Interior Savings

Annual Report 2020

Local Money for Local Good.

Local money for local good... it's present in everything we do. It means improving our communities with local investments, loans, knowledge and Member Rewards. It's about understanding local needs because we live, work and play here too. It's about global access to accounts with all the online services our members may need and a team of experts ready to help with knowledge and support right here at home. Best of all, local money means investing in our members. Money may make the world go round but local money makes our communities buzz!

At Interior Savings

we make a positive difference in people's lives and enrich each member's life journey while keeping the human touch in a digital world.

our **purpose**

We put our expertise and profits to work for our communities, stepping up to help everyone get ahead. When they succeed, we all succeed.

our **mission**

We can be counted on to help our members do more, reach higher and live richer. Our members are our focus.

our **commitment**

We work hard to perfect the blend of digital banking and personalized care our members need to succeed in today's changing world.

We commit to...

being **collaborative**

- we support our members and communities
- we are team players
- we welcome different points of view

being **curious**

- we ask questions
- we look for new ways
- we love to learn new skills

being **courageous**

- we do what's right, not what's easy
- we embrace change
- we challenge the status quo

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Corporate Overview

We're a financial institution offering a wide range of services. From day-to-day banking and lending to Wealth Management and Insurance Services, we have it all. With total assets of $2.8 billion, Interior Savings continues to be the largest credit union based in the Interior of British Columbia. Our members have access to a network of 21 branches and 16 insurance offices, two specialized Commercial Services Centres in Kamloops and Kelowna, and a Member Service Centre providing expanded service to members throughout our region. But that's only part of the picture.

We're proudly a cooperative where our customers are our members, our members are our owners, and our success begins and ends with them. Our job is to be there with the right financial supports so our members can succeed – in whatever way they may define success for themselves and their families.

It's also our job to be a community champion and give back to help our communities thrive. When community is at the heart of everything that you do, day-to-day business becomes so much more: an account with us supports a neighbour's mortgage, a loan to a business down the street, insurance for a nearby family's future, bursaries for children at the local school, a sponsorship, a community centre, and many more local causes, events and programs.

Our success is our members' success and we owe it all to them!

A Message from Board Chair Pat Ryan and CEO Kathy Conway

2020 was a tumultuous year but also a strong year for Interior Savings. Our assets grew to $2.8 billion and income from operations was ahead of budget at $13.6 million which fueled our ability to return $3 million to members in the form of Member Rewards, bursaries and dividends.

Responding to a global pandemic

In our community and across the globe, COVID-19 disrupted our way of life. Many faced financial hardship, others grieved the loss of loved ones, and all of us had to learn new ways of doing things and new ways of staying connected to friends, family and support systems.

Interior Savings had to very quickly shift our service model in order to keep our members and employees safe while continuing to provide an essential service. We implemented social-distancing measures, occupancy limits, increased cleaning and sanitization, and remote work for back-office staff. To assist members experiencing financial hardship: we deferred over 1100 loans and mortgages; waived *Interac* e-transfer fees for businesses; funded over 700 applications for Canada Emergency Business Account ('CEBA') loans, making nearly $30 million in zero-interest financing available to our business members; eased our bursary qualification criteria; and, through our credit card partner, offered a temporary interest rate reduction among other relief measures. We also helped many members get started with online, mobile and telephone banking, and assisted many more in registering to receive government benefits faster through direct deposit.

We are very grateful to our members and our employees for their adaptability and patience as, together, we navigated these uncertain waters.

A major banking system conversion

On top of a global pandemic, after nearly two years of careful planning and preparation, in 2020, Interior Savings upgraded our insurance system and completed a major banking system conversion. This was a much needed investment in newer technology to ensure we can continue offering the service and convenient options our members are looking for. While the conversion was a success, it was not without challenges. In the weeks following the transition, we know some of our members had issues with online access and long telephone wait times. Here as well, we would like to express our heartfelt gratitude to those members for their patience through that process and also a huge thank you to every one of our employees who worked tirelessly to help members while learning a new system themselves.

New conveniences and responsible investing options for members

As the need for technology and remote banking solutions reached new heights, we're pleased to say that every branch is now equipped for video calls, and that members now have access to Apple Pay®, Samsung Pay and Google Pay™, which will allow them to make payments from their devices without having to carry their cards.

Another notable achievement was in the area of Responsible Investing. In 2020 we launched a campaign to educate members on the advantages of responsible investments as a way to achieve financial returns while also creating positive impact in the world. Through our investment partners, we offered more impact funds and we were the first credit union in BC to introduce two new socially responsible Index-Linked Term Deposits from Desjardins — focused on environmental impact and women's impact. Nearly all of our licensed investment employees achieved their Responsible Investment Specialist Designation and, by year end, we saw 20% growth in responsible investment products.

Responding to unprecedented community need

We were fortunate to be able to work with our numerous community partners to figure out how best to lend our support to a system reeling from the pandemic impact. Through our community relief fund and community impact term deposit, we awarded $150,000 in grants which helped 45 non-profits with extraordinary costs incurred due to COVID, from cleaning and health supplies, to plexiglass barriers, to technology that enabled the continuation of services virtually. We contributed to the United Way relief efforts in the Okanagan and kick-started a recovery fund in the Thompson Region. In collaboration with other local funders, we awarded sustainable recovery grants to help 10 non-profits overcome challenges, innovate and pursue new opportunities. We extended the Music and Memories program into an additional two care homes and helped another 12 care homes purchase tablets to keep their residents connected to loved ones. And through our Community Investment Fund we put $100,000 to work supporting the development of many other important community programs and services.

Looking forward

As the pandemic continues, we too will continue to work with our community partners to respond to the needs in our community while also standing ready to help our members through this. Our focus going into 2021 will be improving the financial health of our members, helping them plan for the future while also building up their resilience so they can weather setbacks. Also next year, we will be upgrading our online banking and mobile app, and will be expanding into new markets, with a new Penticton Branch set to open in the spring and discussions underway about possibly joining forces with Spruce Credit Union in Prince George.

On behalf of the Board of Directors and all the employees, we hope that you and your families are safe and we thank you for your ongoing support. We look forward to continuing to serve you in 2021.

2020 Board and Management Report

Board of Directors

The 2020 election saw the re-election of Liza Curran, Elmer Epp and Aniela Florczynski for three-year terms. Newly elected to the Board for a three-year term is Robert Shirra. Following the election, Mr. Pat Ryan was elected as Chair of the Board of Directors.

The Board of Directors is responsible for overseeing the strategic direction of the Credit Union. In practice, the Board of Directors delegates responsibility for the management of the Credit Union to the President and Chief Executive Officer while retaining oversight responsibility.

The Board of Directors is expected to act in a manner that protects and enhances the value of the Credit Union in the interest of the membership. While adhering to the Credit Union's policies and procedures, and to statutory and regulatory requirements, the Board of Directors is required to exercise independent judgement with utmost honesty and integrity. The Board of Directors is rigorous in fulfilling its responsibilities and stands proudly behind the Credit Union and each and every one of its employees.

For information on Board responsibilities and activities, please refer to the 2020 Interior Savings Corporate Governance Report which can be found on our website, interiorsavings.com under About Us/Governance/Corporate Reports.

Senior Management

Our senior management team works with the Board of Directors to position the Credit Union's strategic direction and develop the annual business plan. They monitor each aspect of the plan to ensure progress is being maintained and the organization is on track. They are responsible for a team of managers, and are committed to ongoing personal and professional development, and involvement in their communities.

Kathy Conway, President and Chief Executive Officer

Gene Creelman, Senior Vice President, Member and Community Engagement

Karen Hawes, Senior Vice President, Culture and Technology

Ted Schisler, Senior Vice President and Chief Operating Officer

Trevor Tremblay, Senior Vice President and Chief Financial and Risk Officer

Pat Ryan
Board Chair
Kelowna

Liza Curran
Vice Chair
Ashcroft

Elmer Epp
Kamloops

Ken Christian
Kamloops

Rob Shirra
Summerland

Stacey Fenwick
Kelowna

Aniela Florczynski
Kelowna

Don Grant
Peachland

Caroline Grover
Kelowna

Daphane Nelson
Kamloops

Shelley Sanders
Merritt

Bruce Tisdale
Kamloops

2020 Management Discussion and Analysis

This MD&A section is presented to provide an overview of the credit union's financial and operating performance. It is prepared in conjunction with the audited consolidated financial statements.

2020 Management Discussion and Analysis

Summary

2020 was a challenging year for many businesses and individuals due to the global pandemic. Interior Savings Credit Union remained operational while keeping in line with provincial health guidelines. We instituted work from home protocols with staff, participated in Federal programs such as CEBA for our business members and supported our members' financial health when needed through offering a variety of loan deferral options.

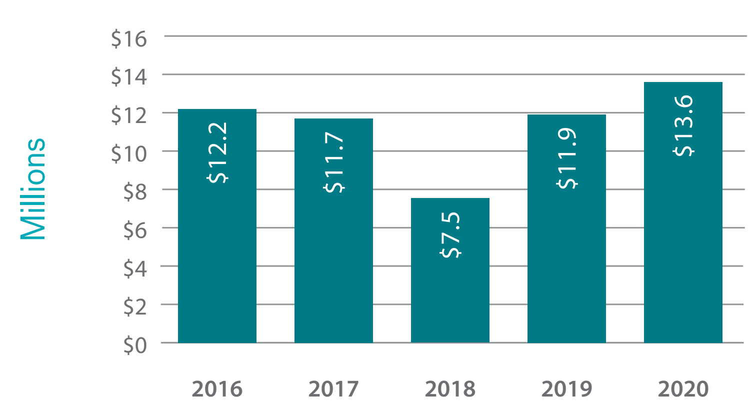
Even with the tough economic challenges, Interior Savings' financial performance improved in 2020. Consolidated total assets of Interior Savings grew by $203.4 million or 7.8% to close the year at over $2.8 billion at December 31, 2020.

The use of excess liquidity to fund loan growth of $39.8 million and new deposits with other financial institutions of $141.6 million contributed positively to improving overall financial performance. The growth in loan balances includes both loan interest receivable and the allowance for impaired loans, the latter of which reduces the overall loan portfolio. Impaired loan carrying values and write-offs decreased during 2020.

Member deposit balances increased in 2020, up $235.7 million to just over $2.4 billion. The increase of member deposits is attributed to offering competitive deposit rates at the outset of the pandemic to increase the Credit Union's liquidity base and the extended duration of the pandemic and the impact on reduced consumer spending.

Consolidated operating income in 2020 totalled $13.6 million compared to $11.8 million in 2019. This is primarily a result of improved financial margin and other income. Consolidated net income also increased from $8.3 million in 2019 to $8.6 million in 2020, resulting in increased retained earnings to reach $217 million. Retained earnings represents the Credit Union's primary source of required regulatory capital.

OPERATING INCOME



Financial Margin

Financial margin is the difference between interest and investment income earned on assets and interest expensed on deposits and other liabilities, including borrowings. In 2020, our financial margin was $55.4 million compared to $55 million in 2019. Overall, total interest revenues increased slightly in 2020. Interest expense on member deposits and borrowing decreased $1 million compared to 2019.

The Bank of Canada lowered the prime interest rate by 1.5% early in 2020 during the initial period of the COVID-19 pandemic. It remained at the lower rate for the year which had a negative impact on the financial margin of 2020. Periods of fluctuation in the Government of Canada bond yields in 2019 and 2020 did cause some corresponding adjustments to loan and deposit rates in the marketplace. Overall the pandemic has led to fluctuations in interest rates throughout 2020.

Other Income

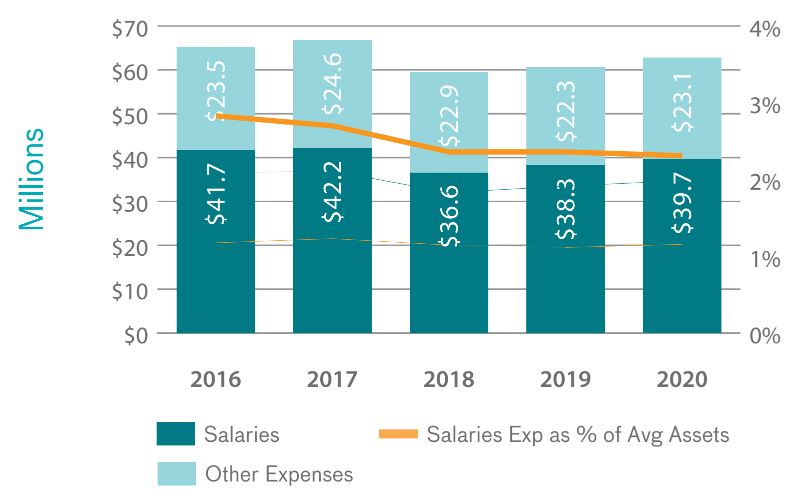
Other income is comprised of loan fees, service charges, commissions related to mutual fund sales, foreign exchange and other revenues that are not interest related. In aggregate, other income increased by $3.6 million year over year with most of the increase related to the financial gain recognized on our mandatory liquidity pool investments. In early 2021, BC credit unions underwent a transition from liquidity deposits held at Central 1 to a new segregated trust model for the liquidity assets. The accounting for these assets changed from a book value presentation to recognizing fair market fluctuations in the underlying assets. This change introduced new items in the Other Income Note 19. While certain service charges were lower due to reduced consumer behaviour, there were other increases in loan and mortgage prepayment penalty fees, and commissions, which reflect the increased volume of new commercial lending, retail mortgage refinancing, and other member transaction volumes.

Operating Expenses

The average rate of inflation in Canada for 2020 was reported to be only 0.62% while our total operating expenses increased 3.5% or $2.1 million to $62.7 million. Employee salaries and benefits expense increased $1.3 million or 3.5% partially due to general salary and compensation increases and increased employer benefit costs.

Note: historical year figures in the charts that follow include the insurance company figures under the consolidation method of presentation.

SALARIES AND OTHER EXPENSES



In 2020, we continued efforts to furthering improvements of our digital member experiences by converting to a new banking system in September 2020. The conversion resulted in higher data processing costs for 2020 due to the overlap of two systems for part of the year. We also saw a slight increase in occupancy expenses due to the necessary purchases such as sanitizer, masks, and disinfectant in order to create a safe space for our team and our members. General operating and administrative costs reduced by $0.9 million from 2019. The largest reduction was our deposit insurance premium assessment; a reduction of $0.75 million. The balance of the expense reduction was shared across bank charges, training and Central 1 dues.

The result of total operating expenses increasing by less than the growth in total revenues was an improvement in the consolidated operating efficiency ratio to 81.7% from 83.3% in the previous year. The efficiency ratio is a measure of expenses incurred to revenues earned. With this ratio, a lower number is better.

Distributions to Members

We have had a long-standing tradition of sharing our profits with our members. For 2020, we are sharing $3 million which includes $2.3 million in patronage distributions, based on usage of services, $0.1 million in dividends on equity shares and $0.6 million for the current year's commitment for the bursary program. All distributions are approved annually by the Board of Directors. To line up with our fiscal year-end, payments to members are made in the spring of every year, after the completion of the annual audit. Since 2002, members have received over $67.1 million in the form of patronage and dividend distributions.

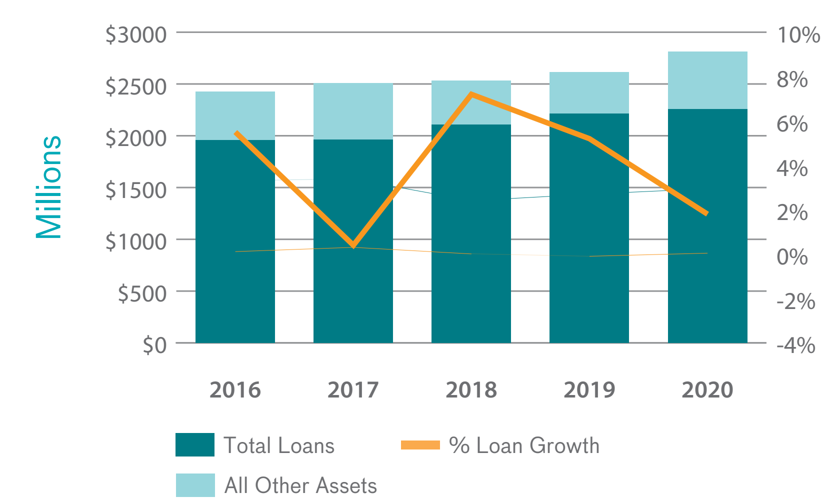
Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Elements of net income have been described above. Interior's OCI includes changes in cash flow hedges including the unrealized gains from fair valuation changes and the flow of those gains to net income when realized. In 2020, other comprehensive income was $2.2 million compared to $1.3 million in 2019. This change in OCI for 2020 was largely due to the net change in cash flow hedges.

Loans

Total loan growth for 2020 dipped compared to recent years, with total member and other loans, net of accrued interest, increasing by 1.8% ($39.8 million). The commercial lending category increased by 6.5%, which amounted to $25.7 million, and is the net of new commercial project financing and payouts from projects that completed throughout the year. Interior Savings continued to support local businesses and multi-year residential construction developments in 2020 which are expected to fund growth in 2021 and beyond. As a proportion of loans at year-end, commercial lending represented 19.1% of the loan portfolio. Personal loans increased a total of $14.9 million. The growth in personal was in personal real estate secured lending.

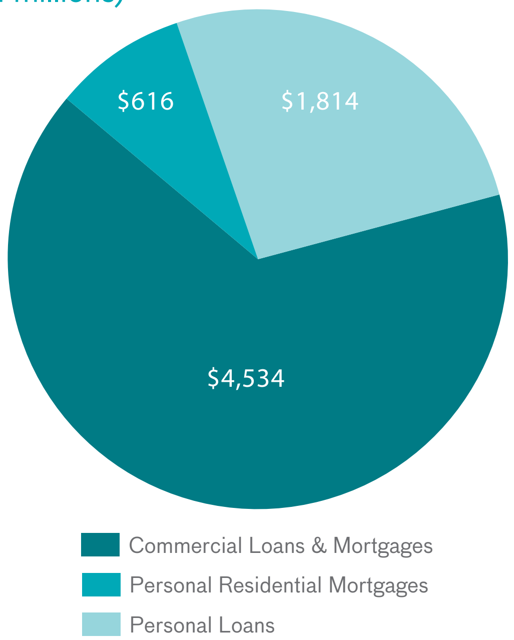
ASSET AND LOAN GROWTH



Allowance for Loan Loss

The allowance for loan loss is the aggregate of the expected credit losses ('ECL') for all stages of loan impairment. This was estimated at a total loss allowance of $7 million which is $0.8 million higher than in 2019 and in line with industry norms. While the overall loss allowance has increased, the mix relative to loan portfolio groups has shifted with a larger portion estimated for commercial loans indicative of underlying credit risk.

EXPECTED CREDIT LOSS
(in millions)

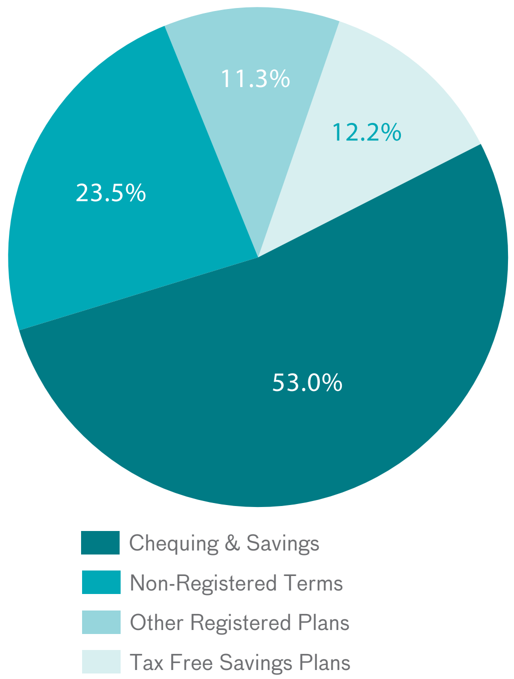


Deposits

Total member deposits at the end of 2020 were $235.7 million higher than in 2019. The total growth and shifting member deposit product preferences resulted in $3.2 million growth in non-registered term deposits, $6.2 millions growth in tax-free plan deposits, $229.4 millions growth in non-registered chequing and savings account balances, and $1.2 million decline in registered deposits. The result is member deposits in non-registered chequing & savings represent 53% of total deposits.

In addition to our deposit products, we offer our members investment products from third-party suppliers, such as mutual funds, for which we receive a commission. In 2020, these funds under administration totalled $696.5 million, an increase of $62.1 million from the prior year. This increase in overall funds under administration is the combined result of net sales growth and the impact of an increase in total market valuations of the underlying securities.

DEPOSIT MIX



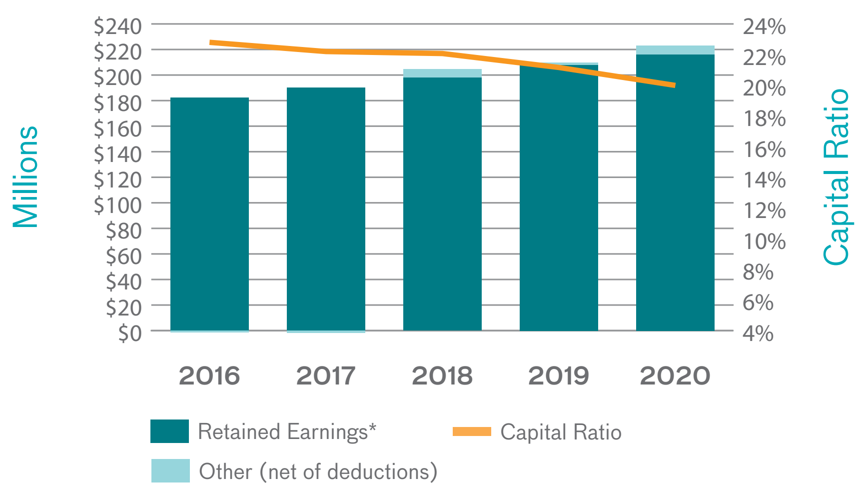
Borrowings

Borrowings at year-end represent amounts due for mortgage-backed security pools and related obligations under the Canada Mortgage Bond program; both of which are secured by member and other loans.

Members' Equity and Capital

Total members' equity increased to $216.6 million at the end of 2020. Retained earnings grew by $8.6 million. Interior Savings continues to have one of strongest capital positions, relative to other BC credit unions of similar size, which builds long-term membership value and enables us to invest for future growth. At year-end, our regulatory capital position decreased to 19.85%. The decrease in our capital position was due in part to the capitalization of our banking system intangible assets. Our regulators, the BC Financial Services Authority ('BCFSA'), monitor our capital, which under current requirements for regulatory capital and supervisory capital must be maintained at a minimum of 8% and 10%, respectively, of risk-weighted assets. The Credit Union's Internal Capital Adequacy Assessment Process ('ICAAP') includes the calculation of an internal capital target ('ICT') to be above the supervisory target. The ICT was calculated to be 10.6% as at December 31, 2020. Management regularly monitors the Credit Union's capital position in relation to the established ICT. More information on capital management can be found in Note 24 of the financial statements.

CAPITAL



*Non-Consolidated Retained Earnings

Risk Management

As a financial institution, we are exposed to a variety of risks. Our risk governance framework starts with the Board of Directors and its Committees which provide overall strategic direction, oversight of risk management and approved risk policies, and set risk tolerance levels for key areas of potential risk. Our executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor and mitigate risks. In addition to risks identified in note 23 to the financial statements, the Credit Union is also exposed to strategic, operational and regulatory risks, for which planning, policies and procedures, controls and monitoring are in place. To support our risk management, we have internal and external audit functions, which are independent of management and report to the Audit & Risk Committee of the Board. In addition, the Board of Directors establishes the risk culture through a risk appetite framework and management has implemented enterprise risk management to effectively monitor and manage key business risks including emerging risks.

Outlook for 2021

Our 2021 expectation is for Canada, and more specifically the province of BC, to experience a gradual economic recovery as COVID-19 restrictions ease over time. The Thompson Okanagan region, which has a significant economic reliance on travel and tourism and a migration of retirees for population growth, may be positively impacted as Canadians travel more locally. The unprecedented interest rate cuts in 2020 has reinforced the low interest rate environment, however, there are early indications of some rise in longer term rates. The potential impact on loan losses in the years to come after government support ends is not yet known. We plan to increase our loan loss reserves over time while we monitor forecasted unemployment rates and the potential for real estate price corrections. These assumptions are subject to considerable uncertainty and will likely change as the pandemic situation evolves.

Even so, Interior Savings is in a good position to weather this storm and to help our members through it as well. Whether by phone, email or in-person appointment, we continue to provide the same friendly, personalized service our members have come to expect, along with a host of financial relief measures.

As we look optimistically at 2021, we do expect a continuation of our growth in new members and the deepening of relationships with existing members, while striving to improve our digital service offering. Our members' deposits are 100% guaranteed by CUDIC and our strong liquidity and capital position provides us the means to continue with local growth opportunities where prudent in a challenging financial environment. We are confident that our comprehensive and competitive product and service offering, coupled with our local money for local good focus, will result in continued growth in retail and commercial member loans, deposits, insurance services and wealth management.

Consolidated Financial Statements

Consolidated Financial Statements

Management's Responsibility

To the Members of Interior Savings Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated 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 consolidated 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 consolidated financial statements.

The Board of Directors and Audit and Risk 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 and Risk Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. 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 consolidated 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.

March 20, 2021

[Signed] Kathy Conway

Chief Executive Officer

[Signed] Trevor Tremblay

Senior VP, Chief Financial & Risk Officer

Independent Auditor's Report

To the Members of Interior Savings Credit Union:

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the 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 International Financial Reporting Standards, 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 Credit Union 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.

MNP LLP

Chartered Professional Accountants

Kelowna, British Columbia
March 20, 2021

Consolidated Statement of Financial Position

As at December 31, 2020 ($ in thousands)	2020	2019
Assets		
Cash	**71,204**	55,631
Investments (Note 5)	**406,456**	264,829
Derivative financial instruments (Note 6)	**3,747**	4,893
Member and other loans (Note 23)	**2,256,174**	2,216,365
Corporate income tax recoverable	**1,381**	–
Property, plant and equipment (Note 7)	**29,440**	28,513
Intangible assets (Note 8)	**7,451**	1,905
Other assets (Note 9)	**4,920**	5,820
Advances to joint venture (Note 10)	**414**	422
Deferred tax asset (Note 11)	**5,294**	4,888
Investment in joint venture (Note 12)	**30,186**	30,040
	2,816,667	2,613,306
Liabilities		
Member deposits (Note 15)	**2,429,252**	2,193,579
Corporate income tax payable	**–**	1,797
Payables and other liabilities	**30,168**	22,773
Derivative financial instruments (Note 6)	**3,794**	5,757
Borrowings (Note 14)	**117,875**	165,778
Lease liabilities (Note 16)	**15,119**	13,535
Membership shares (Note 17)	**3,895**	4,172
	2,600,103	2,407,391
Members' equity		
Member shares (Note 17)	**113**	259
Retained earnings	**216,590**	208,014
Accumulated other comprehensive loss	**(139)**	(2,358)
	216,564	205,915
	2,816,667	2,613,306

Approved on behalf of the Board

Pat Ryan
Chair, Board of Directors

Bruce Tisdale
Chair, Audit and Risk Committee

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

Consolidated Statement of Income

For the year ended December 31, 2020 ($ in thousands)	2020	2019
Interest revenue		
Interest on member and other loans	**72,275**	74,195
Investment revenue	**7,163**	5,908
	79,438	80,103
Interest expense		
Interest on member deposits	**20,196**	21,614
Interest expense on borrowings	**3,869**	3,498
	24,065	25,112
Financial margin	**55,373**	54,991
Provision for loan impairment (Note 23)	**500**	350
	54,873	54,641
Other income (Note 19)	**21,442**	17,837
	76,315	72,478
Operating expenses		
Employee salaries and benefits	**39,684**	38,348
General operating and administrative (Note 20)	**10,363**	11,328
Data processing	**5,155**	3,834
Occupancy and equipment	**2,733**	2,704
Depreciation and amortization	**4,811**	4,416
	62,746	60,630
Operating income	**13,569**	11,848
Distribution to members (Note 17)	**2,985**	2,684
Income before discontinued operations	**10,584**	9,164
Discontinued operations, net of tax (Note 13)		
Gain on disposal of discontinued operations	–	1,016
Earnings from discontinued operations	–	588
Income before income taxes	**10,584**	10,768
Provision for (recovery of) income taxes (Note 11)		
Current	**2,414**	2,888
Deferred	**(406)**	(428)
	2,008	2,460
Net income	**8,576**	8,308

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020 ($ in thousands)	2020	2019
Net income	**8,576**	8,308
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on defined benefit plan	**64**	(416)
Items that will be reclassified subsequently to profit or loss		
Change in unrealized gains on cash flow hedges	–	1,776
Realized gains (losses) on cash flow hedges	**2,155**	(13)
	2,155	1,763
Other comprehensive income, net of income tax	**2,219**	1,347
Total comprehensive income	**10,795**	9,655

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

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2020 ($ in thousands)

	Member shares	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance December 31, 2018	**317**	**199,540**	**(3,705)**	**196,152**
Net income	–	**8,308**	–	**8,308**
Actuarial loss on defined benefit plan	–	–	**(416)**	**(416)**
Change in unrealized gains on cash flow hedges	–	–	**1,776**	**1,776**
Realized losses on cash flow hedges included in net income	–	–	**(13)**	**(13)**
Redemption of member shares	**(58)**	–	–	**(58)**
Disposal of equity investment	–	**166**	–	**166**
Balance December 31, 2019	**259**	**208,014**	**(2,358)**	**205,915**
Net income	–	**8,576**	–	**8,576**
Actuarial gain on defined benefit plan	–	–	**64**	**64**
Realized gains on cash flow hedges included in net income	–	–	**2,155**	**2,155**
Redemption of member shares	**(146)**	–	–	**(146)**
Balance December 31, 2020	**113**	**216,590**	**(139)**	**216,564**

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2020 ($ in thousands)	2020	2019
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member and other loans	**73,582**	75,431
Interest received on investments and derivatives	**5,183**	4,310
Cash received on other income	**16,740**	16,563
Cash paid to suppliers and employees	**(49,384)**	(54,801)
Interest paid on member deposits	**(21,101)**	(20,092)
Interest paid on borrowings	**(3,946)**	(3,160)
Patronage distributions paid to members	**(2,684)**	(1,641)
Income taxes paid	**(5,586)**	(1,753)
Operating activities included in disposal group	–	146
	12,804	15,003
Financing activities		
Change in borrowings	**(47,903)**	20,609
Change in bank indebtedness	–	(15,000)
Increase in member deposits	**236,575**	44,305
Reduction of equity shares	**(146)**	(58)
Advances (to) from joint venture	**8**	(422)
Dividends on equity and non-equity shares	**(100)**	(155)
Repayment of lease liabilities	**(1,590)**	(1,826)
	186,844	47,453
Investing activities		
Increase in member and other loans	**(41,135)**	(110,512)
Purchase of plant, equipment and intangibles	**(8,338)**	(3,517)
Net change in investments	**(134,602)**	60,627
	(184,075)	(53,402)
Increase in cash resources	**15,573**	9,054
Cash resources, beginning of year	**55,631**	46,577
Cash resources, end of year	**71,204**	55,631

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

Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS

REPORTING ENTITY

Interior Savings Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. The Credit Union is approved to operate throughout the Province of British Columbia and primarily serves members in the Thompson Okanagan region of the province. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment. The Credit Union's head office is located at 678 Bernard Avenue, Kelowna, British Columbia.

BASIS OF PRESENTATION

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

The consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiaries, Interior Savings Estate Planning Inc., and Interior Savings Investment Management Inc. All intercompany balances and transactions have been eliminated.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all IFRSs issued by the IASB, and in effect, as at December 31, 2020.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 20, 2021.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

BASIS OF MEASUREMENT

These consolidated financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

FUNCTIONAL AND PRESENTATION CURRENCY

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

2. 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 material effect on the Credit Union's consolidated financial statements.

- IFRS 2 Share-based payment
- IFRS 3 Business combinations
- IFRS 10 Consolidated financial statements
- IFRS 13 Fair value measurement
- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 16 Property, plant and equipment
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IAS 40 Investment property

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

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

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
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

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

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

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Loan to value ratios
- Vacancy rates
- Bankruptcy rates

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, the 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 assessment if significant changes in credit risk were identified.

FINANCIAL INSTRUMENTS NOT TRADED IN ACTIVE MARKETS

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

INCOME TAX

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 asset or 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 the tax assets or liabilities.

CLASSIFICATION OF FINANCIAL ASSETS

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

HEDGE ACCOUNTING

In applying hedge accounting, the Credit Union uses the following key judgments:

1. **An economic relationship exists between the hedged item and the hedging instrument based on a hedge ratio**

The Credit Union uses the same hedge ratio for the hedging relationship as the one that results from the actual quantity of the portfolio of loans (hedged item) and the interest rate swap (hedging instrument). Interest rate swaps (hedging instruments) are specifically transacted to economically hedge the portfolio of loans (hedged items). The fair values of the hedging instruments and the hedged items move in the opposite direction because of the interest rate risk. Therefore, there is an economic relationship between the porfolios of loans (or a portion thereof) and the swaps.

2. **Critical terms of the hedged item and hedging instrument**

The Credit Union assesses at inception and in subsequent periods whether the following critical terms of the hedged item and the hedging instrument have changed:

- Notional amount
- Maturity
- Correlation between 3 month Canadian Dealer Offered Rate ("CDOR") and Prime rate
- Weighted average interest rate

3. **Effect of credit risk**

The Credit Union enters into interest rate swaps as hedging instruments with a highly rated counterparty. Therefore, Credit Valuation Adjustment on the hedging instrument is expected to not be material or volatile in a manner to dominate the value changes resulting from the economic relationship.

Further, the Credit Union considers its own credit risk as low (at December 31, 2020 the Credit Union was above policy and target for all capital measures) and as a consequence, Debt Valuation Adjustment on the hedged item is not expected to dominate the hedge effectiveness assessment.

As interest rate swaps are specifically transacted to economically hedge existing loans, application of hedge accounting will align with the risk management strategy of the Credit Union and therefore, the Credit Union's hedging relationship and risk management objective contributes to executing the overall risk management strategy.

For more information refer to Note 23.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation.

Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

CASH

Cash includes cash on hand, operating deposits with financial institutions, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

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.

MEMBER AND OTHER LOANS

All member and other loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member and other loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member and other loans are subsequently measured at amortized cost, using the effective interest rate method, less any allowance for estimated credit losses.

JOINT VENTURES

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant 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 which is not depreciated. Depreciation is recognized in earnings and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Rate
Buildings	20 or 40 years
Computer equipment	3 – 10 years
Leasehold improvements	Lease term to a maximum of 10 years
Furniture and fixtures	5 or 10 years
Branch improvements	10 years
Right-of-use buildings	Lease term

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

INTANGIBLE ASSETS

Intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over an estimated useful life of 3–10 years. Assets not yet in use are not amortized.

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 cost 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 earnings, except to the extent they reverse gains previously recognized in other comprehensive income.

PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

MEMBER DEPOSITS

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

SECURITIZATION

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

The Credit Union's securitization activity primarily involves sales of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's consolidated statement of financial position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's consolidated statement of financial position as borrowings.

PENSION PLAN

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the contributions are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services.

In the defined benefit plan, a liability is recognized as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for any actuarial gains or losses and past service costs. Actuarial gains and losses have been recognized in other comprehensive income in the period in which they occur. Past- service costs are recognized immediately in profit or loss. Contributions are recognized as employee benefit expense when they are due. Excess/shortfall of contribution payments over the contribution due for service, is recorded as an asset/liability.

The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

MEMBER SHARES

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability. Shares that contain redemption features are accounted for using the partial treatment requirements of IFRIC 2 Member Shares in Co-operative Entities and Similar Instruments.

LEASES

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

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

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The Credit Union has elected to not separate non-lease components from lease components for leases of land and buildings, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Where the Credit Union is a lessor in a contract that contains a lease component and one or more additional lease or non- lease components, the Credit Union allocates the consideration in the contract in accordance with IFRS 15, whereby the consideration is allocated to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

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

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

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

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

The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases of computer equipment or furniture and fixtures and low value leases of computer equipment or furniture and fixtures. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 USD or less. The Credit Union recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

The Credit Union assesses at lease inception whether a lease should be classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is classified as an operating lease.

When the Credit Union is an intermediate lessor, the Credit Union classifies the sub-lease by reference to the right-of-use asset arising from the head lease unless the head lease is a short-term lease that the entity, as a lessee, has applied the recognition exemption to, in which case the sublease is classified as an operating lease.

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

DISTRIBUTIONS TO MEMBERS

Patronage distributions, dividends to members and other distributions approved by the Board are recognized in earnings in the year that they are declared.

INCOME TAXES

Income tax expense is comprised of current and deferred taxes which are recognized in earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized 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 nor taxable earnings.

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 to 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.

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

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 earnings.

FAIR VALUE MEASUREMENTS

The Credit Union classifies fair value measurements recognized in the consolidated 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.

CDOR is the Canadian Dollar Overnight Rate, used for Level 2 discount rate purposes.

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

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

Recognition and initial measurement

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

The best evidence of fair value at initial recognition is normally the transaction price. If a difference exists between fair value at initial recognition and the transaction price, and fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1 input) nor based on a valuation technique that uses only data from observable markets, then the measurement at initial recognition is adjusted to defer the difference between fair value and the transaction price.

Classification and subsequent measurement

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

Financial assets classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of Central 1 liquidity and other deposits, other financial institution deposits, member and other loans, accrued interest and other receivables.
- 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. Financial assets measured at fair value through other comprehensive income comprise of derivative financial instruments in a hedging relationship.
- Mandatorily at 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 changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss comprise of cash and derivative financial instruments.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets designated to be measured at fair value through profit or loss are comprised of portfolio investments.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares of Central 1, and other equity investments.

Refer to Note 22 and 23 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

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, how managers of the business are compensated, the significance and frequency of sales 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 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 associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For retail and commercial member and other loans 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 applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, 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 loan delinquency of 90 days or more, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and available borrower specific information indicating financial difficulty of the borrower that is expected to have a detrimental effect on future cash flow. 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 consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;
- For loan commitments and financial guarantee contracts, as a provision;
- For debt instruments measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the consolidated statement of financial position.

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

Refer to Note 23 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

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.

The Credit Union engages in securitization transactions resulting in transfers not qualifying for derecognition, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

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. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement

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

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, payables and other liabilities, borrowings, and membership shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivatives not designated as a hedging instrument are recognized in profit or loss.

The Credit Union designates certain derivative financial instruments as the hedging instrument in qualifying hedging relationships in order to better reflect the effect of its risk management activities in the consolidated financial statements.

Qualifying hedging relationships are those where 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, and the hedge ratio of the hedging relationship is the same as that resulting from the actual quantities of the hedging instrument and the hedged item that the Credit Union uses for hedging purposes.

At inception of the hedging relationship, the Credit Union documents the economic relationship between the hedging instrument(s) and the hedged item(s), along with its risk management objective and strategy.

Fair value hedges

The Credit Union, in accordance with its risk management strategies, manages interest rate risk through interest rate swaps.

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union tests the effectiveness of its hedges on an annual basis.

Changes in the fair value of the hedging instrument are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the risks being hedged. Where the hedged item is an equity investment for which the Credit Union has elected to present changes in fair value in other comprehensive income, the changes in the fair value of the hedged item and the hedging instrument are recognized in other comprehensive income.

Where the Credit Union has designated a group of assets and/or liabilities in a fair value hedge, gains and losses are presented in the consolidated statement of financial position as an adjustment to the carrying amount of the respective individual items comprising the group.

For hedges of groups of items that have offsetting risk positions, hedging gains or losses are presented in the consolidated statement of income in other interest revenue/expense.

When the hedged item is a financial instrument measured at amortized cost, adjustments to the hedged item are amortized to profit or loss. Amortization may begin as soon as a hedging adjustment exists but no later than when the hedged item ceases to be adjusted for hedging gains and losses. Amortization is based on a recalculated effective interest rate calculated at the date that amortization begins.

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to variable interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges include hedges of floating rate loans, embedded derivatives and other derivatives related to index-linked deposits.

The Credit Union accumulates changes in fair value related to the effective portion of the hedging instrument in the cash flow hedge reserve within equity. The effective portion of the hedge is equal to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item from inception of the hedge. The ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in profit or loss.

When the hedged item is a forecast transaction that subsequently results in recognition of a non-financial asset or liability, the amounts accumulated in the cash flow hedge reserve are removed from equity and included directly in the initial cost or other carrying amount of the asset or liability. This adjustment does not affect other comprehensive income, unless that amount is a loss and the Credit Union expects that all or a portion of the loss will not be recovered in future periods. In this case, the Credit Union immediately reclassifies the amount not expected to be recovered to profit or loss as a reclassification adjustment.

Otherwise, amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period(s) during which the hedged expected future cash flows affect profit or loss. The amounts reclassified to profit or loss are presented in the same line item as the underlying hedged transaction.

When hedge accounting is discontinued for a cash flow hedge and the hedged future cash flows are still expected to occur, accumulated hedging gains or losses remain in the cash flow hedge reserve until such time as the future cash flows occur and are then accounted for as described above. If the hedged future cash flows are no longer expected to occur, accumulated hedging gains and losses are immediately reclassified to profit or loss.

Rebalancing and discontinuation of hedging relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedging relationship continues to qualify for hedge accounting, the hedging ratio is rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item to realign the hedge ratio with the ratio used for risk management purposes. Hedge ineffectiveness is recognized in profit or loss at the time of rebalancing.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to meet the qualifying criteria, including instances where the hedging instrument expires or is sold, terminated or exercised.

REVENUE RECOGNITION

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

Interest

Interest income and expense are recognized in earnings using the effective interest method.

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

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

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

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

Other revenue

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Consideration is typically due when the policy has been rendered to the member. The amount of revenue recognized on these transactions is based on the price specified in the contract.

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfill a contract with a member as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

DISCONTINUED OPERATIONS

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

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

Current and prior year earnings from discontinued operations is presented separately in earnings. This amount is comprised of the post-tax earnings from discontinued operations and post-tax gain or loss on the measurement or disposal of an asset or disposal group classified as held for sale.

The prior year disclosures for discontinued operations represent all operations that have been discontinued by the reporting date for the latest period presented. If the Credit Union ceases to classify a component as held for sale, the results of operations of the component previously presented as a discontinued operation is reclassified and included in income from continuing operations for all periods presented.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2020 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

ANNUAL IMPROVEMENTS TO IFRSS 2018–2020 CYCLE

The Annual Improvements to IFRSs 2018 – 2020 Cycle, issued in May 2020, include a series of amendments to IFRSs in response to issues addressed during the 2018–2020 cycle as follows:

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendments simplify the application of IFRS 1 by a subsidiary, that becomes a first-time adopter of IFRS standards later than its parent by allowing the subsidiary to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.

IFRS 9 Financial Instruments

The amendments clarify which fees an entity includes when performing the 10 percent test used to determine whether to derecognize a financial liability. An entity shall include only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

IFRS 16 Leases

The amendments resolve the potential for confusion regarding the treatment of lease incentives by amending Illustrative Example 13 to remove the reimbursement of leasehold improvements by the lessor.

These amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 16 PROPERTY, PLANT, AND EQUIPMENT

Amendments to IAS 16, issued in May 2020, prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be available for use. Instead, the proceeds from selling such items, and the costs of producing those items, would be recognized in profit or loss.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union has not yet determined the impact of these amendments on its consolidated financial statements.

5. INVESTMENTS

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value in Note 23.

	2020	2019
Other investments		
Measured at amortized cost		
Central 1 liquidity deposits – Canadian	**197,467**	180,305
Central 1 liquidity deposits – US	**–**	1,306
Central 1 other deposits – Canadian	**70,000**	20,000
Central 1 other deposits – US	**16,368**	20,044
Accrued interest receivable	**1,818**	1,480
Other financial institution deposits	**75,000**	–
	360,653	223,135
Measured at fair value through profit or loss		
Portfolio investments	**29,865**	26,407
	390,518	249,542
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**9,895**	10,244
Other investments	**6,043**	5,043
	15,938	15,287
Total	**406,456**	264,829

The Credit Union must maintain liquidity deposits with Central 1 as required by governing legislation. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's member deposits or upon withdrawal of membership from Central 1. At maturity, these deposits are reinvested at market rates for various terms.

During the year, the Credit Union assessed a modification of terms of the Central 1 liquidity deposits, which resulted in an increase to the carrying amount and a gain on the mandatory liquidity pool of $3,680 which was recognized in other income (Note 26).

Other financial institution deposits represent interest bearing deposit notes held at other financial institutions.

Portfolio investments include multi-strategy investment funds consisting of both equity and fixed income instruments.

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and is a condition of membership in Central 1. These shares are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. 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.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union enters into derivative financial instruments for risk management purposes. Derivative financial instruments used by the Credit Union include:

- Interest rate swaps, which are used to hedge the Credit Union's exposure to interest rate risk.
- Foreign exchange forward contracts, which are used to hedge the Credit Union's exposure to foreign exchange risk.
- Index-linked call options, which are used to directly hedge member index-linked deposits.

The notional amounts of these derivative financial instruments are not recorded in the consolidated financial statements. Derivatives are recorded at fair value on the consolidated statement of financial position. The fair value of the derivative financial instrument assets and liabilities at December 31, 2020 were $3,747 and $3,794, respectively (2019 – $4,893 and $5,757).

Derivative financial information:

				Notional amounts		Fair values	
	Within 1 year	1–5 years	> 5 years	2020	2019	2020	2019
Interest rate swaps	**6,500**	**12,000**	**6,500**	**25,000**	175,000	**(36)**	(864)
Forward start interest rate swaps	**–**	**–**	**2,500**	**2,500**	–	**(11)**	–
Index-linked call options	**16,243**	**31,116**	**–**	**47,359**	48,370	**3,747**	4,893
Embedded derivatives in index-linked deposits		**–**	**–**	**–**	–	**(3,747)**	(4,893)
	22,743	**43,116**	**9,000**	**74,859**	223,370	**(47)**	(864)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer equipment	Leasehold improvements	Furniture and fixtures	Branch improvements	Right-of-use buildings	Total
Cost								
Balance at December 31, 2018	**2,124**	**14,573**	**7,114**	**11,218**	**14,481**	**6,968**	**–**	**56,478**
IFRS 16 adjustments	–	–	–	–	–	–	**14,825**	**14,825**
Additions	–	–	**493**	**104**	**347**	**843**	**196**	**1,983**
Balance at December 31, 2019	**2,124**	**14,573**	**7,607**	**11,322**	**14,828**	**7,811**	**15,021**	**73,286**
Disposals	–	–	–	–	–	–	**(319)**	**(319)**
Additions	–	–	**441**	**1,211**	**480**	**42**	**3,145**	**5,319**
Balance at December 31, 2020	**2,124**	**14,573**	**8,048**	**12,533**	**15,308**	**7,853**	**17,847**	**78,286**
Depreciation								
Balance at December 31, 2018	–	**9,709**	**6,656**	**7,425**	**12,983**	**3,782**	–	**40,555**
Depreciation expense	–	**482**	**371**	**692**	**591**	**417**	**1,665**	**4,218**
Balance at December 31, 2019	–	**10,191**	**7,027**	**8,117**	**13,574**	**4,199**	**1,665**	**44,773**
Depreciation expense	–	**474**	**385**	**608**	**417**	**771**	**1,737**	**4,392**
Disposals	–	–	–	–	–	–	**(319)**	**(319)**
Balance at December 31, 2020	–	**10,665**	**7,412**	**8,725**	**13,991**	**4,970**	**3,083**	**48,846**
Net book value								
At December 31, 2019	2,124	4,382	580	3,205	1,254	3,612	13,356	28,513
At December 31, 2020	**2,124**	**3,908**	**636**	**3,808**	**1,317**	**2,883**	**14,764**	**29,440**

8. INTANGIBLE ASSETS

	Computer software
Cost	
Balance at December 31, 2018	**2,493**
Additions	**1,730**
Balance at December 31, 2019	**4,223**
Additions	**6,164**
Disposals	**(1,385)**
Balance at December 31, 2020	**9,002**
Amortization	
Balance at December 31, 2018	**2,173**
Amortization expense	**145**
Balance at December 31, 2019	**2,318**
Amortization expense	**522**
Disposals	**(1,289)**
Balance at December 31, 2020	**1,551**
Carrying amounts	
At December 31, 2019	1,905
At December 31, 2020	**7,451**

Included in computer software in the prior year were $1,670 which were not put into use during the period, therefore no amortization expense was recorded against these assets.

9. OTHER ASSETS

	2020	2019
Accounts receivable	**447**	844
Loan origination/acquisition fees	**2,352**	2,380
Prepaid expenses and deposits	**2,121**	2,596
	4,920	5,820

10. ADVANCES TO JOINT VENTURE

Advances to joint venture are unsecured, non-interest bearing and have no fixed terms of repayment.

	2020	2019
1200089 B.C. Ltd., a company held through joint arrangement	**251**	94
Interior Savings Insurance Services Inc., a wholly owned subsidiary of 1200089 B.C. Ltd.	**163**	328
	414	422

11. INCOME TAXES

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

	2020	2019
Current tax recovery based on:		
Change in unrealized gain on cash flow hedges	–	(313)
Realized gains on cash flow hedges included in income	–	2
Actuarial loss on supplemental retirement plan	**11**	73
	11	(238)

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
Current income tax expense		
Income before income taxes	**10,583**	10,768
Income tax expense on the statutory rate	**2,857**	2,907
Preferred rate deduction for credit unions	**(1,137)**	(1,042)
Items not deductible or taxable for tax purposes	**161**	1,511
Included in disposal group	–	189
Other	**155**	(439)
Payable on reassessed returns	**367**	–
Tax effect of amounts recorded in other comprehensive income (as shown above)	**11**	(238)
	2,414	2,888
Deferred taxes	**(406)**	(428)
	2,008	2,460

The movement in 2020 deferred tax assets and liabilities are:

	Jan 1, 2020	Recognized in net income	Dec 31, 2020
Deferred tax assets:			
Property, plant and equipment	225	530	**755**
Allowance for impaired loans	1,584	131	**1,715**
Other liabilities	2,885	(1)	**2,884**
Other	249	(220)	**29**
Lease liabilities	49	47	**96**
Deferred tax liabilities:	4,992	487	**5,479**
Equity pickup on investment in joint venture	(104)	(81)	**(185)**
	4,888	406	**5,294**

The movement in 2019 deferred tax assets and liabilities are:

	Jan 1, 2019	Recognized in net income	Dec 31, 2019
Deferred tax assets:			
Property, plant and equipment	774	(549)	**225**
Allowance for impaired loans	1,388	196	**1,584**
Other liabilities	2,263	622	**2,885**
Other	35	214	**249**
Lease liabilities	–	49	**49**
Deferred tax liabilities:	4,460	532	**4,992**
Equity pickup on investment in joint venture	–	(104)	**(104)**
	4,460	428	**4,888**

	2020	2019
Deferred tax assets		
Deferred tax assets to be settled within 12 months	**1,715**	1,584
Deferred tax assets to be settled after more than 12 months	**3,764**	3,408
	5,479	4,992
Deferred tax liabilities to be recovered after more than 12 months	**(185)**	(104)
Net deferred tax asset	**5,294**	4,888

12. INVESTMENT IN JOINT VENTURE

The Credit Union holds a 50% interest in 1200089 B.C. Ltd. with another credit union. 1200089 B.C. Ltd. has the following wholly owned subsidiaries:

- Interior Savings Insurance Services Inc.
- Coastal Community Insurance Services (2007) Ltd.

The following table illustrates summarized financial information representing the Credit Union's interest in 1200089 B.C. Ltd.:

	2020	2019
Share of 1200089 B.C. Ltd.'s statement of financial position		
Cash	**6,409**	5,272
Other current assets	**2,179**	2,070
Non-current assets	**17,155**	17,431
Current liabilities	**(1,871)**	(1,852)
Non-current liabilities	**(2,906)**	(2,725)
Equity	**20,966**	20,196

	2020	2019
Share of 1200089 B.C. Ltd.'s revenue and profit		
Revenue	**12,022**	9,497
Investment in joint venture		
Opening balance	**30,040**	29,243
Change in value	**146**	797
Ending balance	**30,186**	30,040

13. DISPOSAL GROUP

On March 31, 2019, the Credit Union sold its insurance operations for shares in an associate. This sale resulted from management's decision to streamline insurance operations with another Credit Union. No impairment loss was recognized on the sale of the disposal group.

	2019 3 months ended December 31
Earnings from discontinued operations	
Income	2,521
Expenses	(2,122)
Income before income taxes	399
Recovery of income taxes	189
	588
Gain on disposal of discontinued operations	1,016
Income from discontinued operations, net of tax	1,604

14. BORROWINGS AND BANK INDEBTEDNESS

The Credit Union maintains operating lines of credit and short term borrowing facilities with Central 1 and other major financial institutions which are secured by general security agreements and a demand debenture creating floating charges over the assets of the Credit Union. The approved facilities total $159,637 (2019 – $159,637) and any undrawn amount may be subject to standby fees. This facility was not drawn down as at December 31, 2020 (2019 – draw down $Nil).

The Credit Union is an approved issuer of mortgage-backed securities pools ("MBS"), some of which may be included in the Canada Mortgage Bond ("CMB") program administered by the Canada Housing Trust. The MBS and CMB amounts below represent the repayment obligation amounts of MBS pools and 5-year CMBs (maturing from 2021 to 2022) and are secured by specific pools of member and other loans. In order to ensure sufficient assets are available to meet its repayment obligations, the Credit Union maintains reinvestment accounts as required under the terms of the CMB program. The outstanding balance of the CMB at December 31, 2020 was $117,875 (2019 – $165,778).

15. MEMBER DEPOSITS

	2020	2019
Demand deposits	**1,281,698**	1,053,338
Registered plans	**583,726**	564,656
Term deposits	**554,813**	565,646
Accrued interest payable	**8,897**	9,801
Non-equity shares	**118**	138
	2,429,252	2,193,579

Included in registered plans are retirement savings plans, retirement income funds, registered educations savings plans, registered disability savings plans and tax free savings accounts.

16. LEASE LIABILITIES

LEASES AS LESSEE

The Credit Union leases buildings for some of its branches. These leases generally span a period of 5 years and include an option to renew the lease for an additional 5 years after the end of the initial contract term.

RIGHT-OF-USE ASSETS

Right-of-use assets of the Credit Union have been presented within property, plant and equipment in the consolidated statement of financial position. Refer to Note 7 for information pertaining to right-of-use assets arising from lease arrangements in which the entity is a lessee.

LEASE LIABILITIES

The following table sets out a maturity analysis of lease liabilities:

	2020	2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**1,770**	1,835
One to five years	**5,218**	5,149
More than five years	**10,570**	8,865
Total undiscounted lease liabilities	**17,558**	15,849
Discounted lease liabilities included in the consolidated statement of financial position	**15,119**	13,535
Current	**1,436**	1,503
Non-current	**13,683**	12,032

AMOUNTS RECOGNIZED IN EARNINGS

The Credit Union has recognized the following amounts in the consolidated statement of income:

	2020	2019
Interest expense on lease liabilities	**(348)**	(338)
Expenses relating to short-term leases	**(1)**	(6)
Income from sub-leasing right-of-use assets	**566**	505

17. MEMBER SHARES

		2020		2019	
	Authorized	Equity	Liability	Equity	Liability
Investment equity shares	**Unlimited**	**113**	**2,977**	259	3,391
Member equity shares	**Unlimited**	**–**	**918**	–	781
		113	**3,895**	259	4,172

Member shares are recognized as a liability or equity based on the terms and in accordance with IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Both classes of shares have a par value and redemption value of one dollar per share. Monies invested in membership equity and investment equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

INVESTMENT EQUITY SHARES

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount is classified as equity.

MEMBERSHIP EQUITY SHARES

As a condition of membership, each member is required to own at least $5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

Distributions to members

	2020	2019
Patronage distributions	**2,335**	1,779
Dividends on members' shares	**100**	155
Bursary program	**550**	750
	2,985	2,684

Patronage distributions are calculated based on the level of business a member conducts with the Credit Union. Dividends and other approved distributions may be paid at the discretion of the Board of Directors in the form of cash or additional shares.

18. PENSION PLAN

The Credit Union provides four types of retirement plan options for its employees. These include participation in a multi- employer defined benefit pension plan (the "Plan"), administered by Central 1; participation in a defined benefit Supplemental Employee Retirement Plan (the "SERP"), administered by the Credit Union; participation in a group registered retirement savings plan, administered by the Credit Union; and participation in a money purchase plan offered and administered by Central 1. The annual cost of the pension benefits for the Plan and the SERP have been determined by an independent actuary based on the accrued benefit actuarial cost method.

The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. As of September 30, 2020, this Division covered about 3,630 active employees and approximately 1,185 retired plan members, with reported assets of approximately $923,600. At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan as at December 31, 2018 indicated a going concern surplus of $31,600 and a solvency deficiency of $99,500, based on market value assets of approximately $735,000. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is for the reporting date of December 31, 2021 although the Trustees have the discretion of conducting a valuation for an earlier reporting date. The Credit Union paid $3,662 (2019 – $3,644) in employer contributions to the plan in fiscal year 2020.

The SERP is a non-registered, unfunded defined benefit plan covering certain employees of the Credit Union. Every year, an actuarial valuation is performed to determine the accrued benefit obligation and the annual pension cost. The most recent actuarial valuations were as of December 31, 2020 for the SERP. The Credit Union contributed $196 during the year (2019 – $176).

The Credit Union also provides additional pension benefits to certain eligible employees who are members of the registered retirement savings plan. Under this plan, the Credit Union contributes to an employee's registered plan an amount based on a percentage of the employee's earnings, and expenses the contributions to the plan in the year in which payments are made. Additionally, the employee can contribute to this plan. The Credit Union contributed $47 during the year (2019 – $57).

The money purchase plan is also a multi-employer pension plan with several active contributors from various Credit Unions. The Credit Union contributes to an employee's pension plan account an amount based on a percentage of the employee's earnings and expenses the contributions to the plan in the year in which payments are made. The Credit Union contributed $23 during the year (2019 – $22).

Funding of the Plan complies with applicable regulations that require actuarial valuations of the pension funds at least once every three years in Canada, depending on the funding status.

19. OTHER INCOME

	2020	2019
Commissions	**5,435**	5,225
Member account service fees	**4,892**	5,829
Member and other loan fees	**4,365**	2,715
Gain on Central 1 liquidity deposits (Note 26)	**3,680**	–
Credit card commissions	**682**	720
Equity from investment in associate	**616**	797
Rental income	**566**	505
Other accounts	**560**	560
Management fees	**460**	716
Foreign exchange	**186**	770
	21,442	17,837

20. GENERAL OPERATING AND ADMINISTRATIVE

	2020	2019
Professional fees	**1,911**	1,855
Advertising	**1,683**	1,553
Bank charges and interest	**1,275**	1,463
Other	**1,121**	837
Member services and lending	**1,083**	961
Deposit insurance	**659**	1,409
Stationery and supplies	**599**	527
Courier and postage	**518**	462
Training, meetings and travel	**396**	975
Sponsorship and donations	**373**	389
Telephone	**300**	321
Director honorarium	**259**	259
Central 1 dues	**186**	317
	10,363	11,328

21. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL ("KMP")

The Credit Union entered into the following transactions with key management personnel and directors, which are defined by *IAS 24, Related Party Disclosures*, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel, along with their close family members.

Compensation for related parties

	2020	2019
Salaries, and other short-term employee benefits	**2,440**	2,639
Total pension and other post-employment benefits	**467**	500
Total remuneration	**2,907**	3,139

Transactions with joint ventures of the Credit Union

	2020	2019
Management fees	**460**	716
Rental income	**566**	505
Member account service fees	**11**	12
Interest on member deposits	**(12)**	(12)
	1,025	1,221

Loans to related parties

The Credit Union's policy for lending to directors and KMP is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. KMP may receive concessional rates of interest on their loans and facilities. There are no additional benefits or concessional terms and conditions applicable to related parties. There are no loans that are impaired in relation to loan balances with directors, KMP, and their close family members.

	2020	2019
Balance of loans and lines of credits outstanding at year end	**1,827**	2,810
Unused lines of credit outstanding at year end	**1,939**	943
	3,766	3,753

Loans and lines of credit advanced during the year, excluding repayments amount to $223 (2019 – $110).

Interest income and expense	**2020**	2019
Interest collected on loans and revolving credit facilities	**43**	80
Interest paid on deposits	**16**	12

Deposits	2020	2019
Balance of term and savings deposits outstanding at year end	**3,074**	2,662

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

22. FAIR VALUE MEASUREMENTS

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

2020	Fair Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
Cash	**71,204**	**71,204**	–	–
Portfolio investments	**29,865**	**29,865**	–	–
Equity investment – Central 1 and other shares	**15,938**	–	–	**15,938**
	117,007	**101,069**	–	**15,938**
Financial assets at fair value through other comprehensive income				
Derivative financial instruments	**3,747**	–	**3,747**	–
	120,754	**101,069**	**3,747**	**15,938**
Liabilities				
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	**3,794**	–	**3,794**	–
	3,794	–	**3,794**	–

2019	Fair Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
Cash	55,631	55,631	–	–
Portfolio investments	26,407	26,407	–	–
Equity investment – Central 1 and other shares	15,287	–	–	15,287
	97,325	82,038	–	15,287
Financial assets at fair value through other comprehensive income				
Derivative financial instruments	4,893	–	4,893	–
	102,218	82,038	4,893	15,287
Liabilities				
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	5,757	–	5,757	–
	5,757	–	5,757	–

Level 2 fair value measurements

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

Line item	Valuation techniques	Inputs
Derivative financial assets and liabilities	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset/liability	Discount rates based on CDOR and swap rates.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The carrying amount, fair value, and categorization into the fair value hierarchy of financial assets and financial liabilities held by the Credit Union and not measured at fair value on the consolidated statement of financial position are as follows:

	Carrying amount	Fair Value	Level 2	2020 Level 3
Assets				
Amortized cost				
Investments – liquidity deposits	**197,467**	**198,398**	**198,398**	–
Investments – other	**163,186**	**163,186**	**163,186**	–
Member and other loans	**2,256,174**	**2,274,951**	**2,274,951**	–
Accounts receivable	**447**	**447**	**447**	–
Advances to joint venture	**414**	**414**	**414**	–
	2,617,688	**2,637,396**	**2,637,396**	–
Liabilities				
Amortized cost				
Member deposits	**2,429,252**	**2,432,681**	**2,432,681**	–
Borrowings	**117,875**	**118,842**	**118,842**	–
Payables and other liabilities	**30,168**	**30,168**	**30,168**	–
Member shares – liability	**3,895**	**3,895**	–	**3,895**
Lease liabilities	**15,119**	**15,119**	**15,119**	–
	2,596,309	**2,600,705**	**2,596,810**	**3,895**

	Carrying amount	Fair Value	Level 2	2019 Level 3
Assets				
Amortized cost				
Investments – liquidity deposits	181,611	182,381	182,381	–
Investments – other	41,524	40,715	40,715	–
Member and other loans	2,216,365	2,198,896	2,198,896	–
Accounts receivable	844	844	844	–
Advances to joint venture	422	422	422	–
	2,440,766	2,423,258	2,423,258	–
Liabilities				
Amortized cost				
Member deposits	2,193,579	2,194,423	2,194,423	–
Borrowings	165,778	167,472	167,472	–
Payables and other liabilities	22,773	22,773	22,773	–
Member shares – liability	4,172	4,172	–	4,172
Lease liabilities	13,535	13,535	13,535	–
	2,399,837	2,402,375	2,398,203	4,172

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to the amortized cost.

23. FINANCIAL INSTRUMENTS

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

CREDIT RISK

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. The risk can relate to consolidated statement of financial position assets such as loans, as well as off consolidated statement of financial position assets such as commitments and letters of credit.

Overall monitoring and processes will change as deemed necessary in response to the ongoing 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 customers 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.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Investment and Lending Committee which reports to the Board of Directors ensure that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Investment and Lending Committee ("ILC") comprised of members of the Board and senior management is responsible for developing and implementing the credit risk management practices of the Credit Union by approving and reviewing lending policies on a regular basis, establishing lending limits for the Credit Union, delegating lending limits and reviewing quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The Audit and Risk Committee reviews the adequacy of the allowance for impaired loans. The primary credit risk management policies and procedures include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- 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.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.

- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities.
- Loan syndication 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), 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. In addition, the off-balance sheet granted through Canada Emergency Business Account are funded and guaranteed by the Government of Canada.

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

	2020	2019
Unadvanced lines of credit	**302,754**	294,814
Guarantees and standby letters of credit	**10,948**	9,362
Commitments to extend credit	**49,844**	140,329
Off-balance sheet loans granted through Canada Emergency Business Account	**28,425**	–
	391,971	444,505

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.

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when:

- Contractual payments have exceeded 30 days past due;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments and derivative financial instruments.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower's payment performance compared to the modified contractual terms and whether such modifications increase the borrower's ability to meet its contractual obligations.

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when there is evidence that the quantitative or qualitative indicator for a significant increase in credit risk no longer exists for a particular financial asset. Subsequently, management monitors these assets to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

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 observable data about the following events:

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default or past due event;
- The credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

As it may not be possible to identify a single discrete event, a combined effect of several events may result in a financial asset to become credit-impaired.

Measurement of expected credit losses

The Credit Union measures expected credit losses ('ECL') for member loans that have not been assessed as credit- impaired on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held. The expected credit losses for credit-impaired member loans are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers the probability of default, loss given default, forward looking information and macroeconomic factors, and exposure at default of the financial asset. 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 members 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 determining 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 mortgages in certain circumstances. With respect to those loans where the customer 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.

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.

The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

	2020			
	12-month ECL (stage 1)	Lifetime ECL (not credit impaired) (stage 2)	Lifetime ECL (credit impaired) (stage 3)	Total
Residential mortgages				
Low risk	1,542,776	–	–	1,542,776
Medium risk	–	247,726	–	247,726
Default	–	–	2,290	2,290
Gross carrying amount	1,542,776	247,726	2,290	1,792,792
Less: loss allowance	103	1,144	–	1,247
Carrying amount	1,542,673	246,582	2,290	1,791,545
Personal loans				
Low risk	30,634	–	–	30,634
Medium risk	–	5,665	–	5,665
Default	–	–	51	51
Gross carrying amount	30,634	5,665	51	36,350
Less: loss allowance	576	1,771	72	2,419
Carrying amount	30,058	3,894	–	33,931
Commercial loans and mortgages				
Low risk	424,110	–	–	424,110
Medium risk	–	6,226	–	6,226
Default	–	–	425	425
Gross carrying amount	424,110	6,226	425	430,761
Less: loss allowance	2,234	674	390	3,298
Carrying amount	421,876	5,552	35	427,463
Total members' loans receivable				
Total gross carrying amount, per above	1,997,520	259,617	2,766	2,259,903
Add: accrued interest	2,859	372	4	3,235
Less: loss allowance per above	2,913	3,589	462	6,964
Total carrying amount	1,997,466	256,400	2,308	2,256,174

	2019			
	12-month ECL (stage 1)	Lifetime ECL (not credit impaired) (stage 2)	Lifetime ECL (credit impaired) (stage 3)	Total
Residential mortgages				
Low risk	1,490,350	–	–	1,490,350
Medium risk	–	275,056	–	275,056
Default	–	–	3,525	3,525
Gross carrying amount	1,490,350	275,056	3,525	1,768,931
Less: loss allowance	39	82	–	121
Carrying amount	1,490,311	274,974	3,525	1,768,810
Personal loans				
Low risk	38,459	–	–	38,459
Medium risk	–	6,739	–	6,739
Default	–	–	78	78
Gross carrying amount	38,459	6,739	78	45,276
Less: loss allowance	645	1,345	76	2,066
Carrying amount	37,814	5,394	2	43,210
Commercial loans and mortgages				
Low risk	317,774	–	–	317,774
Medium risk	–	79,835	–	79,835
Default	–	–	7,454	7,454
Gross carrying amount	317,774	79,835	7,454	405,063
Less: loss allowance	1,794	612	1,608	4,014
Carrying amount	315,980	79,223	5,846	401,049
Total members' loans receivable				
Total gross carrying amount, per above	1,846,583	361,630	11,057	2,219,270
Add: accrued interest	2,743	537	16	3,296
Less: loss allowance	2,478	2,039	1,684	6,201
Total carrying amount	1,846,848	360,128	9,389	2,216,365

As at December 31, 2020, the maximum exposure to credit risk with respect to financial assets without taking into account collateral held or other credit enhancements is $3,060,970 (2019 – $2,961,898). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Included in the Credit Union's maximum exposure to credit risk noted above, is $30,186 (2019 – $30,040) for the maximum exposure loss in its interest in 1200089 B.C. Ltd. This is the adjusted cost base of the joint venture, which approximates the Credit Union's maximum credit risk exposure.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Members' loan receivable				
Balance at December 31, 2018	1,549	3,492	841	5,882
Provision for impaired loans	140	115	95	350
Write-offs, net of recoveries	789	(1,568)	748	(31)
Balance at December 31, 2019	2,478	2,039	1,684	6,201
Provision for impaired loans	332	139	29	500
Write-offs, net of recoveries	103	1,411	(1,251)	263
Balance at December 31, 2020	2,913	3,589	462	6,964

MARKET RISK

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below. 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 arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as loan prepayment and deposit redemption, which also impact interest rate risk.

Risk Measurement

The Credit Union measures its interest rate risk on a monthly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, Policies and Processes

The Asset Liability Committee ("ALCO"), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and decide future strategy.

These policies and guidelines define the standards and limits within which the risks to net interest income and the value of equity are contained. An asset/liability risk report is prepared monthly for ALCO and reviewed on a quarterly basis by the ILC. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to an immediate parallel shift in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	2020	2019
1% increase in interest rates Impact on financial margin for the next 12 months	**873**	(1,133)
1% decrease in interest rates Impact on financial margin for the next 12 months	**(2,114)**	(656)

Interest rate sensitivity

The main source of income for the Credit Union is its financial margin. Financial margin is the difference between interest received on assets and interest paid on liabilities. Management of financial margin is performed by the ALCO. The ALCO uses extensive cash flow analysis to monitor the Credit Union's position and to ensure risk is kept within the limits prescribed by the Board approved Investment and Lending Policy.

The following table shows the terms to maturity of the interest sensitive financial instruments as shown on the consolidated statement of financial position.

	Under 1 Year	1–5 Years	Over 5 Years	Non-Interest Sensitive	2020 Total	2019 Total
Assets						
Cash	59,128	–	–	12,076	**71,204**	55,631
Average yield %	0.23	–	–	–	–	–
Investments	230,154	126,476	29,861	19,965	**406,456**	264,829
Average yield %	0.78	1.96	1.26	–	–	–
Derivative financial instruments	–	–	–	3,747	**3,747**	4,893
Member loans	870,153	1,376,115	6,674	3,232	**2,256,174**	2,216,365
Average yield %	3.26	3.06	2.77	–		
Accounts receivable	–	–	–	447	**447**	844
Advances to joint venture	–	–	–	414	**414**	422
	1,159,435	**1,502,591**	**36,535**	**39,881**	**2,738,442**	2,542,984
Liabilities						
Member deposits	1,068,089	232,176	–	1,128,987	**2,429,252**	2,193,579
Average yield %	1.18	1.42	–	–	–	–
Borrowings	81,552	36,323	–	–	**117,875**	165,778
Average yield %	1.65	2.14	–	–	–	–
Lease liabilities	1,285	3,780	10,054	–	**15,119**	13,535
Average yield %	1.35	1.35	1.35	–	–	–
Derivative financial instruments	–	–	–	3,794	**3,794**	5,757
Member shares	–	–	–	3,895	**3,895**	4,172
Other liabilities	–	–	–	30,168	**30,168**	22,773
	1,150,926	**272,279**	**10,054**	**1,166,844**	**2,600,103**	2,405,594
Mismatch	**8,509**	**1,230,312**	**26,481**	**(1,126,963)**	**138,339**	137,390
Net derivative contracts	**21,000**	**(12,000)**	**(9,000)**	–	–	–
Net sensitivity	**29,509**	**1,218,312**	**17,481**	**(1,126,963)**	**138,339**	137,390

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in U.S. dollars.

Risk Measurement

The Credit Union's foreign exchange positions are measured and monitored regularly.

Objectives, Policies and Processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between U.S. dollar assets and liabilities. Foreign exchange forward contracts may be used to hedge the Credit Union's exposure to foreign exchange risk. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2020, the Credit Union's exposure to foreign exchange risk was not significant.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due. The Credit Union has a strong liquidity base and has a well-established contingency plan to access if required through the COVID-19 situation.

Risk Measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

Objectives, Policies and Processes

The Credit Union's liquidity management framework is monitored by ALCO and policies are approved by the ILC and Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources. As at December 31, 2020, the Credit Union had available funding sources totalling $159,637 (2019 – $159,637).

Legislation requires that the Credit Union maintain liquid assets with Central 1 of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly and the ILC receives regular reporting of available cash resources and utilization rates. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2020, the Credit Union's total liquidity ratio was 18.97% (2019–13.89%).

The following table shows the principal obligations related to financial liabilities significant in the management of liquidity risk as at December 31, 2020:

	Demand & Notice	Under 1 year	1 to 5 years	Over 5 years	2020	2019
Deposits	1,667,294	596,393	165,565	–	**2,429,252**	2,193,579
Payables and other liabilities	–	30,168	–	–	**30,168**	22,773
Borrowings		67,523	50,352	–	**117,875**	165,778
Lease liabilities	–	1,436	4,167	9,516	**15,119**	13,535
	1,667,294	695,520	220,084	9,516	**2,592,414**	2,395,665

24. CAPITAL MANAGEMENT

As a provincially chartered Credit Union, the Credit Union is required to measure its capital adequacy based on regulations monitored by British Columbia Financial Services Authority ("BCFSA"). Regulatory capital must have the following fundamental characteristics: i) permanency; ii) be free of fixed charges against earnings; and iii) be subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may be deducted from capital to arrive at the total capital base.

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0% to 150%. The regulatory ratio is then computed by dividing the total capital base by the Credit Union's risk weighted assets, including off-balance sheet commitments. Regulation currently requires that each Credit Union must maintain a minimum capital to risk-weighted assets ratio of 8%. BCFSA's supervisory target capital ratio is established above the regulatory minimum at 10%.

The Credit Union's capital adequacy ratio as of December 31, 2020 was 19.85% (2019–22.82%).

Capital of the Credit Union is comprised of:

	2020	2019
Primary capital		
Retained earnings – non-consolidated	**216,126**	207,577
Membership equity shares	**1,031**	1,040
Deferred income tax	**(4,839)**	(4,453)
	212,318	204,164
Secondary capital		
Share of system retained earnings	**27,252**	25,679
Other equity shares	**2,977**	3,391
	30,229	29,070
Deductions from capital	**(19,560)**	(6,789)
Capital base	**222,987**	226,445

The Credit Union manages capital and its composition based on statutory requirements. The ratio is reviewed monthly and is addressed in annual and three year planning cycles to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the ILC.

25. COMMITMENTS

MEMBER AND OTHER LOANS

The Credit Union's commitments to provide credit to its members are disclosed in the credit risk section of Note 23.

CONTRACTUAL OBLIGATIONS

The Credit Union is committed to payments for data processing services and system improvements of $938 per annum until September 30, 2030.

26. EVENTS 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 $197,467 were redeemed in exchange for a portfolio of high quality liquid assets invested through the Credit Union's Trust. In addition, subsequent to the segregation, Central 1 Class F shares of $9,022 were redeemed at par in cash to the Credit Union.

The segregation of the mandatory liquidity pool resulted in a gain of $3,680 recorded in the consolidated statement of comprehensive income as at December 31, 2020.

CREDIT UNION AND INSURANCE LOCATIONS

Ashcroft
201 Railway Avenue
250-453-2219
Insurance
250-453-9133

Barriere
4621 Barriere Town Road
250-672-9736
Insurance
250-672-9634

Chase
814 Shuswap Avenue
250-679-8831
Insurance
810 Shuswap Avenue
250-679-3248

Clearwater
401-365 Murtle Crescent
250-674-3111
Insurance
250-674-3151

Kamloops
Lansdowne
200-350 Lansdowne St
250-374-3361
Insurance
201-350 Lansdowne St
250-374-3536

Summit
370-1210 Summit Drive
250-314-1210
Columbia Insurance
370C-1210 Summit Drive
250-372-8118

Tranquille
100-430 Tranquille Road
250-376-5544
Insurance
101-430 Tranquille Road
250-376-6255

North Hills Insurance
19-700 Tranquille Road
250-376-8881

Valleyview
1-2101 Trans Canada Hwy, East
250-374-6676
Insurance
1-2101 Trans Canada Hwy, East
250-374-7552

Kelowna
Bernard
101-678 Bernard Avenue
250-869-8300
Insurance
102-678 Bernard Avenue
250-712-4045

Glenmore
500-1982 Kane Road
250-762-2262
Insurance
250-980-4570

Mission
101-595 K.L.O Road
250-763-8144
Insurance
250-868-2251

Orchard Centre
2071 Harvey Avenue
250-860-7400

Rutland
185 Rutland Road South
250-469-6575
Insurance
250-765-4898

Lake Country
30-9522 Main Street
250-766-3663

Lillooet
674 Main Street
250-256-4238

Merritt
1959 Voght Street
250-378-5181
Insurance
2001B Voght Street
250-378-4234

Oliver
6287 Main Street
250-498-3457
Insurance
6283 Main Street
250-498-5610

Okanagan Falls
4929 9th Avenue
250-497-8204

Penticton
101-251 Green Ave W.
250-497-8204

Vernon
4301 32nd Street
250-545-1234

West Kelowna
3718 Elliott Road
250-469-6550
Insurance
250-768-2176

ADDITIONAL SERVICES

Commercial Services
Kelowna
654 Bernard Avenue
250-469-6500

Kamloops
202-350 Lansdowne Street
250-851-2814

Commercial Insurance
201-350 Lansdowne Street
250-374-3536

Wealth Management
Kelowna
200-2071 Harvey Ave
250-869-8336

Kamloops
203-350 Lansdowne Street
250-377-4937

Member Service Centre
1-855-220-2580

Telephone Banking
1-877-861-ISCU (4728)

Insurance 24 Hr Claims Reporting
1-877-912-2271

www.interiorsavings.com

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