COMMERCIAL
BANKING

WEALTH
MANAGEMENT

EQUIPMENT
LEASING

CONSUMER
BANKING

VantageOne
CREDIT UNION

2020 Annual Report

Message from the Board Chair

Another year has gone by somewhat quickly by my standards, and it has been different to say the least. My guess is that you have all been inundated by Covid updates, they are in the news, every news channel, all day long and then there is social media where it is ever present. So the only thing I will address with regard to Covid is that as directors, we must give a resounding seal of approval to our staff and management team at VantageOne Credit Union who gave it their all to ensure the safety of members and to do so with as little disruption as possible. However, as directors, we also recognize that there was disruption, shortened hours, branches not available for transactional activity and so on. That, in itself, requires yet another resounding seal of approval going out to you, our members for having the tremendous patience and understanding you have displayed throughout the year. We know Covid restrictions will continue longer but are all hoping that it will ease off soon in the not too distant future. Thank you members for your outstanding patience, understanding, and continued loyalty.

Many initiatives are underway at your credit union. In this environment of low interest rates our team is tasked with meeting this challenge by looking in depth at not only possible ways to generate new income but to ensure we examine our expenditures in detail to ensure nothing is overlooked. We are continually facing an ever increasing regulatory regime in the financial sector and with this comes more demands, more expense and more work loads for our staff. It is important to note however, that higher regulatory measures are initiated to protect the members and their financial assets. Some might call this a necessary evil but we can certainly agree that it is a must and we shall endeavour to address it by being fully compliant.

This year marks the second year for online voting for your desired directors. This was brand new last year and will have occurred again this year at the time of publishing this report. Since voting had not yet commenced at the time of writing this report, I know that as you read this you will have minimally one new director if not two. I encourage all of you to vote in future years as it is so convenient to do so online. However, if technology is not your area of expertise, you can always request mail in ballots. This is your credit union and therefore it is important that you vote to ensure the directors in place are your best representatives. It is also the second year for having our AGM virtually. There are definitely pros and cons to a virtual meeting, but we also recognize that in person meetings have their advantages as well. Perhaps at AGM 2022?

We care about you our members, and as the year progresses there may be various surveys to participate in and again, we encourage you to use your voice to let us know how you think we can improve or even let us know what you think we are doing right. This is equally important as we don't want to quit doing something that is valued but if we are missing the point, well that's where you can help by letting us know. We are your Board of Directors and we have an obligation to make decisions for the good of the entire organization as best we can. Have a wonderful spring and summer and here is to a return to some sort of normalcy for all of us and to good health for you and your family.

Respectfully submitted,

C. Turcotte

Cheryl Turcotte
Chairperson

Message from the Chief Executive Officer

It's my honor to provide an update to our membership on where we've been and where we are going in this ever-changing environment.

Focus on Business Results

We entered 2020 with a lot of optimism; we did not anticipate a world pandemic would emerge. As we all know, it did, and in March 2020 we initiated our risk management protocols in response to this new threat. What we anticipated was pressure on deposits and loan portfolios as businesses and consumers felt the impact of the pandemic. What occurred was quite the opposite, we experienced strong growth in overall assets of $44 Million (11.8%) over the past year, driven by very strong growth in deposits and commercial lending. Our deposit portfolio grew $46 Million or 12%, bringing our cash levels up to heights we didn't anticipate. We anticipated a draw down in cash during the pandemic, the opposite occurring was surprising and was a result of the stay-at-home orders, government support programs and successes we achieved in certain business areas. Our loan portfolio remained sound, we experienced strong commercial lending demand as businesses looked to invest and grow in this area, however, we were challenged in consumer lending growth.

Our income statement was significantly impacted by the unprecedented drop of interest rates. Mortgage rates declined to levels never observed and competition for commercial loans was strong. Although we had strong asset growth, the return on the loan growth was much less than anticipated, resulting in a decline to our operating revenue. Even though we were able to keep our operating expenses in line, we yielded a lower-than-expected net income. Our net, however, was better than what we anticipated, this could have been a more challenging year if the whole economy collapsed.

At the end of 2020 we retained a strong capital position of over 16% (double the minimum regulatory requirement) and retained a strong cash position, preparing us well as we get through vaccinations and work toward the reopening of society.

Focus on the Past

The past year has been one of extreme challenges and changes. We have responded to the challenges with modifications to systems and processes and were able to tackle our building issues.

I am very proud of the work our staff have done to pivot to new systems, procedures, processes, and protocols as traditional activities could no longer be done. Over the past year we accelerated our work towards digital solutions that continued to emphasize a connection with our people, ensuring that we keep what we call the human touch. We successfully implemented and trained staff on new technologies such as e-signature and video conferencing solutions that allow us new ways to connect with each other and with you, our members. Better than a phone call, *Easy*Connect Video provides the same benefits as an in-person meeting with VantageOne staff through an easy-to-use, video chat technology. This change not only impacted you as members, it has increased our staff's skill and knowledge in our new technologies and added additional ways to support members, something they have all responded to well and we thank them for this.

Message from the Chief Executive Officer Continued

As members will recall, we needed to tackle the exterior update on our building to replace the tiles which were reaching end of life. This is now near completion and we are very happy with how the project has turned out. It allows us to have one of the top buildings in our community with an exterior that will last us for decades to come.

Focus on the Future

What will the future look like when the pandemic is over? This is the question we ask ourselves as we plan for a future where we are done with masks, lockdown orders and life returns to normal. No one knows exactly when this will occur; however, we do know vaccination efforts are expanding and this will prove effective at ridding us of the lockdowns. For 2021, we are planning for how we can best respond to the low-rate environment, grow with our members and continue to provide you with the best value possible. This means change, we all know this, and we commit to communicate what this change will look like as we learn more on the path forward out of the worst pandemic in over a century.

Thank You to Our Team and Members

In closing, I would like to thank you, our members, for choosing VantageOne for your financial services! We know this has been and still is a very challenging time. You have many choices in the world and we believe our model of providing *Financial Ability with a Human Touch* is what is needed in banking, especially in these times, and our staff are committed to delivering it! I would like to thank our teams for working with us through all our changes that continue to happen in our business and in our society. These are challenging times and being stronger together will get us through to the other side!

Respectfully submitted,

Glenn Benischek
Chief Executive Officer

Independent Auditor's Report

Grant Thornton LLP
200-1633 Ellis Street
Kelowna, BC
V1Y 2A8

T +1 250 712 6800
F +1 250 712 6850

To the members of VantageOne Credit Union

Opinion

We have audited the accompanying consolidated financial statements of VantageOne Credit Union ("the Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statement of earnings and comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of VantageOne Credit Union as at December 31, 2020, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

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

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

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

We also:

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

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.

Grant Thornton LLP

Kelowna, Canada
February 24, 2021

Chartered Professional Accountants

VantageOne Credit Union
Consolidated Statement of Financial Position

December 31	**2020**	2019
Assets		
Cash and cash equivalents (Note 5)	**$ 82,312,614**	$ 36,902,348
Receivables and other assets	**368,737**	158,566
Investments (Note 6)	**27,757,858**	30,832,664
Loans (Note 7)	**302,043,948**	300,182,691
Deferred income tax (Note 14)	**96,000**	150,000
Property and equipment (Note 9)	**9,602,727**	9,255,598
Accrued pension asset (Note 13)	**-**	1,700
Income taxes recoverable (Note 14)	**-**	100,275
Total assets	**$ 422,181,884**	$ 377,583,842
Liabilities		
Deposits (Note 11)	**$ 395,492,814**	$ 351,865,317
Payables and other liabilities (Note 12)	**1,611,750**	1,436,478
Income taxes payable (Note 14)	**32,619**	-
Derivative financial instruments (Note 15)	**-**	142,500
Lease liability (Note 10)	**195,405**	328,673
Accrued pension liability (Note 13)	**161,900**	-
Total liabilities	**397,494,488**	353,772,968
Members' equity		
Members' shares (Note 17)	**889,815**	899,633
Retained earnings	**23,905,413**	23,759,763
Accumulated other comprehensive loss	**(107,832)**	(848,522)
	24,687,396	23,810,874
	$ 422,181,884	$ 377,583,842

Commitments (Note 24)

Post-reporting date events (Note 25)

On behalf of the Board

G Turcotte ______ Chairperson

______ Chief Executive Officer

See accompanying notes to the consolidated financial statements

VantageOne Credit Union
Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2020	2019
Financial income		
Loans	**$ 10,454,458**	$ 11,245,871
Cash and cash equivalents and investments	**1,164,989**	1,013,533
	11,619,447	12,259,404
Financial expense		
Deposits	**3,746,778**	4,582,296
Share dividends	**41,109**	24,331
Provision for credit losses (Note 8)	**156,912**	117,503
	3,944,799	4,724,130
Financial margin	**7,674,648**	7,535,274
Other income (Note 18)	**3,115,716**	3,538,540
Operating margin	**10,790,364**	11,073,814
Operating expenses (Note 19)	**10,405,245**	10,413,153
Earnings before income taxes	**385,119**	660,661
Income taxes (Note 14)	**239,469**	221,623
Net earnings	**145,650**	439,038
Other comprehensive gain (loss), net of tax		
Cash flow hedges recognized in profit or loss	**115,376**	-
Accumulated recycling of cash flow hedges recognized in profit or loss (Note 15)	**460,354**	-
Items that will be reclassified subsequently to net earnings		
Realized gain on cash flow hedges	**339,560**	-
Unrealized gain on cash flow hedges	**-**	266,462
Items that will not be reclassified subsequently to net earnings		
Unrealized actuarial loss on defined benefit pension plan (Note 13)	**(174,600)**	(275,700)
Comprehensive income	**$ 886,340**	$ 429,800

See accompanying notes to the consolidated financial statements

VantageOne Credit Union
Consolidated Statement of Changes in Members' Equity

Year ended December 31

	Members' shares	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance on December 31, 2018	**$ 885,535**	**$ 23,325,225**	**$ (839,284)**	**$ 23,371,476**
Net earnings	-	439,038	-	439,038
Change in members' shares, net	14,098	-	-	14,098
Transition adjustment	-	(4,500)	-	(4,500)
Other comprehensive loss				
Change in unrealized gain on cash flow hedges	-	-	321,038	321,038
Income tax expense on unrealized loss on cash flow hedges	-	-	(54,576)	(54,576)
Unrealized actuarial loss on defined benefit pension plan	-	-	(275,700)	(275,700)
Balance on December 31, 2019	**$ 899,633**	**$ 23,759,763**	**$ (848,522)**	**$ 23,810,874**
Net earnings	-	145,650	-	145,650
Change in members' shares, net	(9,818)	-	-	(9,818)
Other comprehensive loss				
Accumulated recycling of cash flow hedges (Note 15)	-	-	460,354	460,354
Realized gain on unwinding of cash flow hedges	-	-	301,287	301,287
Income tax expense on realized gain on unwinding of cash flow hedges	-	-	(51,216)	(51,216)
Change in fair value on cash flow hedges	-	-	139,007	139,007
Income tax expense on change in fair value on cash flow hedges	-	-	(23,631)	(23,631)
Income tax recovery on unwinding of cash flow hedges	-	-	89,489	89,489
Unrealized actuarial loss on defined benefit pension plan	-	-	(174,600)	(174,600)
Balance on December 31, 2020	**$ 889,815**	**$ 23,905,413**	**$ (107,832)**	**$ 24,687,396**

See accompanying notes to the consolidated financial statements

VantageOne Credit Union
Consolidated Statement of Cash Flows

Year ended December 31	2020	2019
Increase (decrease) in cash and cash equivalents		
Operating activities		
Earnings before income taxes	**$ 385,119**	$ 660,661
Adjustments for non-cash items		
Provision for credit losses	**156,912**	117,503
Depreciation	**859,224**	824,091
Ineffective portion of gain on derivatives	**(3,493)**	(24,707)
Loss on disposal of property and equipment	**47,578**	-
Change in interest accruals	**(192,744)**	233,806
Receivables and other assets	**(210,168)**	(95,097)
Payables and other liabilities	**164,272**	18,558
	1,206,700	1,734,815
Change in member activities		
Change in loans, net of repayments	**(13,378,507)**	(3,244,455)
Change in deposits, net of withdrawals	**47,667,574**	13,582,090
Cash flows related to interest, dividends and income taxes		
Interest received on loans	**11,390,368**	12,139,835
Interest received on investments	**705,906**	791,120
Interest paid on deposits	**(3,909,489)**	(4,373,211)
Income taxes paid	**(37,933)**	(290,082)
Dividends received on investments	**54,714**	107,002
Cash received from unwinding of cash flow hedges	**701,500**	-
Accumulated recycling of cash flow hedges recognized in profit or loss	**460,354**	-
	44,861,187	20,447,114
Financing activities		
Change in members' shares, net	**(9,818)**	14,098
Dividends paid to members	**32,125**	79,304
Repayment of lease liability	**(133,267)**	(131,980)
	(110,960)	(38,578)
Investing activities		
Change in investments, net	**1,913,973**	(4,398,346)
Purchase of property and equipment	**(1,253,934)**	(452,200)
	660,039	(4,850,546)
Net increase in cash and cash equivalents	**45,410,266**	15,557,990
Cash and cash equivalents, beginning of year	**36,902,348**	21,344,358
Cash and cash equivalents, end of year	**$ 82,312,614**	$ 36,902,348

Non-cash transactions		
Recognition of right-of-use assets by way of lease liability, net of transition adjustment	**$ -**	$ 456,154

1. Governing legislation and operations

The Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the North Okanagan and Peachland. The products and services offered to its members include personal, commercial and other loans and mortgages; chequing and savings accounts; term, demand and other deposits. The Credit Union's head office is located at 3108 - 33rd Avenue, Vernon BC. These consolidated financial statements have been approved and authorized for issue by the Board of Directors on February 24, 2021.

On March 11, 2020 the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Credit Union has deployed initiatives in order to protect the health and safety if its employees, to support its customers, and mitigate the impact of the crisis while ensuring continuity of its activities. The pandemic has had an expected impact on the Credit Union's financial statements to date. As of this time, it is difficult to assess the impact of the Credit Union's future results as it is dependent on the length and severity of the pandemic. Management will continue to monitor and assess the situation and respond accordingly.

2. Basis of presentation and statement of compliance

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

The Credit Union and its subsidiaries' functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3. Summary of significant accounting policies

Basis of consolidation

The Credit Union financial statements consolidate those of the parent company and all of its subsidiaries up to December 31, 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries controlled through 100% ownership include VantageOne Financial Corp. and VantageOne Leasing Inc. All subsidiaries have a reporting date of December 31.

All transactions and balances between the Credit Union and its subsidiaries are eliminated on consolidation. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Cash and cash equivalents

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

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial assets and financial liabilities

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit or loss ("FVTPL").

In the periods presented, the Credit Union does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Credit Union's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of financial assets

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, term deposits and accrued interest, loans and receivables and other assets, fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Financial assets at fair value through profit or loss (FVTPL) (*continued*)

The Credit Union accounts for its investments in CEDA, Central 1, CUPP Services Ltd and Stabilization Central Credit Union at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI).

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Impairment of financial assets

IFRS 9's impairment requires the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. Recognition of credit losses requires the Credit Union consider a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second and third categories.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Credit Union's financial liabilities include deposits, payables and other liabilities, and members' shares classified as liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Hedge Accounting

The Credit Union, in accordance with its risk management strategies, enters into various 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.

Derivative financial instruments are account for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Hedge Accounting (*continued*)

To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

For the reporting periods under review, the Credit Union has designated the interest rate swap contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's hedges are primarily hedges of floating rate commercial and personal loans. The Credit Union has not entered into any fair value hedges at this time.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Revenue

Revenue arises mainly from interest earned on loans.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method.

(*continued*)

3. Summary of significant accounting policies *(continued)*

Property and equipment

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

Buildings, renovations and HVAC system	15 to 40 years
Office equipment and computers	2 and 5 years
Furniture and fixtures	15 years
Leasehold improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net earnings, except to the extent they reverse gains previously recognized in other comprehensive income.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless it affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Income taxes (*continued*)

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Post-employment benefit and short-term employee benefits

Post-employment benefit

The Credit Union sponsors a defined benefit pension plan which is administered by CUMIS. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement in return for their service in the current and prior periods. It is funded through payments to trustee administered funds which are determined by actuarial valuations.

The asset (liability) recognized in the statement of financial position for the defined benefit plan is the present value of the fair value of plan assets at the reporting date less the defined benefit obligation ("DBO"). The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation is determined using the project unit credit method on an annual basis by an independent actuary. The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the pension cost charged to the statement of earnings and comprehensive income.

Actuarial gains and losses related to the defined benefit pension plan are recorded directly in equity through other comprehensive income as they arise. Post-employment benefit expenses are included in 'salaries and benefits'.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Provisions (*continued*)

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Membership shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

Distributions to members

Patronage rebates and dividends on shares classified as liabilities are charged against earnings, when approved by the Board of Directors.

Leased assets

The Credit Union as a lessee

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

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

Measurement and recognition of leases as a lessee

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

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

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

(*continued*)

3. Summary of significant accounting policies (*continued*)

Measurement and recognition of leases as a lessee (*continued*)

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

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

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

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

On the statement of financial position, right-of-use assets have been included in property and equipment.

The Credit Union as a lessor

Amounts due from lessees under finance leases are recorded as loans and receivables at the amount of the Credit Union's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Credit Union's net investment outstanding in respect of the leases.

As a lessor the Credit Union classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Foreign currency translation

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.

Standards and interpretations not yet effective

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's financial statements

4. Judgments and estimates

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgments, estimates and assumptions 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 judgments, estimates and assumptions.

Judgments

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized.

Estimates

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

Allowance for impaired loans

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 90-days past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, 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 allowance for credit losses.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2020, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

(*continued*)

4. Judgments and estimates (*continued*)

Income taxes

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

Accrued pension asset (liability)

Under the Credit Union's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Credit Union, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

Management estimates the defined benefit asset (liability) annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit asset (liability) is based on standard rates of inflation and mortality. It also takes into account the Credit Union's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension asset.

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2020 is 0.23% (2019 – 1.77%).

	2020	2019
Cash and current accounts	**$ 78,018,333**	$ 36,494,000
Callable term deposits and accrued interest	**4,294,281**	408,348
	$ 82,312,614	$ 36,902,348

6. Investments

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

	2020	2019
Term deposits and accrued interest	**$ 26,090,239**	$ 29,053,252
Shares		
CEDA	**10**	10
Central 1 Credit Union class A shares	**126,149**	132,513
Central 1 Credit Union class E shares	**76**	76
Central 1 Credit Union class F shares	**1,397,719**	1,457,623
Central 1 accrued dividends	**41,932**	87,457
CUPP Services Ltd.	**101,475**	101,475
Stabilization Central Credit Union	**258**	258
	$ 27,757,858	$ 30,832,664

(*continued*)

6. Investments (*continued*)

The Credit Union must maintain liquidity reserves with Central 1 at 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms

Non-callable term deposits are due between one month and five years. The carrying amounts for deposits at approximate fair value due to having similar characteristics as cash and cash equivalents.

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

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. All such shares are classified as fair value through profit or loss. Central 1 shares are not available for trade in an active market therefore the market values are not readily available and the potential variability in the range of fair value estimates based on valuation models is significant. Therefore, shares in Central 1 are reported at their original cost, which is representative of their fair value.

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

7. Loans

	2020	2019
Personal loans		
Residential mortgages	**$ 205,141,065**	$ 210,746,298
Other	**4,811,888**	5,246,602
Commercial loans		
Mortgages	**68,567,480**	60,299,752
Other	**7,246,578**	8,006,497
Leases	**16,460,453**	15,941,368
	302,227,464	300,240,517
Accrued interest receivable	**443,125**	413,095
Total carrying amount	**302,670,589**	300,653,612
Deferred loan fees	**(108,740)**	(55,543)
	302,561,849	300,598,069
Allowance for impaired loans (Note 8)	**(517,901)**	(415,378)
Net loans to members	**$ 302,043,948**	$ 300,182,691

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to ten years.

(*continued*)

7. Loans (*continued*)

The Credit Union's prime rate at December 31, 2020 was 2.95% (2019 – 3.95%) and is formulated on the Bank of Canada prime rate. Loan rates are based on current Credit Union prime rate with a range based on lending criteria.

The interest rate offered on fixed rate loans being advanced at December 31, 2020 ranges from 1.20% to 15.95% (2019 – 2.00% to 15.95%). The interest rate offered on fixed rate leases being advanced at December 31, 2020 range from 3.95% to 12.66% (2019 – 4.50% to 14.65%).

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 non-real estate secured and have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

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

Average yields to maturity

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

	2020		2019	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 61,216,650**	**3.60%**	$ 72,102,980	4.60%
Fixed rate due less than one year	**75,508,895**	**3.55%**	62,408,112	3.91%
Fixed rate due between one and five years	**165,501,919**	**3.60%**	165,729,425	3.68%
	$ 302,227,464	**3.59%**	$ 300,240,517	3.95%

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2020	2019
Unsecured loans	**$ 4,936,098**	$ 5,446,350
Loans, secured by real estate or insured by government	**276,412,504**	275,916,809
Loans, otherwise secured	**2,515,931**	1,364,075
Loans, secured by deposit and government securities	**1,902,478**	1,571,915
Leases	**16,460,453**	15,941,368
	$ 302,227,464	$ 300,240,517

(*continued*)

7. Loans (*continued*)

Fair value

The fair value of member loans and leases at December 31, 2020 was $305,690,000 (2019 – $297,439,000).

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

Finance leases as lessor

The information below describes the nature of the Credit Unions leasing activities by type of right-of-use asset recognized on the balance sheet:

The Credit Union's future minimum finance lease receivables are as follows:

	Minimum lease payments due					
	Within 1 year	1 to 5 years	After 5 years	Non-performing leases	Unearned finance income	Total
December 31, 2020	$ 6,687,004	$10,940,047	$ 291,564	$ 110,879	$ (1,569,041)	$ 16,460,453

The interest rate inherent in the leases is fixed at the contract date for all of the lease term.

Finance lease receivable balances are secured over the equipment leased. The Credit Union is not permitted to sell or repledge the collateral in the absence of default by the lessee.

8. Allowance for impaired loans

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, consumer loans are classified as impaired when payment is contractually 90 days past due, or one year past due for residential mortgages if guaranteed by the Government of Canada. Personal loans and some small business loans are normally written off when they are one year past due. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 90 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

(*continued*)

8. Allowance for impaired loans (*continued*)

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower's payments are past due more than 90 days.

Once a loan is identified as impaired, the Credit Union will continue to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money.

Total allowance for impaired loans as at December 31, 2020:

	Stage 1	Stage 2	Stage 3	**2020 Total**
Residential mortgages				
Allowance for credit losses	$ 135,088	$ 18,217	$ -	**$ 153,305**
Carrying amount	167,948,897	2,450,411	-	**170,399,308**
Personal loans and lines of credit				
Allowance for credit losses	88,281	23,696	-	**111,977**
Carrying amount	38,968,165	562,575	-	**39,530,740**
Commercial loans				
Allowance for credit losses	45,068	27,613	57,067	**129,748**
Carrying amount	63,319,062	12,458,786	502,240	**76,280,088**
Commercial Leases				
Allowance for credit losses	17,332	-	105,539	**122,871**
Carrying amount	16,349,574	-	110,879	**16,460,453**
Total allowance for credit losses	$ 285,769	$ 69,526	$ 162,606	**$ 517,901**
Total carrying amount	$286,585,698	$ 15,471,772	$ 613,119	**$ 302,670,589**

(*continued*)

8. Allowance for impaired loans (*continued*)

The following table shows the continuity in the loss allowance by each product type as at December 31, 2020:

Change in allowance:

	Beginning balance	(Write-offs net of recoveries)	Provisions	**Ending balance**
Residential mortgages				
Stage 1	$ 127,659	$ -	$ 7,429	**$ 135,088**
Stage 2	10,349	-	7,868	**18,217**
Stage 3	21,242	-	(21,242)	**-**
	159,250	-	(5,945)	**153,305**
Personal loans and lines of credit				
Stage 1	68,839	-	19,441	**88,280**
Stage 2	30,082	-	(6,385)	**23,697**
Stage 3	-	-	-	**-**
	98,921	-	13,056	**111,977**
Commercial loans				
Stage 1	14,203	-	30,865	**45,068**
Stage 2	56,545	-	(28,932)	**27,613**
Stage 3	-	-	57,067	**57,067**
	70,748	-	59,000	**129,748**
Commercial leases				
Stage 1	12,157	(1,324)	6,499	**17,332**
Stage 2	-	-	-	**-**
Stage 3	74,302	(7,595)	38,832	**105,539**
	86,459	(8,919)	45,331	**122,871**
Total provision	$ 415,378	$ (8,919)	$ 111,442	**$ 517,901**
Percentage of total loans and accrued interest	0.14%			**0.17%**

In addition to the adjustments to the above noted provisions $54,389 (2019 – $73,058) was recovered from loans and leases previously written-off.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default (“PD”)

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered.

- Retail: Based on default data from Credit Unions reported to Equifax; and
- Non-Retail: Based on mapping to external default data (no credit union data available).

(*continued*)

8. Allowance for impaired loans (*continued*)

Exposure of default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate payed per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

For retail revolving loans, the assumptions are to be provided by the Credit Union. For non-retail revolving loans, the assumptions are based on data from large banks. Term loans and mortgages use contractual conditions and construction loans use the outstanding balance.

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

For residential loans and real estate secured lines of credits, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date and the corresponding Home Price Index ("HPI") as of the valuation date;
- The HPI at the reporting date and projected values in the future;
- The type of property – single family, multi-family or condo;
- The average regional property value; and
- The recovery rate.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral; and
- Collateral might be shared among many different loans.

The recovered amount of uncollateralized exposure is an average value obtained in two studies performed by Moody's and JP Morgan Chase.

(*continued*)

8. Allowance for impaired loans (*continued*)

Staging

Changes in staging occur when the following events take place:

- Retail: Changes in beacon score of greater than 30 DPD
- Non-Retail: Changes in borrower risk rating of greater than 30 DPD

The lifetime of a product is based on the following data:

- Term and non-retail revolving: Contractual term of the product
- Retail revolving: Based on Credit Union data provided by Equifax

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential loans and real estate secured lines of credits LGD: Collateral value adjustments based on property index projections
- Retail and non-retail PD: Relationships with macro drivers derived from bank industry data series and pay net

9. Property and equipment

	Land	Building and renovations	Leasehold improvement	Office equipment and computers	Furniture and fixtures	Total
Cost						
Balance at December 31, 2019	$ 1,400,662	$10,549,707	$ 1,889,364	$ 2,891,425	$ 612,493	$17,343,651
Additions	-	663,887	147,986	333,248	108,814	1,253,935
Disposals	-	(510,940)	-	-	(65,670)	(576,610)
Balance on December 31, 2020	**1,400,662**	**10,702,654**	**2,037,350**	**3,224,673**	**655,637**	**18,020,976**
Accumulated depreciation						
Balance at December 31, 2019	-	4,934,762	893,951	1,922,071	337,269	8,088,053
Depreciation	-	374,584	99,897	344,913	39,834	859,228
Disposals	-	(463,362)	-	-	(65,670)	(529,032)
Balance on December 31, 2020	**$ -**	**$ 4,845,984**	**$ 993,848**	**$ 2,266,984**	**$ 311,433**	**$ 8,418,249**
Net book value						
December 31, 2020	**$ 1,400,662**	**$ 5,856,670**	**$ 1,043,502**	**$ 957,689**	**$ 344,204**	**$ 9,602,727**
December 31, 2019	$ 1,400,662	$ 5,614,945	$ 995,413	$ 969,354	$ 275,224	$ 9,255,598

Included in the net carrying amount of buildings and renovations are right-of-use assets of $190,890 (2019 – $323,522).

10. Leases

The Credit Union has leases for the multiple branch locations. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Credit Unions sales) are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property and equipment (see Note 9).

Each lease generally imposes a restriction that, unless there is a contractual right for the Credit Union to sublet the asset to another party, the right-of-use asset can only be used by the Credit Union. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Credit Union is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Credit Union must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Credit Union must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

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

Right of use asset (ROU)	No. of ROU assets leased	Range of remaining term	Average remaining lease term	No. of leases with options to purchase	No. of leases with termination option
Office buildings	3	1-7 years	3 years	-	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2020 were as follows:

2021	$ 111,905
2022	28,606
2023	12,600
2024	12,600
2025	12,600
Subsequent years	21,000
Total future minimum lease payments	199,311
Less amount representing finance charges	3,907
Net present value	**$ 195,404**

Lease payments not recognized as a liability

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

(*continued*)

10. Leases (*continued*)

Lease payments not recognized as a liability (*continued*)

The 2020 expense relating to payments not included in the measurement of the lease liability is as follows:

Leases of non-identifiable assets	$ 104,402
Variable lease payments	373,289
Total	**$ 477,691**

At December 31, 2020, the Credit Union was committed to leases of low value assets and the total commitment at that date was $243,604 for future periods.

Variable lease payments expensed on the basis that they are not recognized as a lease liability include rentals based on revenue from the use of the underlying asset and excess use charges on office equipment. Variable payment terms are used for a variety of reasons, including minimizing costs for IT equipment with infrequent use. Variable lease payments are expensed in the period they are incurred.

At December 31, 2020 the Credit Union had committed to leases which had not yet commenced. The total future cash outflows for leases that had not yet commenced were $nil.

Total cash outflow for leases for the year ended December 31, 2020 was $614,797.

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

	Carrying amount (Note 9)	Depreciation Expense	Impairment
Buildings and renovations	**$ 190,890**	**$ 132,632**	**$ -**

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

11. Deposits

	2020	2019
Term	**$ 105,158,192**	$ 114,800,537
Demand	**214,100,508**	162,643,148
Registered savings plans	**74,731,150**	72,764,939
	393,989,850	350,208,624
Accrued interest and dividends	**1,502,964**	1,656,693
	$ 395,492,814	$ 351,865,317

Terms and conditions

Term and demand deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semiannually, monthly or upon maturity. The interest rates offered on term deposits and demand deposits issued on December 31, 2020 range from 0.25 to 3.30% (2019 – 0.3% to 3.30%).

The registered retirement savings plans (“RRSP”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 0.5% at December 31, 2020 (2019 – 0.6%).

(*continued*)

11. Deposits (*continued*)

Terms and conditions (*continued*)

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

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

Included in demand deposits is an amount of $1,785,824 (2019 – $1,609,988) denominated in US dollars which has been translated to Canadian dollars as per policy at December 31.

Average yields to maturity

Members’ deposits bear interest at fixed rates with the following average yields at:

	2020		2019	
	Principal	**Yield**	Principal	Yield
Fixed rate due less than one year	**$ 146,513,014**	**1.42%**	$ 115,772,739	1.65%
Fixed rate due between one and seven years	**44,238,806**	**1.90%**	81,701,122	2.50%
Non-interest sensitive	**203,238,030**	**0.00%**	152,734,763	0.00%
	$ 393,989,850	**0.79%**	$ 350,208,624	1.24%

All member deposits are with members located in and around the North Okanagan region and Peachland, British Columbia.

Fair value

The fair value of member deposits at December 31, 2020 was $396,734,000 (2019 – $352,586,000).

The estimated fair value of the fixed rate deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

12. Payables and other liabilities

Included in payables and other liabilities is an advance from World Source Financial Management. The Company was advanced $nil (2019 – $181,562) during the year for an accumulated total of $460,062 bearing interest at 0% and is forgivable over 60 months. During the year, $96,047 (2019 – $89,322) was forgiven for an accumulated total of $203,936.

13. Accrued pension asset (liability)

The Credit Union makes contributions to CUMIS on behalf of their employees which participate in the defined benefit pension plan. CUMIS administers the plan including the payment of the pension benefits on behalf of employers and employees. Contributions are paid into the plan in accordance with the recommendations of an independent actuary. The latest formal actuarial valuation for contribution purposes was carried out as at December 31, 2019 and updated to December 31, 2020 for the following actuarial assumptions.

The DBO was determined using the following actuarial assumptions:

	2020	2019
Discount rate	**2.60%**	3.20%
Expected rate of return on plan assets	**2.60%**	3.20%
Expected rate of salary increases	**2.00%**	2.00%
Inflationary increases	**2.00%**	2.00%

Statement of financial position

The reconciliation of the Credit Union's defined benefit obligation and plan assets to the amounts presented on the statement of financial position for each of the reporting periods are presented below:

	2020	2019
Fair value of plan assets	**$ 5,672,700**	$ 5,200,100
Defined benefit obligation	**5,834,600**	5,198,400
(Deficit) Surplus	**$ (161,900)**	$ 1,700

Reconciliation of change in plan assets:

	2020	2019
Fair value of plan assets January 1	**$ 5,200,100**	$ 4,888,600
Expected investment return	**166,700**	184,500
Benefit payments	**(124,400)**	(122,800)
Employer contributions	**117,800**	141,500
Member contributions	**23,400**	28,200
Actuarial gains (losses)	**289,100**	380,100
Fair value of plan assets December 31	**$ 5,672,700**	$ 5,200,100

Expected returns on plan assets are based on a weighted average of expected returns of various assets in the plan, and include an analysis of historical returns and predictions about future returns. The actual return on plan assets, net of expenses, was $455,800 (2019 – $564,600).

Plan assets can be broken down into the following major categories of investments:

	2020	2019
Retirement Security Fund	**47.06%**	50.95%
US Equity Fund	**19.61%**	18.34%
Canadian Equity Fund	**5.94%**	6.07%
International Equity Fund	**5.36%**	4.75%
New Canada Equity Fund	**22.03%**	19.89%
Total plan assets	**100%**	100%

(continued)

13. Accrued pension asset (liability) (*continued*)

Reconciliation of change in defined benefit obligation:

		2020		2019
Defined benefit obligation January 1	**$**	**5,198,400**	$	4,383,200
Interest on liabilities		**168,500**		177,100
Benefit payments		**(124,400)**		(122,800)
Contributions		**23,400**		28,200
Service cost		**105,000**		76,900
Actuarial losses (gains)		**463,700**		655,800
Defined benefit obligation December 31	**$**	**5,834,600**	$	5,198,400

Statement of comprehensive income

The charge to the income statement comprises:

		2020		2019
Service cost	**$**	**105,000**	$	76,900
Interest on assets		**(166,700)**		(184,500)
Interest on liabilities		**168,500**		177,100
Expense	**$**	**106,800**	$	69,500

The expense is grouped with salaries and benefits within operating expenses.

Amounts recognized in other comprehensive income:

		2020		2019
Actuarial gain on plan assets	**$**	**289,100**	$	380,100
Actuarial (loss on liabilities		**(463,700)**		(655,800)
Amount recognized in other comprehensive income	**$**	**(174,600)**	$	(275,700)

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately $133,500 to be paid for 2020.

14. Income taxes

The significant components of tax expense included in net earnings are composed of:

	2020	2019
Current tax expense based on current year taxable income	**$ 185,469**	$ 83,623
Deferred tax recovery of origination and reversal of temporary differences	**54,000**	138,000
Income taxes	**$ 239,469**	$ 221,623

The significant components of the tax effect of the amounts recognized in other comprehensive loss are composed of:

	2020	2019
Current tax expense (recovery)		
Change in unrealized (loss) gain on derivative instruments	**$ (14,642)**	$ 54,576
Total tax effect of amounts recorded in other comprehensive loss	**$ (14,642)**	$ 54,576

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
Earnings before income taxes	**$ 385,119**	$ 660,661
Expected taxes based on the statutory rate	**$ 103,982**	$ 178,378
Rate differentials	**(28,562)**	(3,550)
Specified leasing tax treatment	**(36,377)**	31,715
Other	**76,130**	15,080
Accumulated recycling of cash flow hedges recognized in profit or loss	**124,296**	-
Income Taxes	**$ 239,469**	$ 221,623

The movement in 2020 deferred tax assets are:

Deferred income tax asset	Opening Balance at January 1, 2020	Recognized in net earnings	Recognized in other comprehensive loss	Closing Balance December 31, 2020
Property, equipment, and intangible assets	$ (39,000)	$ 40,000	$ -	**$ 1,000**
Allowance for loan losses	53,000	5,000	-	**58,000**
Non-capital losses	80,000	(80,000)	-	**-**
Other temporary differences	1,000	3,000	-	**4,000**
Finance lease obligation	55,000	(22,000)	-	**33,000**
	$ 150,000	$ (54,000)	$ -	**$ 96,000**

15. Derivative financial instruments

At the end of December 31, 2019, the Credit Union had entered into interest rate swap contracts for a total of $60 million of notional principal ($10 million of this being in forward starting agreements). During the year the Credit Union unwound all its interest rate swap contracts as a result of the drop in the interest rate posted by the Bank of Canada. The result of this transaction was a gain of $701,500 of which $400,213 was recorded through profit and loss as a realized gain, and the remaining $301,287 being recorded through other comprehensive income as an unrealized gain to be amortized into profit and loss over the original interest rate swap timelines. The unwinding of the interest rate swap contracts also resulted in the recognition of historical unrealized gains and losses on cash flow hedges to be recycled into retained earnings through profit or loss.

16. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, an operating line and term facility of $9,000,000 and a $1,000,000 capital markets facility. The facilities bear interest at Bank of Canada overnight lending rates plus 0.95% and are secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1 Credit Union. At year end, the balance outstanding was $nil (2019 – $nil) on the operating facility and $nil (2019 – $nil) on the capital markets facility.

17. Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

The Credit Union may issue four classes of shares designated as membership equity of $1 par value.

Class A and Class C Equity Shares

As a condition of membership, which is required to use the services of the Credit Union, each standard member is required to hold $25 in membership shares. These membership shares are non-transferable and redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Class D Allocation Equity Shares

Allocation shares can be issued to members of the Credit Union through dividends and patronage rebates. They are non-voting and redeemable at par at the discretion of the Board of Directors.

Class B Non-Equity Shares

Shares can be issued to members of the Credit Union. They are non-voting and pay dividends at the discretion of the Board of Directors. Shares are available for redemption by the member and are classified as liabilities.

Equity shares are not insured by Credit Union Deposit Insurance Corporation of B.C. ("CUDIC"). During the year, the Credit Union declared dividends on the membership shares, allocation equity shares and non-equity share savings of $42,571 (2019 – $33,587).

18. Other income

	2020	2019
Account service fees	**$ 728,381**	$ 863,207
Foreign exchange	**151,430**	92,818
Insurance commissions, fees and lease revenue	**2,216,070**	2,126,448
Loan administration fees	**154,748**	134,753
Loss on disposal of property and equipment	**(47,578)**	-
Rental income	**343,199**	290,347
Safety deposit rentals	**29,820**	30,967
Accumulated recycling of cash flow hedges	**(460,354)**	-
	$ 3,115,716	$ 3,538,540

19. Operating expenses

	2020	2019
Advertising	**$ 159,582**	$ 161,779
Depreciation	**859,228**	824,091
Data processing	**604,845**	536,433
Dues and assessments	**409,306**	558,739
Human resource and administration	**201,725**	227,045
Maintenance, supplies and security	**560,813**	537,477
Premises, occupancy and office	**1,049,179**	1,010,291
Professional fees and insurance	**451,539**	455,905
Salaries and benefits	**6,109,028**	6,101,393
	$ 10,405,245	$ 10,413,153

20. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, post-employment benefit plans for the Credit Union's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures.*

	2020	2019
Compensation		
Salaries and other short-term employee benefits to directors and management (2020 – 15 and 2019 – 15)	**$ 831,375**	$ 915,276
Total pension and other post-employment benefits	**$ 125,779**	$ 130,101
Loans and leases to key management personnel		
Aggregate value of loans and leases advanced	**$ 2,882,667**	$ 3,104,639
Interest received on loans and leases advanced	**$ 82,890**	$ 89,435
Aggregate value of un-advanced loans and leases	**$ 274,418**	$ 761,563

(*continued*)

20. Related party transactions (*continued*)

The Credit Union's policy for lending to key management personnel is that all such loans and leases were granted in accordance with normal lending terms.

	2020	2019
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 2,653,693**	$ 1,955,934
Total interest paid on term and saving deposits	**$ 19,983**	$ 8,161

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to Members for each type of deposit.

21. Financial instrument classification and fair value

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- 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 (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The only financial instruments carried at fair value were Level 2 derivative financial instruments and investments in CEDA, Central 1, CUPP Services Ltd and Stabilization Central Credit Union.

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

The Credit Union has considered whether its investments have incurred a significant or prolonged decline in their fair market value and it has determined that there is no objective evidence of impairment of its investments.

22. Financial instrument risk management

General objectives, policies and processes

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

(*continued*)

22. Financial instrument risk management (*continued*)

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being Vernon, BC and surrounding areas including Peachland, BC.

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

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

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

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

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is $nil (2019 – $nil).

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

Liquidity risk

Liquidity risk is the risk that the Credit Union 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 capital for operating and regulatory purposes.

(*continued*)

22. Financial instrument risk management (*continued*)

Liquidity risk (*continued*)

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties. The Financial Institutions Act specifies that a minimum liquidity ratio of 8% must be maintained.

The Credit Union manages liquidity risk by:

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

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

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

	2020 Maximum exposure	2019 Maximum exposure
Qualifying liquid assets on hand	**$ 31,678,902**	$ 31,648,557
Total liquidity requirement 8% minimum	**(25,348,978)**	(28,213,625)
Excess liquidity – actual less requirement	**$ 6,329,924**	$ 3,434,932

	2020	2019
Total cash and cash equivalents	**$ 82,312,614**	$ 36,902,348
Total term deposits and accrued interest	**26,090,239**	29,053,252
Total liquid assets on hand	**108,402,853**	65,955,600
Total liquidity requirement 8%	**(25,348,978)**	(28,213,625)
Excess liquidity (including non-qualifying assets)	**$ 83,053,875**	$ 37,741,975

	2020	2019
Total liquidity ratio (including non-qualifying assets)	**27.4%**	18.7%

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

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

(*continued*)

22. Financial instrument risk management (*continued*)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value or 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. At December 31, 2020, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of $nil, $nil of this being in forward starting agreements (2019 – $10 million) maturing at various times through to 2021 and 2022, respectively. As at December 31, 2020, the interest rate swaps have a fair market value liability of $nil (2019 – liability of $142,500). Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities. Due to the low interest rates posted by the Bank of Canada the Credit Union unwound all its swaps in the year.

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

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates. The following table details the Credit Union's exposure to interest rate risk.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

(*continued*)

22. Financial instrument risk management (*continued*)

Interest rate risk (*continued*)

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

		Interest sensitive balances in $000's				
	Average Rates	Within 3 Months	4 months to 1 year	Over 1 Year	Not interest sensitive	Total
Assets						
Cash and cash equivalents	0.22%	$ 79,963	$ -	$ -	$ 2,350	$ 82,313
Loans	3.59%	77,109	59,628	165,502	(195)	302,044
Other	1.26%	2,645	3,963	19,220	11,997	37,825
		159,717	63,591	184,722	14,152	422,182
Liabilities						
Deposits	0.78%	47,376	98,437	44,032	205,648	395,493
Other	0.00%	-	-	-	2,001	2,001
		47,736	98,437	44,032	207,649	397,494
Balance sheet mismatch		112,341	(34,846)	140,690	(193,497)	24,688
Derivatives		-	-	-	-	-
Interest sensitivity position 2020		**$ 112,341**	**$ (34,846)**	**$ 140,690**	**$ (193,497)**	**$ 24,688**
Interest sensitivity position 2019		$ 32,431	$ (12,255)	$ 147,121	$ (143,487)	$ 23,810

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.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net earnings of $616,000 while a decrease in interest rates of 1% could result in an decrease to net earnings of $272,000.

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

Currency risk

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

(*continued*)

22. Financial instrument risk management (*continued*)

Currency risk (*continued*)

The Credit Union's foreign exchange risk is related to US dollar deposits and loans denominated in US dollars. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

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

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to 5% in US funds.

For the year ended December 31, 2020, the Credit Union's exposure to foreign exchange risk is within policy.

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

Equity risk

The Credit Union's investment policy allows investments in the following categories:

Central 1 Credit Union shares and deposits, equity shares, assets/liability hedges, mortgage backed securities, subsidiaries, real property, bonds, bankers' acceptances, and commercial paper. There are no limits to investment to Central 1 investments, and hedges; all other investments are limited to 5% of total assets.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

23. Capital management

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

In the management of capital, the Credit Union included retained earnings, accumulated other comprehensive income, and equity shares totaling $24,687,396 (2019 – $23,810,874).

The Credit Union is required under provincial legislation to maintain a minimum 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.

The Credit Union's current capital base is equal to 16.74% (2019 – 15.97%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the Board of Directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five year period.

(*continued*)

23. Capital management (*continued*)

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, 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 Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2020.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

24. Commitments

Member loans

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

Unadvanced loans	$ 5,709,603
Unused lines of credit	$ 56,519,440

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union is comprised of a loan that has been syndicated and is administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is as follows:

	2020	2019
Syndicated loans	**$ 197,304**	$ 768,316

Canada Emergency Business Account ("CEBA")

At December 31, 2020, the Credit Union has disbursed loans in the amount of $5,800,000 (2019 – $nil) on behalf of Central 1 related to the CEBA program. This amount has not been included in the loans balance on the statement of financial position.

Letters of credit

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet. At December 31, 2020, the Credit Union has outstanding letters of credit on behalf of members in the amount of $1,580,009 (2019 – $1,716,592). These letters of credit have various levels of security.

25. Post-reporting date events

On January 1, 2021 the segregation of the mandatory liquidity pool maintained by Central 1 was finalized. The deposits held in the mandatory liquidity pool by the Credit Union of $29,900,501 were redeemed in exchange for a portfolio of high quality liquid assets invested through the Credit Union’s Trust.

Subsequent to the segregation, Central 1 Class F shares of $1,397,719 were redeemed at par in cash to the Credit Union.

The segregation of the mandatory liquidity pool resulted in a $731,231 gain in the fiscal 2021 statements of earnings and comprehensive income for the Credit Union.

Corporate Governance

Board of Directors

The board of directors of VantageOne Credit Union is comprised of 7* elected representatives. All have a professional or business background including financial, accounting, engineering, technology, governance and Enterprise Wide Risk Management that contributes significant expertise at the board table.

All of VantageOne's directors participate in the national system's Credit Union Director Achievement (CUDA) program. In addition, all directors have opportunities to attend conferences, workshops and take courses to enhance the knowledge and expertise in areas of governance.

Terms of Office

Cheryl Turcotte
Board Chair
Current Term 2019 - 2022
Director Since 2012

Jason Gilbert
Vice-Chair
Current Term 2018 - 2021
Director Since 2012

Jordan Bowness
Executive Director
Current Term 2018 - 2021
Director Since 2018

Juliette Cunningham
Director
Current Term 2020 – 2023
Director Since 2020

Michelle Sinclair
Director
Current Term 2019 – 2022
Director Since 2019

Wilf Mulder
Director
Current Term 2020 - 2023
Director Since 2016

*Note that currently we have 6 directors in office, with one vacancy due to a director leaving mid-year.

Committees

Each of VantageOne's committees has its own terms of reference and workplan. Committees are run as Committee of the Whole with the exception of the Executive and Nominating committees.

Executive Committee

10 Meetings

Cheryl Turcotte, Chair

Jason Gilbert, Vice-Chair

Jordan Bowness, Executive Director

Audit Committee

7 Meetings

Cheryl Turcotte, Chair

The Audit Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of internal controls. In addition, the oversight of ERM which include ensuring the organization has effective risk management processes in place.

Conduct Review Committee

4 Meetings

Juliette Cunningham, Chair

The Conduct Review Committee is responsible for establishing policies and procedures to address conflict of interest, standards of conduct and to maintain sensitive information confidential.

Investment & Lending Committee

4 Meetings

Jason Gilbert, Chair

Glenn Benischek, (Management)*

The Investment & Lending Committee is responsible for ensuring there is an appropriate, prudent policy to govern the employment of funds entrusted to the organization and to oversee the employment of those funds.

Nominating Committee

4 Meetings

Michelle Sinclair, Chair

Juliette Cunningham

Wilf Mulder

Cheryl Turcotte

The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.

Board Development Committee

4 Meetings

Wilf Mulder, Chair

The Board Development Committee is responsible for ensuring the board continually develops its skills and knowledge, as well as assessing the skill and knowledge strengths and weaknesses of board members.

Technology Committee

1 Meeting

Jordan Bowness, Chair

The role of the Technology Strategy Committee (TSC) is to have the depth of knowledge and understanding about technology that is needed to provide the leadership and oversight necessary to advance the technology strategy work, ensuring continued growth, with impact, consistent with VantageOne's vision and values.

*The CEO is a Voting Officer Member of the Investment & Lending Committee.

Remuneration

VantageOne Credit Union provides directors with the following compensation:

- Board Meetings: $300/Chairman, $275/Vice-Chairman, $250/Executive Director, and $225/Director
- $1,500 Basic Remuneration
- Annual Fees Paid: Board Chair $3,500, Vice-Chair $2,500, Executive $2,000, Audit Committee Chair $700, Investment & Lending Committee Chair $700
- Reimbursement of expenses including travel, accommodation, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- In 2020 there was a total of 15 board meetings, 34 committee meetings held, as well as the AGM.

Section 11.26 of the Credit Union Rules state that the remuneration, if any, of the directors in relation to their service as directors may be established, from time to time, by the board of directors.

For the fiscal year 2020, the total expense for VantageOne Credit Union directors was $83,518. The expense for each director is summarized alongside.

Cheryl Turcotte
Chair

Director Remuneration
$10,700

Training, Travel & Expenses
$9,969

Jason Gilbert
Vice-Chair

Director Remuneration
$7,714

Training, Travel & Expenses
$9,635

Wilf Mulder
Director

Director Remuneration
$6,493

Training, Travel & Expenses
$300

Jordan Bowness
Executive Director

Director Remuneration
$6,536

Training, Travel & Expenses
$10,201

Janice Brown
Director (resigned October 2020)

Director Remuneration
$5,075

Training, Travel & Expenses
$30

Juliette Cunningham
Director (Elected July 2020)

Director Remuneration
$3,350

Training, Travel & Expenses
$2,173

Akbal Mund
Vice-Chairperson
(Term ended July 2020)

Director Remuneration
$3,682

Training, Travel & Expenses
$30

Michelle Sinclair
Director

Director Remuneration
$6,350

Training, Travel & Expenses
$1,280

Director Attendance (Attended/Meetings Held*)

		Committee Meetings						
Directors	Board Meeting	Audit	Board Development	Conduct Review	Executive	Investment & Lending	Nominating	Technology
Jordan Bowness	14/15	6/7	3/4	3/4	5/5	3/4	1/2	1/1
Janice Brown (Jan-Oct 2020)	12/13	5/5	4/4	3/3	n/a	3/3	3/3	n/a
Juliette Cunningham (July-Dec 2020)	8/9	3/3	2/2	2/2	n/a	2/2	2/2	n/a
Jason Gilbert	15/15	7/7	4/4	4/4	4/5	4/4	2/2	n/a
Wilf Mulder	14/15	7/7	4/4	4/4	4/5	4/4	2/2	1/1
Akbal Mund (Jan-July 2020)	7/8	5/5	2/2	2/2	5/5	2/2	n/a	n/a
Michelle Sinclair	15/15	7/7	4/4	4/4	n/a	4/4	4/4	1/1
Cheryl Turcotte	15/15	7/7	4/4	4/4	10/10	4/4	4/4	n/a

* Meetings Held number may differ depending on when a director came on board or sat on a specific committee. Due to COVID-19 our AGM was delayed in 2020 and New Terms began in July.

Senior Management Compensation

As a part of improved governance reporting and communication to members this section outlines the compensation philosophy for senior managers of VantageOne Credit Union and the aggregate direct salaries paid to our senior managers.

Organization Structure

The board of directors is responsible for governing the direction of VantageOne Credit Union. A key part of this is the hiring of a CEO who in turn is responsible for hiring the senior management team for the organization. Given the complexity of our organization, our senior management team consists of our Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Credit, Risk & Operations Office (CCROO), VP Commercial Banking, VP Consumer Banking Services, VP Human Resources, VP Marketing, and VP Wealth Management. Under the direction of the CEO, this team is responsible for executing strategy approved by the board of directors and managing the day to day activities of the credit union.

Compensation Philosophy

Our compensation and benefit strategy is to provide competitive, cost effective benefits that will help to attract and retain employees.

VantageOne intends to maintain our employee compensation program in a way that will help us attract the necessary talent we need to grow and further the strategic interests of our business. We will provide a compensation program that will be attractive and provide talented employees with good reason for remaining with the VantageOne and continuing in their efforts to improve the value to the organization and the community we serve.

In practical application, our philosophy is to provide direct compensation for senior managers in the mid-range of the market for these positions in the Canadian Credit Union System while also reflecting our local market conditions.

Direct Compensation Disclosure

The total direct compensation (salary and incentives, if any) provided to our eight senior managers is $948,271. We report that all senior managers are at or below the mid-range of the Canadian Credit Union market for their positions.

Who we are

We are a Credit Union dedicated to the financial well-being of our members, clients, employees and communities. Part of what's extraordinary about VantageOne is that while we offer traditional banking and borrowing solutions, we have also strategically diversified our services in ways to meet our members' expanding financial needs.

What we do

Provide financial ability

How we do it

Our values drive our behaviours: pride, integrity, enthusiasm, service innovation

Why we do it

We truly care about our members

VantageOne CREDIT UNION
250-545-9251 / 1-888-339-8328

Commercial Banking
Consumer Banking

VantageOne LEASING INC.
250-260-4527

Equipment Leasing

VantageOne FINANCIAL CORP.
250-260-4513

Wealth Management

Financial ability with a human touch.®

VantageOne CREDIT UNION

Financial ability with a human touch.®

Armstrong | Arrow Lake | Okanagan Landing
North Vernon | Peachland | Vernon Main

1-888-339-8328 | vantageone.net