30, 2020.

	2020	*2019*
Primary capital		
Retained earnings	**3,087,799**	2,404,137
Member shares	**142,689**	173,132
Deferred income tax liability	**9,800**	17,000
	3,240,288	2,594,269
Secondary capital		
Share of system retained earnings	**446,384**	557,757
Deductions from capital	**(175,334)**	(210,604)
Capital base	**3,511,338**	2,941,422

18. Fair value measurements

Recurring fair value measurements

The Credit Union's assets and liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

				2020
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Cash resources - cash and current accounts	**10,797,696**	**10,797,696**	**-**	**-**
Investments - Central 1 shares and portfolio investments	**173,559**	**-**	**173,559**	**-**
	10,971,255	**10,797,696**	**173,559**	**-**
Liabilities	**-**	**-**	**-**	**-**
Total recurring fair value measurements	**10,971,255**	**10,797,696**	**173,559**	**-**

18. Fair value measurements *(Continued from previous page)*

2019

	Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Cash resources - cash and current accounts	5,123,136	5,123,136	-	-
Investments - Central 1 shares and portfolio investments	245,655	-	245,655	-
	5,368,791	5,123,136	245,655	-
Liabilities	-	-	-	-
Total recurring fair value measurements	5,368,791	5,123,136	245,655	-

Level 2 fair value measurements

Valuation techniques and inputs for recurring Level 2 fair value measurements are as follows:

Line item	***Valuation technique(s)***	***Inputs***
Investments - Central 1 shares and portfolio investments	Fair value is determined to be equivalent to the par value of shares due to the fact transactions occur at par value on a regular and recurring basis.	Value of shares

18. Fair value measurements *(Continued from previous page)*

Non-recurring fair value measurements

The Credit Union's non-recurring fair value measurements have been categorized into the fair value hierarchy as follows:

				2020
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Cash resources - term deposits maturing in less than three months	**5,610,654**	**-**	**5,610,654**	**-**
Investment - Central 1 term deposits	**4,029,178**	**-**	**4,029,178**	**-**
Member loans	**25,626,605**	**-**	**25,626,605**	**-**
Total assets	**35,266,437**	**-**	**35,266,437**	**-**
Liabilities				
Member deposits	**43,241,216**	**-**	**43,241,216**	**-**
Member shares	**187,262**	**-**	**-**	**187,262**
Accounts payable and accrued liabilities	**48,083**	**-**	**48,083**	**-**
Total liabilities	**43,476,561**	**-**	**43,289,299**	**187,262**

				2019
	Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Cash resources - term deposits maturing in less than three months	3,630,622	-	3,630,622	-
Investment - Central 1 term deposits	17,012,849	-	17,012,849	-
Member loans	30,119,991	-	30,119,991	-
Total assets	50,763,462	-	50,763,462	-
Liabilities				
Member deposits	53,376,822	-	53,376,822	-
Member shares	223,800	-	-	223,800
Accounts payable and accrued liabilities	188,945	-	188,945	-
Total liabilities	53,789,567	-	53,565,767	223,800

19. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans.

19. Financial instruments *(Continued from previous page)*

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans to members to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

19. Financial instruments *(Continued from previous page)*

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for loans to members on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union consider items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount represents the maximum exposure to credit risk for that class of financial asset.

19. Financial instruments *(Continued from previous page)*

	2020			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	**20,474,790**	**-**	**-**	**20,474,790**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**20,474,790**	**-**	**-**	**20,474,790**
Less: allowance for loan impairment	**-**	**-**	**-**	**-**
Total carrying amount	**20,474,790**	**-**	**-**	**20,474,790**
Personal and other				
Low risk	**2,235,387**	**-**	**-**	**2,235,387**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**2,235,387**	**-**	**-**	**2,235,387**
Less: allowance for loan impairment	**49,715**	**-**	**-**	**49,715**
Total carrying amount	**2,185,672**	**-**	**-**	**2,185,672**
Commercial mortgages				
Low risk	**2,784,872**	**-**	**-**	**2,784,872**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**2,784,872**	**-**	**-**	**2,784,872**
Less: allowance for loan impairment	**-**	**-**	**-**	**-**
Total carrying amount	**2,784,872**	**-**	**-**	**2,784,872**
Commercial loans				
Low risk	**80,730**	**-**	**-**	**80,730**
Medium risk	**-**	**21,285**	**-**	**21,285**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**80,730**	**21,285**	**-**	**102,015**
Less: allowance for loan impairment	**26,478**	**21,285**	**-**	**47,763**
Total carrying amount	**54,252**	**-**	**-**	**54,252**
Total gross carrying amount				**25,499,586**
Add: accrued interest				**38,083**
Total carrying amount				**25,537,669**

19. Financial instruments *(Continued from previous page)*

	2019			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	22,362,062	-	-	22,362,062
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	22,362,062	-	-	22,362,062
Less: loss allowance	-	-	-	-
Total carrying amount	22,362,062	-	-	22,362,062
Personal and other				
Low risk	3,620,123	-	-	3,620,123
Medium risk	-	2,742	-	2,742
Default	-	-	-	-
Total gross carrying amount	3,620,123	2,742	-	3,622,865
Less: loss allowance	21,963	2,742	-	24,705
Total carrying amount	3,598,160	-	-	3,598,160
Commercial mortgages				
Low risk	3,553,229	-	-	3,553,229
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	3,553,229	-	-	3,553,229
Less: loss allowance	-	-	-	-
Total carrying amount	3,553,229	-	-	3,553,229
Commercial loans				
Low risk	506,731	-	-	506,731
Medium risk	-	18,303	-	18,303
Default	-	-	-	-
Total gross carrying amount	506,731	18,303	-	525,034
Less: loss allowance	22,222	18,303	-	40,525
Total carrying amount	484,509	-	-	484,509
Total gross carrying amount				29,997,960
Add: accrued interest				40,445
Total carrying amount				30,038,405

19. Financial instruments *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance from member loans.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Allowance for loan impairment				
Balance at October 1, 2018	**60,589**	**24,705**	**1,306,000**	**1,391,294**
Provision for loan impairment	**-**	**-**	**335,371**	**335,371**
Accounts written off, net of recoveries	**(20,064)**	**-**	**(1,641,371)**	**(1,661,435)**
Balance at September 30, 2019	**40,525**	**24,705**	**-**	**65,230**
Balance at October 1, 2019	**40,525**	**24,705**	**-**	**65,230**
Transfer to 12-month ECL	**9,705**	**(9,705)**	**-**	**-**
Transfer to lifetime ECL (not credit impaired)	**-**	**-**	**-**	**-**
Transfer to lifetime ECL (credit impaired)	**-**	**(15,000)**	**15,000**	**-**
Provision for loan impairment, net of recoveries	**25,963**	**21,285**	**12,752**	**60,000**
Accounts written off, net of recoveries	**-**	**-**	**(27,752)**	**(27,752)**
Balance at September 30, 2020	**76,193**	**21,285**	**-**	**97,478**

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2020	*2019*
Unadvanced lines of credit	**5,238,377**	5,553,941

19. Financial instruments *(Continued from previous page)*

Interest rate risk

Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. The Credit Union does not hedge its interest rate risk. See below for further information on interest rate sensitivity.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re – pricing date or maturity date. The schedule below does not identify management's expectations of future events where re – pricing and maturity dates differ from contractual dates.

	Within three months	*Four months to one year*	*One year to five years*	*Non-Interest Sensitive*	***2020* Total**	*2019 Total*
Assets						
Cash resources	15,872,294	-	-	536,056	**16,408,350**	8,753,758
Average yield %	*0.80*	-	-	-	*0.80*	*2.50*
Investments	-	2,475,000	1,500,000	189,145	**4,164,145**	17,243,111
Average yield %	-	*1.00*	*1.16*	-	*1.01*	*1.73*
Members loans	7,006,224	10,254,456	8,336,370	(59,381)	**25,537,669**	30,038,405
Average yield %	*3.97*	*3.75*	*3.78*	-	*3.83*	*3.94*
Other assets	-	-	-	4,185	**4,185**	-
	22,878,518	**12,729,456**	**9,836,370**	**670,005**	**46,114,349**	56,035,274
Liabilities						
Member deposits	10,765,190	8,106,960	4,619,545	19,619,438	**43,111,133**	53,321,947
Average yield %	*0.27*	*1.20*	*1.93*	-	*0.50*	*0.49*
Member shares	-	-	-	187,262	**187,262**	223,800
Accounts payable and accrued liabilities	-	-	-	48,083	**48,083**	188,945
	10,765,190	**8,106,960**	**4,619,545**	**19,854,783**	**43,346,478**	53,734,692
Net sensitivity	**12,113,328**	**4,622,496**	**5,216,825**	**(19,184,778)**	**2,767,871**	2,300,582

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase financial margin by $126,000 (2019 - $89,000). A 1.0% decrease in the interest rate would decrease financial margin by $64,000 (2019 - $89,000).

19. Financial instruments *(Continued from previous page)*

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes.

The Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements;
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union’s responses thereto.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with Central 1;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

20. Environmental risk

At year end, the effects of a global outbreak of COVID-19 (coronavirus) continues to rapidly evolve, which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial, and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Credit Union as this will depend on future developments that are highly uncertain and cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. The Credit Union continues to monitor the situation and assess the impact that the pandemic may have on its operations, including its members' ability to service and repay loans.