# Vancouver Firefighters Credit Union
## Financial Statements
*December 31, 2020*

# Contents

*For the year ended December 31, 2020*

## Management's Responsibility

To the Members of Vancouver Firefighters Credit Union:

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

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

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

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

Dave Meers (Mar 12, 2021 16:50 PST)

General Manager

# Independent Auditor's Report

To the Members of Vancouver Firefighters Credit Union:

**Opinion**

We have audited the financial statements of Vancouver Firefighters Credit Union (the "Credit Union"), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

**Basis for Opinion**

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

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

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

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or 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 Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

Abbotsford, British Columbia

MNP LLP

February 25, 2021

Chartered Professional Accountants

# Vancouver Firefighters Credit Union
## Statement of Financial Position
*As at December 31, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents *(Note 5)* | **5,249,316** | 3,302,739 |
| Member loans receivable *(Note 6)* | **14,477,653** | 14,153,765 |
| Investments and other assets *(Note 7)* | **1,234,704** | 988,977 |
| Intangible assets *(Note 9)* | **118,741** | 128,119 |
| | **21,080,414** | 18,573,600 |
| **Liabilities** | | |
| Member deposits *(Note 11)* | **18,909,206** | 16,508,172 |
| Accounts payable and accrued liabilities | **66,849** | 74,487 |
| Member shares *(Note 12)* | **51,561** | 51,947 |
| Income taxes payable | **5,818** | 1,177 |
| Deferred tax liabilities *(Note 13)* | **5,000** | 7,800 |
| | **19,038,434** | 16,643,583 |

**Commitments** *(Note 16)*

**Event after the reporting period** *(Note 18)*

| | | |
|---|---|---|
| **Members' equity** | | |
| Retained earnings | **2,041,980** | 1,930,017 |
| | **21,080,414** | 18,573,600 |

**Approved on behalf of the Board**

C Stanford

C Stanford (Mar 15, 2021 08:37 PDT)

**Director** **Director**

*The accompanying notes are an integral part of these financial statements*

## Vancouver Firefighters Credit Union
### Statement of Comprehensive Income
*For the year ended December 31, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Interest income** | | |
| Member loans | **617,174** | 625,371 |
| Investments | **90,167** | 83,427 |
| | **707,341** | 708,798 |
| **Interest expense** | | |
| Member demand deposits | **15,648** | 13,391 |
| Member term deposits | **148,327** | 150,613 |
| Registered saving plans | **4,536** | 4,665 |
| | **168,511** | 168,669 |
| **Gross financial margin** | **538,830** | 540,129 |
| **Operating expenses** | | |
| Administration *(Schedule 1)* | **141,738** | 149,259 |
| Depreciation | **22,818** | 24,110 |
| Personnel | **208,873** | 224,598 |
| | **373,429** | 397,967 |
| **Operating income** | **165,401** | 142,162 |
| **Provision for loan impairment** *(Note 16)* | **1,253** | 15,000 |
| **Income before distribution to members and income taxes** | **164,148** | 127,162 |
| **Distribution to members** *(Note 12)* | **38,308** | 47,277 |
| **Income before income taxes** | **125,840** | 79,885 |
| **Provision for (recovery of) income taxes** *(Note 13)* | | |
| Current | **16,677** | 10,879 |
| Deferred | **(2,800)** | (3,000) |
| | **13,877** | 7,879 |
| **Comprehensive income** | **111,963** | 72,006 |

*The accompanying notes are an integral part of these financial statements*

| | *Retained earnings* |
|---|---|
| **Balance December 31, 2018** | **1,858,011** |
| Comprehensive income | **72,006** |
| **Balance December 31, 2019** | **1,930,017** |
| Comprehensive income | **111,963** |
| **Balance December 31, 2020** | **2,041,980** |

*The accompanying notes are an integral part of these financial statements*

# Vancouver Firefighters Credit Union
## Statement of Cash Flows
*For the year ended December 31, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Comprehensive income | **111,963** | 72,006 |
| Depreciation | **22,818** | 24,110 |
| Deferred income tax | **(2,800)** | (3,000) |
| Provision for loan impairment | **1,253** | 15,000 |
| Changes in non-cash working capital accounts | | |
| Accrued interest on member loans receivable | **(2,546)** | (2,474) |
| Income taxes payable | **4,641** | (11,525) |
| Accrued interest on member deposits | **(13,697)** | 18,997 |
| Accounts payable and accrued liabilities | **(7,637)** | 2,705 |
| | **113,995** | 115,819 |
| **Financing activities** | | |
| Net change in member deposits | **2,414,731** | 2,151,508 |
| Net change in member shares | **(386)** | 198 |
| | **2,414,345** | 2,151,706 |
| **Investing activities** | | |
| Net change in member loans receivable | **(322,596)** | (1,193,330) |
| Net change in investments and other assets | **(245,727)** | (7,658) |
| Purchases of intangible assets | **(13,440)** | (27,978) |
| | **(581,763)** | (1,228,966) |
| **Increase in cash and cash equivalents** | **1,946,577** | 1,038,559 |
| **Cash and cash equivalents, beginning of year** | **3,302,739** | 2,264,180 |
| **Cash and cash equivalents, end of year** | **5,249,316** | 3,302,739 |

**1. Reporting entity**

Vancouver Firefighters Credit Union (the "Credit Union") was formed pursuant to the Credit Union and Caisses Populaires Act of British Columbia and operates one Credit Union branch. The operation of the Credit Union is subject to the Financial Institutions Act of British Columbia ("the Act").

The Credit Union primarily serves members in the lower mainland area of British Columbia. The address of the Credit Union's registered office is Suite 2, 2801 Quebec Street, Vancouver, British Columbia, Canada.

***Statement of compliance***

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

These financial statements for the year ended December 31, 2020 were approved by the Board of Directors on February 25, 2021.

**2. Basis of preparation**

***Basis of measurement***

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

***Functional and presentation currency***

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

***Significant accounting judgments, estimates and assumptions***

Since a determination of some assets and liabilities is dependent upon uncertain future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made by management using careful judgment. Actual results may differ from these estimates. The estimates, assumptions and judgments used in preparation of these financial statements include the measurement of the allowance for loan impairment, the estimate of fair value of financial instruments not traded on active markets, income taxes, and key assumptions in determining the allowance for expected credit losses.

During the current year, the global COVID-19 pandemic and it's related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgments used in the measurement of the allowance for loan impairment. For the year ended December 31, 2020, the Credit Union has included all information available to the date of these financial statements in these estimates. The situation remains fluid and certain impacts continue to remain unknown and may reasonably require adjustment within the next twelve months.

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

***Financial instruments not traded on active markets***

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

***Income taxes***

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

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

***Key assumptions in determining the allowance for expected credit losses***

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

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

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

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

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

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

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

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

*Impact of the COVID-19 pandemic*

As a result of COVID-19, there is a higher degree of uncertainty in determining reasonable and supportable forward-looking information used in assessing significant increase in credit risk and measuring expected credit losses. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and forward looking information has been updated to the best of the Credit Union's knowledge based on external economic data. The Credit Union introduced relief programs during the year that allowed borrowers to temporarily defer payments of principal on their loans. Under these retail and non-retail programs and notwithstanding any other changes in credit risk, opting into a payment deferral program does not in and of itself trigger a significant increase in credit risk since initial recognition and does not result in additional days past due.

The current environment is subject to rapid change and to the extent that certain effects of COVID-19 are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been considered and applied where necessary. This includes borrower credit scores, industry and geography specific COVID-19 impacts, payment support initiatives introduced by the Credit Union and governments, and the persistence of the economic shutdown, the effects of which are not yet fully reflected in the quantitative models. The Credit Union has performed certain additional qualitative portfolio and loan level assessments if significant changes in credit risk were identified.

## 3. Change in accounting policies

***Standards and Interpretations effective in the current period***

The Credit Union adopted amendments to the following standards, effective January 1, 2020. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 3 Business combinations
- IAS 1 Presentation of financial statements
- IAS 8 Accounting policies, changes in accounting estimates and errors

## 4. Significant accounting policies

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

***Investments***

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

*Central 1 term deposits*

Central 1 term deposits are accounted for at amortized cost.

*Central 1 shares and portfolio investments*

Investments in securities are measured at fair value, with adjustments recognized in profit or loss.

***Member loans receivable***

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

***Equipment and leaseholds***

Equipment and leaseholds are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of equipment and leaseholds have different useful lives, they are accounted for as separate items of equipment and leaseholds. Depreciation is provided using the straight-line method at rates intended to amortize the cost of the assets over their estimated useful lives:

| | ***Rate*** |
|---|---|
| Computer equipment | 5 years |
| Furniture and equipment | 3-15 years |
| Leaseholds | 10 years |

The useful lives of equipment and leaseholds are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of equipment and leaseholds are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings as other operating income or other operating costs, respectively.

**4. Significant accounting policies** *(Continued from previous page)*

***Intangible assets***

Amortization on limited life intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for intangibles with definite lives are as follows:

| | |
|---|---|
| Computer software | 10 years |

The useful life of intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in profit or loss as other operating income or other operating costs, respectively.

***Impairment of non-financial assets***

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

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

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

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

***Member deposits***

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

***Accounts payable and accrued liabilities***

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

***Member shares***

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

***Income taxes***

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

**4. Significant accounting policies** *(Continued from previous page)*

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

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

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

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

***Foreign currency translation***

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

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items’ fair value was determined. Translation gains and losses are included in comprehensive income.

***Financial instruments***

***Financial assets***

**Recognition and initial measurement**

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

**Classification and subsequent measurement**

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

Classification is as follows:

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

**4. Significant accounting policies** *(Continued from previous page)*

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and charges in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of Central 1 shares and certain portfolio investments.

*Business model assessment*

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, and  the significance and frequency of sales of the financial asset in prior periods.

*Contractual cash flow assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union’s claim to cash flows, and any features that modify consideration for the time value of money.

**Reclassifications**

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

**Impairment**

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

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

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

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

**4. Significant accounting policies** *(Continued from previous page)*

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset.

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

**Derecognition of financial assets**

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

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

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

***Financial liabilities***

**Recognition and initial measurement**

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

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

**Classification and subsequent measurement**

Financial instruments classified as other financial liabilities include all member deposits, member shares, borrowings, and accounts payable and accrued liabilities. All financial liabilities are initially measured at fair value. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method.

**Derecognition of financial liabilities**

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

**Investment income**

Investment income is recorded in profit or loss when the Credit Union's right to receive payments is established, it is probable that the economic benefits associated with the income will flow to the Credit Union, and the amount can be measured reliably.

**Interest**

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

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

**4. Significant accounting policies** *(Continued from previous page)*

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

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

***Fair value measurements***

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

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

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

## 5. Cash and cash equivalents

| | ***2020*** | *2019* |
|---|---|---|
| Cash | **4,645,864** | 2,891,890 |
| Term deposits maturing in less than three months | **603,452** | 410,849 |
| | **5,249,316** | 3,302,739 |

The Credit Union must maintain, for liquidity purposes, deposits with Central 1 equal to at least 8% of deposits and borrowings, less any cash on hand. At December 31, 2020, the Credit Union's liquidity deposits equal 33% (2019 - 25%) of the Credit Union's total deposits and borrowings less any cash on hand. At December 31, 2020, the Credit Union's liquidity deposits exceed the minimum requirement by $4.6 million (2019 - $2.9 million).

## 6. Member loans receivable

Principal and allowance by loan type:

| | | | ***2020*** |
|---|---|---|---|
| | **Principal** | **Allowance for loan impairment** | **Net carrying value** |
| Personal loans | 2,746,505 | 65,000 | **2,681,505** |
| Real estate secured | 11,782,279 | - | **11,782,279** |
| Accrued interest | 13,869 | - | **13,869** |
| Total | 14,542,653 | 65,000 | **14,477,653** |

| | | | *2019* |
|---|---|---|---|
| | Principal | Allowance for loan impairment | Net carrying value |
| Personal loans | 3,167,217 | 65,000 | 3,102,217 |
| Real estate secured | 11,040,225 | - | 11,040,225 |
| Accrued interest | 11,323 | - | 11,323 |
| Total | 14,218,765 | 65,000 | 14,153,765 |

## 7. Investments and other assets

| | ***2020*** | *2019* |
|---|---|---|
| Central 1 shares | **70,651** | 73,706 |
| Term deposits maturing beyond three months | **900,450** | 901,668 |
| Portfolio investments - Truvera Mortgage Limited Partnership | **250,000** | - |
| Co-operative association shares | **12,028** | 12,028 |
| Prepaids | **1,575** | 1,575 |
| | **1,234,704** | 988,977 |

On January 4, 2021 the term deposits maturing beyond 3 months, totalling $900,450, were redeemed and reinvested in high quality liquid assets (Note 18).

## 8. Equipment and leaseholds

| | *Computer equipment* | *Furniture and equipment* | *Leaseholds* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at January 1, 2019 | 5,525 | 40,198 | 24,191 | 69,914 |
| Balance at December 31, 2019 | 5,525 | 40,198 | 24,191 | 69,914 |
| Balance at January 1, 2020 | 5,525 | 40,198 | 24,191 | **69,914** |
| Balance at December 31, 2020 | 5,525 | 40,198 | 24,191 | **69,914** |
| **Depreciation and impairment losses** | | | | |
| Balance at January 1, 2019 | 4,234 | 40,198 | 24,191 | 68,623 |
| Depreciation | 1,291 | **-** | **-** | 1,291 |
| Balance at December 31, 2019 | 5,525 | 40,198 | 24,191 | 69,914 |
| Balance at January 1, 2020 | 5,525 | 40,198 | 24,191 | **69,914** |
| Balance at December 31, 2020 | 5,525 | 40,198 | 24,191 | **69,914** |
| **Net book value** | | | | |
| **At December 31, 2019** | - | - | - | - |
| **At December 31, 2020** | - | - | - | - |

**9. Intangible assets**

| | ***Computer Software*** |
|---|---|
| **Cost** | |
| Balance at January 1, 2019 | 185,804 |
| Additions | 27,978 |
| Balance at December 31, 2019 | 213,782 |
| Balance at January 1, 2020 | **213,782** |
| Additions | **13,440** |
| Balance at December 31, 2020 | **227,222** |
| **Depreciation and impairment losses** | |
| Balance at January 1, 2019 | 62,844 |
| Depreciation | 22,819 |
| Balance at December 31, 2019 | 85,663 |
| Balance at January 1, 2020 | **85,663** |
| Depreciation | **22,818** |
| Balance at December 31, 2020 | **108,481** |
| **Net book value** | |
| At December 31, 2019 | 128,119 |
| **At December 31, 2020** | **118,741** |

Included in intangible assets are computer software additions of $13,440 not in use at December 31, 2020. No depreciation during the year was recorded with respect to these additions.

**10. Line of credit**

The Credit Union has an approved borrowing limit of $500,000 (2019 - $500,000) with Central 1. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Central 1 and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment dates. As at December 31, 2020, the Credit Union has not utilized this facility.

**11. Member deposits**

| | ***2020*** | *2019* |
|---|---|---|
| Savings | **1,781,019** | 1,856,408 |
| Plan 24 and other chequing accounts | **7,949,591** | 5,612,710 |
| Term deposits | **8,322,128** | 8,144,715 |
| Registered savings plans | **785,151** | 809,325 |
| Accrued interest | **71,317** | 85,014 |
| | **18,909,206** | 16,508,172 |

## 12. Member shares

Authorized:

Unlimited number of membership shares, at an issue price of $25
Unlimited number of personal shares, at an issue price of $1

Issued:

| | ***2020*** | *2019* |
|---|---|---|
| **Member shares classified as liability** | | |
| 1,529 Membership shares (2019 - 1,480) | **38,512** | 37,291 |
| 13,049 Personal shares (2019 - 14,656) | **13,049** | 14,656 |
| | **51,561** | 51,947 |

Capital of the Credit Union is divided into two classes of shares: Membership and Personal. Both types of shares are as provided by the Credit Union Act and administered according to the terms of the Credit Union Bylaws which set out the rights, privileges, restrictions and conditions of those shares. Members are required to hold at least one membership share. During the year, the Board of Directors approved patronage of 5% (2019 – 5%) on membership shares and dividends of 1% (2019 – 0%) on personal shares for a total distribution of $38,308 (2019 - $47,277).

## 13. Income tax

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

| | ***2020*** | *2019* |
|---|---|---|
| Income before distribution to members and income tax | **164,148** | 127,162 |
| Income tax expense on the statutory rate | **33,977** | 34,334 |
| Preferred rate deduction | **(9,097)** | (4,945) |
| Items not deductible for tax purposes | **22,714** | 19,815 |
| Items deductible for tax purposes | **(15,754)** | (27,445) |
| Other | **(15,163)** | (10,880) |
| Income tax expense | **16,677** | 10,879 |

## 13. Income tax *(Continued from previous page)*

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

| | **Jan 1, 2020** | **Recognized in comprehensive income** | **Dec 31, 2020** |
|---|---|---|---|
| **Deferred income tax assets:** | | | |
| Allowance for impaired loans | 4,800 | 1,100 | **5,900** |
| **Deferred income tax liabilities:** | | | |
| Equipment and leaseholds & intangible assets | (12,600) | 1,700 | **(10,900)** |
| | (7,800) | 2,800 | **(5,000)** |

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

| | Jan 1, 2019 | Recognized in comprehensive income | Dec 31, 2019 |
|---|---|---|---|
| **Deferred income tax assets:** | | | |
| Allowance for impaired loans | 1,900 | 2,900 | 4,800 |
| **Deferred income tax liabilities:** | | | |
| Equipment and leaseholds & intangible assets | (12,700) | 100 | (12,600) |
| | (10,800) | 3,000 | (7,800) |

## 14. Related party transactions

***Key management compensation of the Credit Union***

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

Key management personnel ("KMP") remuneration includes the following expenses:

| | ***2020*** | *2019* |
|---|---|---|
| Salaries and short-term employee benefits | **70,433** | 70,433 |

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

***Transactions with key management personnel***

There are no loans that are impaired in relation to loan balances with Key Management Personnel (KMP).

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

| | ***2020*** | *2019* |
|---|---|---|
| Aggregate of loans to KMP | **2,867,691** | 2,220,319 |
| Less: Member shares included as liabilities | **(756)** | (781) |
| | **2,866,935** | 2,219,538 |

| | ***2020*** | *2019* |
|---|---|---|
| During the year the aggregate value of loans disbursed to KMP amounted to: | | |
| Mortgages | **592,280** | - |
| Loans | **186,978** | 60,000 |
| | **779,258** | 60,000 |

| | ***2020*** | *2019* |
|---|---|---|
| Total interest and other revenue earned on loans to KMP | **74,425** | 70,185 |
| Total interest paid on deposits to KMP | **384** | 314 |
| Total value of member deposits from KMP | **170,762** | 165,550 |

## 15. Capital management

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

The Credit Union is required under provincial legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets; each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2020, the Credit Union had a capital base approximating 32.08% (2019 - 28.74%) of the risk-weighted value.

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

There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2020.

| | ***2020*** | *2019* |
|---|---|---|
| **Primary capital** | | |
| Retained earnings | **2,041,980** | 1,930,017 |
| Member shares | **38,512** | 37,291 |
| Deferred income tax liability | **5,000** | 7,800 |
| Dividends to be paid as primary capital | **385** | 372 |
| | **2,085,877** | 1,975,480 |
| **Secondary capital** | | |
| Share of system retained earnings | **203,995** | 182,923 |
| Deductions from capital | **(118,741)** | (128,119) |
| Capital base | **2,171,131** | 2,030,284 |

## 16. Financial instruments

The Credit Union as part of its operations carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

***Credit Risk***

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable, investments in debt securities, and the Credit Union's lending activities. Overall monitoring and processes  will change as deemed necessary in response to the on-going economic impact of COVID-19. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support the members and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by COVID-19, will be adjusted as necessary as we progress through the pandemic.

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

**Risk management process**

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

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

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

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

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

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

**Inputs, assumptions and techniques**

*Definition of default and assessments of credit risk*

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

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

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

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

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

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

*Measurement of expected credit losses*

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

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

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

*Write-offs*

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

*Significant Increase in Credit Risk - COVID 19 Impact*

There are judgments involved in determing whether or not there is a significant increase in credit risk resulting in loans moving between stages of expected credit loss and, therefore, being subject to different expected credit loss models. Due to the ongoing pandemic, the Credit Union has implemented programs to allow for the deferral of payments on loans to members in certain circumstances. With respect to those loans where the member has taken advantage of the loan payment deferral programs, the Credit Union has assessed whether this is indicative of a significant increase in credit risk, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan.

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

**Exposure to credit risk**

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

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

| | | | | *2020* |
|---|---|---|---|---|
| | ***12-month ECL*** | ***Lifetime ECL (not credit impaired)*** | ***Lifetime ECL (credit impaired)*** | ***Total*** |
| **Personal loans** | | | | |
| Low risk | **2,733,493** | **-** | **-** | **2,733,493** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **13,012** | **13,012** |
| Total gross carrying amount | **2,733,493** | **-** | **13,012** | **2,746,505** |
| Less: allowance for impaired loans | **51,988** | **-** | **13,012** | **65,000** |
| Total carrying amount of personal loans | **2,681,505** | **-** | **-** | **2,681,505** |
| **Real estate secured** | | | | |
| Low risk | **11,782,279** | **-** | **-** | **11,782,279** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **-** | **-** |
| Total gross carrying amount | **11,782,279** | **-** | **-** | **11,782,279** |
| Less: allowance for impaired loans | **-** | **-** | **-** | **-** |
| Total carrying amount of real estate secured | **11,782,279** | **-** | **-** | **11,782,279** |
| Total carrying amount | | | | **14,463,784** |
| Add: accrued interest | | | | **13,869** |
| **Member loans receivable** | | | | **14,477,653** |

## 16. Financial instruments *(Continued from previous page)*

| | | | | *2019* |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
| **Personal loans** | | | | |
| Low risk | 3,143,053 | - | - | 3,143,053 |
| Medium risk | - | - | - | - |
| Default | - | - | 24,164 | 24,164 |
| Total gross carrying amount | 3,143,053 | - | 24,164 | 3,167,217 |
| Less: allowance for impaired loans | 40,836 | - | 24,164 | 65,000 |
| Total carrying amount of personal loans | 3,102,217 | - | - | 3,102,217 |
| **Real estate secured** | | | | |
| Low risk | 11,040,225 | - | - | 11,040,225 |
| Medium risk | - | - | - | - |
| Default | - | - | - | - |
| Total gross carrying amount | 11,040,225 | - | - | 11,040,225 |
| Less: allowance for impaired loans | - | - | - | - |
| Total carrying amount of real estate secured | 11,040,225 | - | - | 11,040,225 |
| Total carrying amount | | | | 14,142,442 |
| Add: accrued interest | | | | 11,323 |
| Member loans receivable | | | | 14,153,765 |

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

**Amounts arising from expected credit losses**

*Reconciliation of the allowance for loan impairment*

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Allowance for loan impairment** | | | | |
| Balance at January 1, 2019 | 11,917 | - | 38,083 | 50,000 |
| Transfer to 12-month ECL | 13,919 | - | (13,919) | - |
| Provision for loan impairment | 15,000 | - | - | 15,000 |
| Balance at December 31, 2019 | 40,836 | - | 24,164 | 65,000 |
| Transfer to 12-month ECL | **9,898** | - | **(9,898)** | **-** |
| Provision for loan impairment | **1,253** | - | **-** | **1,253** |
| Loan write-offs | **-** | - | **(1,253)** | **(1,253)** |
| Balance at December 31, 2020 | **51,987** | - | **13,013** | **65,000** |

***Market risk***

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk. The resulting impact from COVID-19 to the Credit Union’s margin has been and will continue to be monitored consistently.

***Interest rate risk***

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

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

***Contractual repricing and maturity***

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

| | *Within three months* | *Four months to one year* | *Over one year to five years* | *Non-Interest Sensitive* | ***2020*** ***Total*** | *2019* *Total* |
|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | |
| Cash and cash equivalents | 5,241,594 | - | - | 7,722 | **5,249,316** | 3,302,739 |
| *Average yield %* | *0.38* | - | - | - | *0.38* | *0.99* |
| Investments | - | - | 900,000 | 333,129 | **1,233,129** | 987,402 |
| *Average yield %* | - | - | *0.57* | - | *0.42* | *1.87* |
| Member loans receivable | 3,619,005 | 7,794,052 | 3,115,726 | (51,130) | **14,477,653** | 14,153,765 |
| *Average yield %* | *6.47* | *3.11* | *3.29* | - | *4.00* | *4.58* |
| | **8,860,599** | **7,794,052** | **4,015,726** | **289,721** | **20,960,098** | 18,443,906 |
| ***Liabilities*** | | | | | | |
| Member deposits | 11,511,400 | 7,326,489 | - | 71,317 | **18,909,206** | 16,508,172 |
| *Average yield %* | *0.36* | *1.40* | - | - | *0.76* | *1.07* |
| Accounts payable and accrued liabilities | - | - | - | 66,849 | **66,849** | 74,487 |
| Average yield % | - | - | - | - | - | - |
| Member shares | - | - | - | 51,561 | **51,561** | 51,947 |
| *Average yield %* | - | - | - | - | - | - |
| | **11,511,400** | **7,326,489** | **-** | **189,727** | **19,027,616** | 16,634,606 |
| ***Net sensitivity*** | **(2,650,801)** | **467,563** | **4,015,726** | **99,994** | **1,932,482** | 1,809,300 |

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase financial margin by approximately $59,500 (2019 - $39,600). A 1.0% decrease in the interest rate would decrease financial margin by approximately $26,900 (2019 - $39,600).

***Liquidity risk***

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union’s day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk. The acceptable amount of risk is defined by policies approved by the board and monitored by the Investment & Lending Committee.

The assessment of the Credit Union’s liquidity position reflects management’s estimates, assumptions and judgment pertaining to current and prospective specific and market conditions and the related behaviour of its members and counterparties.

The Credit Union has a strong liquidity base and has a well-established contingency liquidity plan to access if required through the COVID-19 situation.

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

The Credit Union manages its liquidity position from three perspectives:

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

The primary liquidity risk policies and procedures include the following:

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

***Credit commitments***

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

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

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

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

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

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

| | ***2020*** | *2019* |
|---|---|---|
| Unadvanced lines of credit | **1,895,336** | 1,122,154 |

## 17. Fair value measurements

***Assets and liabilities measured at fair value***

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

| | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***2020 Level 3*** |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash | **4,645,864** | **4,645,864** | **-** | **-** |
| Investments - shares | **82,679** | **-** | **82,679** | **-** |
| Investments - portfolio investments | **250,000** | **-** | **250,000** | **-** |
| | **4,978,543** | **4,645,864** | **332,679** | **-** |
| ***Liabilities*** | **-** | **-** | **-** | **-** |
| ***Total recurring fair value measurements*** | **4,978,543** | **4,645,864** | **332,679** | **-** |

| | *Fair Value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash | 2,891,890 | 2,891,890 | - | - |
| Investments - shares | 85,734 | - | 85,734 | - |
| | 2,977,624 | 2,891,890 | 85,734 | - |
| ***Liabilities*** | - | - | - | - |
| ***Total recurring fair value measurements*** | 2,977,624 | 2,891,890 | 85,734 | - |

### Level 2 fair value measurements

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

| ***Fair value measurement*** | ***Valuation technique(s)*** | ***Inputs*** |
|---|---|---|
| **Investments - shares** | Fair value approximates par value for shares as transactions occur at par value on a regular and recurring basis. | Value of shares |
| **Investments - portfolio investments** | Fair value approximates par value for portfolio investments as transactions occur at par value on a regular and recurring basis. | Value of portfolio investments |

## 17. Fair value measurements *(Continued from previous page)*

***Asset and liabilities for which fair value is only disclosed***

The following table analyses within the fair value hierarchy the Credit Union’s assets and liabilities (by class) not measured at fair value, but for which fair value is disclosed:

| | **Fair Value** | **Level 1** | **Level 2** | **2020 Level 3** |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash and cash equivalents - Central 1 term deposits maturing in less than three months | **603,452** | **-** | **603,452** | **-** |
| Member loans receivable | **14,447,394** | **-** | **14,447,394** | **-** |
| Investments - Central 1 term deposits | **901,823** | **-** | **901,823** | **-** |
| Total assets | **15,952,669** | **-** | **15,952,669** | **-** |
| ***Liabilities*** | | | | |
| Member deposits | **18,913,324** | **-** | **18,913,324** | **-** |
| Accounts payable and accrued liabilities | **66,849** | **-** | **66,849** | **-** |
| Member shares | **51,561** | **-** | **-** | **51,561** |
| Total liabilities | **19,031,734** | **-** | **18,980,173** | **51,561** |

| | *Fair Value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash and cash equivalents - Central 1 term deposits maturing in less than three months | 410,827 | - | 410,827 | - |
| Member loans receivable | 14,215,464 | - | 14,215,464 | - |
| Investments - Central 1 term deposits | 905,455 | - | 905,455 | - |
| Total assets | 15,531,746 | - | 15,531,746 | - |
| ***Liabilities*** | | | | |
| Member deposits | 16,541,660 | - | 16,541,660 | - |
| Accounts payable and accrued liabilities | 74,487 | - | 74,487 | - |
| Member shares | 51,947 | - | - | 51,947 |
| Total liabilities | 16,668,094 | - | 16,616,147 | 51,947 |

## 18. Event after the reporting period

On January 4, 2021 the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized. The deposits held in the mandatory liquidity pool by the Credit Union of $1.5 million were redeemed in exchange for a portfolio of high quality liquid assets invested through the Credit Union's Trust.

In addition, subsequent to segregation, Central 1 Class F shares of $64,442 were redeemed at par in cash to the Credit Union.

The segregation of the mandatory liquidity pool on January 4, 2021 resulted in an insignificant gain on redemption recorded in 2021 fiscal year.

# Vancouver Firefighters Credit Union
## Schedule 1 - Administrative Expenses
*For the year ended December 31, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Administration** | | |
| Advertising | **14,247** | 14,951 |
| Insurance - bonding and contents | **9,085** | 8,306 |
| Dues and assessments - Central 1 | **9,109** | 16,128 |
| Office and administration | **56,973** | 57,599 |
| Meetings | **20,616** | 17,135 |
| Mortgage appraisals and legal | **4,880** | 3,221 |
| Professional fees | **26,828** | 31,919 |
| | **141,738** | 149,259 |