FIRSTWEST
CREDIT UNION

2020

ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The accompanying statements of First West Credit Union have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this annual report is consistent with the information in the financial statements, unless otherwise noted.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's Board of Directors, acting through its Audit and Risk Management Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our internal auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations. The Provincial Superintendents of Financial Institutions may conduct an examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit and Risk Management Committee to discuss their audit and matters arising therefrom.

Launi Skinner
Chief Executive Officer

Thomas Webster
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Members of First West Credit Union

OPINION

We have audited the consolidated financial statements of First West Credit Union (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity 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 ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

OTHER INFORMATION

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE 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 auditors' report that includes our opinion.

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 15, 2021

FIRST WEST CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2020, with comparative information for 2019

	Notes	2020	2019
Assets			
Cash resources	8	$ 1,386,162	$ 260,852
Derivative assets	9	29,485	19,377
Loans to members	10	9,142,749	9,139,432
Investments	11	1,256,068	1,196,125
Assets held-for-sale	32	933	7,193
Premises and equipment	12	127,506	111,659
Intangible assets	13	20,636	6,759
Deferred tax assets	25	34,039	30,666
Other assets	14	191,311	262,771
		$ 12,188,889	$ 11,034,834
Liabilities and Members' Equity			
Deposits from members	15	$ 10,537,238	$ 9,651,799
Borrowings	16	600,670	412,766
Derivative liabilities	9	4,958	6,823
Deferred tax liabilities	25	30,660	28,804
Other liabilities	17	173,034	167,678
		11,346,560	10,267,870
Members' equity:			
Equity shares	19	28,083	29,870
Contributed surplus		163,651	163,651
Retained earnings		637,505	576,600
Accumulated other comprehensive income (loss) ("AOCI")		13,090	(3,157)
		842,329	766,964
Commitments and contingencies	27		
		$ 12,188,889	$ 11,034,834

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Wayne Becker

Meryle Corbett

FIRST WEST CREDIT UNION

Consolidated Statement of Profit or Loss
(Expressed in thousands of dollars)

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

	Notes		2020		2019
Interest income:					
Loans		$	323,637	$	346,507
Cash resources and investments			18,280		17,433
			341,917		363,940
Interest expense:					
Deposits			128,905		153,602
Borrowings			13,958		10,582
Lease liabilities			2,565		2,936
			145,428		167,120
Net interest income	20		196,489		196,820
Provision for credit losses	10		25,416		16,748
			171,073		180,072
Fee and commission income	21		64,126		63,534
Other income	22		56,229		40,508
			291,428		284,114
Personnel expenses	23		138,119		138,685
Depreciation and amortization			15,966		17,357
Other expenses	24		80,084		76,834
			234,169		232,876
Profit before income tax expense from continuing operations			57,259		51,238
Income tax expense	25		8,461		8,521
Profit from continuing operations			48,798		42,717
Profit from discontinued operations, net of tax	32		12,799		45,435
Profit for the year		$	61,597	$	88,152

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

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

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

		2020		2019
Profit for the year	$	61,597	$	88,152
Other comprehensive income, net of income taxes:				
Items that may be reclassified to profit or loss:				
Hedging reserve (cash flow hedges):				
Net unrealized gain, (net of income taxes of $(3,884); (2019 - $(2,146))		16,247		9,913
Total other comprehensive income, net of income taxes		16,247		9,913
Comprehensive income	$	77,844	$	98,065

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

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

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

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings	2020 Total
Balance at December 31, 2019	$ 29,870	$ (3,152)	$ (5)	$ 163,651	$ 576,600	$ 766,964
Profit for the year	-	-	-	-	61,597	61,597
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	16,247	-	-	-	16,247
Total other comprehensive income	-	16,247	-	-	-	16,247
Comprehensive income	-	16,247	-	-	61,597	77,844
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(692)	(692)
Redemptions of equity shares	(1,787)	-	-	-	-	(1,787)
Total distribution to members	(1,787)	-	-	-	(692)	(2,479)
Balance at December 31, 2020	$ 28,083	$ 13,095	$ (5)	$ 163,651	$ 637,505	$ 842,329

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings	2019 Total
Balance at December 31, 2018	$ 31,325	$ (13,065)	$ (5)	$ 163,651	$ 489,394	$ 671,300
Profit for the year	-	-	-	-	88,152	88,152
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	9,913	-	-	-	9,913
Total other comprehensive income	-	9,913	-	-	-	9,913
Comprehensive income	-	9,913	-	-	88,152	98,065
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(946)	(946)
Redemptions of equity shares	(1,455)	-	-	-	-	(1,455)
Total distribution to members	(1,455)	-	-	-	(946)	(2,401)
Balance at December 31, 2019	$ 29,870	$ (3,152)	$ (5)	$ 163,651	$ 576,600	$ 766,964

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

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

	Notes	2020	2019
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 61,597	$ 88,152
Adjustments for:			
Provision for credit losses		25,416	16,748
Depreciation and amortization		15,966	17,843
Net interest income		(196,489)	(196,820)
Income tax (recovery) expense		(4,338)	28,010
Gain on sale of discontinued operations	32	-	(60,980)
Gain on sale of asset held-for-sale		(10,120)	-
Changes in:			
Derivative assets and liabilities		9,437	(9,154)
Loans to members		(29,653)	(567,060)
Other assets		71,462	(13,096)
Deposits from members		897,609	625,085
Other liabilities		26,976	12,523
Interest received		341,557	359,343
Interest paid		(155,144)	(156,046)
Dividends paid		(858)	(1,151)
Income tax paid		(21,980)	(24,523)
Net cash flows provided by operating activities		1,031,438	118,874
Cash flows from investing activities:			
Acquisition of investments		(89,148)	(88,204)
Proceeds from sale of investments		28,824	7,271
Proceeds from disposal of discontinued operations	32	-	75,979
Proceeds from sale of asset held-for-sale		17,313	-
(Acquisition) disposal of:			
Premises and equipment, net		(25,723)	(7,702)
Intangible assets, net		(16,189)	331
Net cash flows used in investing activities		(84,923)	(12,325)
Cash flows from financing activities:			
Proceeds from borrowings		511,823	100,000
Repayment of borrowings		(323,808)	(158,773)
Repayment of lease liabilities		(7,433)	(7,883)
Redemption of equity shares		(1,787)	(1,455)
Net cash flows provided by (used in) financing activities		178,795	(68,111)
Net increase in cash resources		1,125,310	38,438
Cash resources, beginning of year		260,852	222,414
Cash resources, end of year	8	$ 1,386,162	$ 260,852

See accompanying notes to consolidated financial statements.

1. Reporting entity:

First West Credit Union (the "Credit Union") is domiciled in Canada and its head office is located at 19933 88 Avenue, Langley, BC. The Credit Union is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) (the "Act"). The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2020 comprise the Credit Union and its subsidiaries (hereinafter together referred to as the "Credit Union" and individually as "Credit Union entities"). The Credit Union primarily is involved in retail and commercial banking, insurance brokerage (prior to classification as a discontinued operation (note 32)), leasing services, asset management services, and other integrated financial products and services.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Credit Union's business remains uncertain and difficult to predict at this time.

2. Basis of preparation:

(a) Statement of compliance:

The 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 were authorized for issue by the Board of Directors on March 15, 2021.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

(*i*) financial instruments measured at fair value; and

(*ii*) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional currency:

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

3. Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions have changed.

The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the economies and the Credit Union's business remains uncertain and difficult to predict at this time. By their very nature, the judgments and estimates we make for the purposes of preparing

3. Use of estimates and judgments (continued):

our financial statements relate to matters that are inherently uncertain. However, we have detailed policies and internal controls that are intended to ensure these judgments and estimates are well controlled, independently reviewed, and our policies are consistently applied from period to period. We believe that our estimates of the value of our assets and liabilities are appropriate as at December 31, 2020.

The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Expected credit losses on loans to members:

The Credit Union regularly reviews its loan portfolio to assess for impairment using the "expected credit loss" ("ECL") model under IFRS 9. The ECL model requires the recognition of credit losses based on 12-months of expected losses for performing loans ("Stage 1") and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination ("Stage 2"). Credit impaired loans require recognition of lifetime losses ("Stage 3"). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

The calculation of 12-month expected losses for Stage 1 loans and lifetime expected losses for Stage 2 loans and credit-impaired loans requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward looking information and forecasts of macroeconomic conditions to the Credit Union's ECL and expected remaining lives of the loans. Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the consolidated financial statements.

In addition, the COVID-19 outbreak has directly impacted the measurement of the ECL. A higher level of uncertainty with respect to future economic outlook has resulted in an increased reliance on management's judgement to determine the data and assumptions used in the ECL model. Management has applied adjustments for the quantitative and qualitative impacts of the unprecedented macroeconomic scenarios.

(b) Income taxes:

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate applicable to credit unions under the Income Tax Act. An estimate of deposit, share and income growth based on the modeling of the Credit Union's business plan inclusive of economic indicators provides the basis in determining the applicability of the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, profit or loss would be affected in the subsequent year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(c) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, the Credit Union uses

3. Use of estimates and judgments (continued):

its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the Credit Union's financial investments are provided in note 30.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as otherwise noted.

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union and its subsidiaries: First West Insurance Services Ltd., FW Wealth Management Ltd., First West Leasing Ltd., FWCU Capital Corp., 619547 BC Ltd., and 637506 BC Ltd. (up until disposal in fiscal 2020 (note 32)). All inter-corporate transactions and balances have been eliminated in preparing the consolidated financial statements.

(*i*) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Credit Union. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Credit Union takes into consideration potential voting rights that currently are exercisable.

The Credit Union measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Credit Union elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Credit Union incurs in connection with a business combination are expensed as incurred.

(*ii*) Subsidiaries:

Subsidiaries are entities controlled by the Credit Union. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Foreign currency:

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments

4. Significant accounting policies (continued):

(b) Foreign currency (continued):

during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Discontinued operation:

A discontinued operation is a component of the Credit Union's business, the operations and cash flows of which can be clearly distinguished from the rest of the Credit Union and which; represents a separate major line of business or geographic area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or, is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss is represented as if the operation had been discontinued from the start of the comparative year.

(d) Interest:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and basis points to be paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

(*i*) interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

(*ii*) interest on investment securities measured at FVOCI calculated on an effective interest basis;

(*iii*) the ineffective portion of fair value changes in qualifying hedging derivatives designated as cash flow hedges of variability in interest cash flows; and

(*iv*) interest and expense on settlement of derivative contracts.

(e) Fees and commissions:

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized in the period the related performance obligations are satisfied.

For performance obligations that are satisfied over time, revenue is recognized over the period that the services are performed. For performance obligations that are satisfied at a point in time, revenue is recognized when the member obtains control of the promised good or service.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4. Significant accounting policies (continued):

(f) Dividends:

Dividend income is recognized when the right to receive income is established. Dividends are reflected as other income based on the classification of the underlying equity investment.

(g) Leases:

(*i*) Lease definition:

At the inception of a contract, the Credit Union assesses whether a contract is or contains a lease based on the definition of 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.

(*ii*) Recognition and measurement:

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

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

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

(h) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4. Significant accounting policies (continued):

(h) Income taxes (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(i) Financial assets and financial liabilities:

(*i*) Recognition:

The Credit Union initially recognizes loans, deposits, and borrowings on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(*ii*) Classification:

Financial assets:

On initial recognition, a financial asset is classified as measured at:

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*ii*) Classification (continued):

Financial assets (continued):

Business model assessment:

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice;

– how the performance of the portfolio is evaluated and reported to the Credit Union's management;

– the strategy of how the risks that affect the performance model are managed; and

– frequency, volume and timing of sales in prior periods and the expectations about future sales activities are considered as part of the overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved.

Assessment of whether contractual cash flows are SPPI:

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Credit Union considers:

– contingent events that would change the amount and timing of cash flows;

– prepayment and extension terms; and

– terms that may adjust the contractual coupon rate.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union's business models during 2020 or 2019.

Financial liabilities:

The Credit union classifies its financial liabilities, other than financial guarantees and loan commitments, measured at amortized cost or fair value through profit or loss. See notes 4(k) and 4(r).

(*iii*) Derecognition:

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*iii*) Derecognition (continued):

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

The Credit Union periodically transfers loans to Special Purpose Entities ("SPE's") through securitizations or through transfers to independent third parties. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivables to a transferee, the Credit Union fails de-recognition of the transferred receivables and records a secured borrowing with respect to any consideration received.

(*iv*) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(*v*) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(*vi*) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants on the measurement date.

Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions used in valuation techniques include risk free and benchmark interest rates, credit spreads and discount rates.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate swaps and equity linked options that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the uncertainty associated with determining fair values.

For more complex instruments, the Credit Union uses proprietary valuation models, which are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Instruments involving significant unobservable inputs include certain mortgage investments and shares for which there is no active market and retained

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vi*) Fair value measurement (continued):

interest in securitizations. Management judgment and estimation are required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Financial instruments classified at FVTPL are measured at fair value, with fair value changes recognized immediately in profit or loss.

For financial assets classified as measured at FVOCI, or an irrevocable election has been made, changes in fair value is recognized in OCI. For equity investments measured at FVOCI, the amounts recognized in OCI are never reclassified to profit and loss.

(*vii*) Identification and measurement of impairment:

The Credit Union recognizes a loss allowance for ECL at each reporting date for all financial assets that are measured at amortized cost and debt instruments measured at FVOCI.

Loss allowances are measured on either of the following bases:

– 12-month ECL: these are losses that result from possible default events within the 12-months after the reporting date; and
– lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition.

Assessment of significant increase in credit risk:

The assessment of significant increase in credit risk considers information about past events and current conditions, as well as, reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and borrower credit conditions. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. In cases where borrowers have opted to participate in payment deferral programs we offered as a result of the COVID-19 pandemic, deferred payments are not considered to be past due and were not necessarily considered an immediate trigger of significant increase in credit risk.

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assesses at each reporting date whether there has been a significant increase in credit risk (“SICR”). In assessing whether a SICR has occurred, the Credit Union considers quantitative factors and qualitative factors.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Assessment of significant increase in credit risk (continued):

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds, the backstop criterion based on delinquency has been met, or other portfolio specific considerations.

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans to members, the backstop criterion is met when an account is 30-days past due and will be transferred to Stage 2.

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

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

Measurement of ECL:

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD").

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

Probability of default:

ECLs for Stage 1 assets and lifetime ECLs for Stage 2 and Stage 3 assets are calculated using the 12-month PDs and lifetime PDs, respectively and are determined as follows:

- Residential mortgages, personal loans and lines of credit - based on credit scores, and the average historical annual default rate for the relevant PD segment.
- Commercial mortgages, loans and lines of credit - based on the current internal risk ratings assigned to the assets and the historical bond default rates provided by Moody's Investors Service, Inc., mapped to the relevant PD segment.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

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

Loss given default:

The LGD reflects the Credit Union's estimate of cash shortfalls in the event of default. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward-looking information and macroeconomic factors:

- The forward-looking information ("FLI") component represents management's estimate of the impact of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECLs.
- The forward looking and macroeconomic factors considered in determining the FLI inputs to the ECL calculation are GDP, interest rates, debt ratio, house pricing index and unemployment rate.

Exposure at default:

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

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

Time value of money:

The 12-month and lifetime ECLs at the reporting date represent the present value of the expected cash shortfalls resulting from the probability of defaults occurring over the relevant period after the reporting date. The cash shortfalls have been discounted to the reporting date using the effective interest rate of the underlying loans.

Credit-impaired financial assets:

At each reporting date, the Credit Union assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

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

In addition to qualitative considerations, the Credit Union applies the following quantitative thresholds for identifying loans to members that are credit-impaired:

- commercial mortgages, loans and lines of credit with an internal risk rating of R9 - R10 (risk rated poor); or
- the borrower is more than 90-days past due on any credit obligation.

Write-off policy:

When a financial asset is credit-impaired and the Credit Union has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof, the carrying amount of the unrecoverable portion is written off, constituting a derecognition event.

(j) Cash resources:

Cash resources comprise unrestricted balances held with Central 1 Credit Union ("Central 1") and highly liquid financial assets with original maturities of less than three months from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash resources are carried at amortized cost in the consolidated statement of financial position.

(k) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other indices. In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps, caps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset and liability management program.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes qualitative and quantitative assessments, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. The Credit Union makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

4. Significant accounting policies (continued):

(k) Derivatives and hedge accounting (continued):

(*i*) Cash flow hedges:

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the amount recognized in accumulated other comprehensive income is reclassified through other comprehensive income to profit or loss as a reclassification adjustment in the same period the previously hedged cash flows affect profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other accumulated comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(l) Loans to members:

Loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as amortized cost.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment.

(m) Investments:

Investments are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification.

(n) Assets held-for-sale:

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets, which continue to be measured in accordance with the Credit Union's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and premises and equipment are no longer amortized or depreciated.

4. Significant accounting policies (continued):

(o) Premises and equipment:

Premises and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Buildings	40 years
Other equipment	3 to 10 years
Leasehold improvements	Lease term

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

(p) Intangible assets:

Intangible assets consist of computer software, goodwill, ICBC licenses and customer lists. Goodwill, ICBC licenses and customer lists arose from the acquisition of the Credit Union's subsidiaries. Intangible assets are initially recorded at cost. Intangible assets with finite lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Goodwill	Indefinite
ICBC licenses	Indefinite
Software	3 to 10 years
Customer list	7 to 10 years

Indefinite life intangible assets, including goodwill, are assessed for impairment at least annually. All other intangible assets are assessed for impairment when impairment indicators are identified. When an impairment-triggering event has occurred, any excess of carrying value over fair value is charged to profit or loss in the period in which impairment is determined.

(q) 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. When the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating-unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

4. Significant accounting policies (continued):

(r) Deposits from members and borrowings:

Deposits from members and borrowings are the Credit Union's sources of primary funding.

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits from members and borrowings are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(s) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with that contract.

(t) Employee benefits:

The Credit Union operates various pension plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit pension plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability is recognized in the Credit Union's consolidated statement of financial position. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income as they are incurred.

(*ii*) Post-employment health care benefits:

The Credit Union operates a number of post-employment health care benefit plans. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

(*iii*) Defined contribution pension plans:

For defined contribution plans, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

4. Significant accounting policies (continued):

(t) Employee benefits (continued):

(*iv*) Participation in multi-employer pension plans:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by Central 1. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed the Credit Union that they are not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, the Credit Union's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 26.

5. New accounting standards and interpretations not yet effective:

There are no standards issued, but which are not yet effective as of December 31, 2020, which are expected to materially impact the Credit Union's future financial statements.

6. Financial risk management:

(a) Introduction and overview:

The Credit Union is exposed to the following risks from holding financial instruments: credit risk, liquidity risk, market risk, operational risk and capital adequacy risk. The following is a description of those risks and how the Credit Union manages them.

(b) Credit risk:

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in note 10; but also from derivatives as described in note 9.

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include related entities risk, geographic and industry factors.

Management of credit risk:

Credit risk is managed in accordance with our Credit and Counterparty Risk Governing policy approved by the Board of Directors. Risk limits and credit authorities are delegated to the Management Credit Risk Committee, comprised of executive and senior credit management staff, which in turn delegates appropriate limits to lending staff. Credit exposures in excess of certain levels require approval from the Management Credit Risk Committee.

The Risk, Investment and Loan Committee ("RIL") of the board meets quarterly to review portfolio credit quality, industry and member concentrations, and adequacy of loan allowances. Policies relating to single member limits and industry and geographic concentration are approved by the Board.

The Credit Union's Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and reviews branch credit decisions to ensure compliance to policy. The Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

6. Financial risk management (continued):

(b) Credit risk (continued):

Loan exposures are managed and monitored through facility limits for individual borrowers, credit type, industry exposure and a credit review process. These reviews ensure the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

Credit quality and credit risk exposure:

The following tables set out information about the credit quality of the Credit Union's loans to members measured at amortized cost, by category of loss allowance at December 31, 2020 and 2019. The amounts in the table represent the carrying amounts of loans to members.

At December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,979,784	$ -	$ -	$ 1,979,784
Credit score 710 - 799 (good - very good)	1,878,736	-	339	1,879,075
Credit score 650 - 709 (fair - good)	668,558	14,244	916	683,718
Credit score 600 - 649 (poor)	145,332	78,281	1,865	225,478
Credit score < 600 (less than satisfactory)	24,280	106,599	3,034	133,913
Deferred fees	7,052	299	9	7,360
Loss allowance	(1,996)	(2,283)	(520)	(4,799)
	$ 4,701,746	$ 197,140	$ 5,643	$ 4,904,529
Personal:				
Credit score > 800 (excellent)	$ 387,562	$ 5	$ 79	$ 387,646
Credit score 710 - 799 (good - very good)	261,780	74	-	261,854
Credit score 650 - 709 (fair - good)	95,971	2,216	-	98,187
Credit score 600 - 649 (poor)	18,220	10,220	-	28,440
Credit score < 600 (less than satisfactory)	3,314	10,022	118	13,454
Deferred fees	-	-	-	-
Loss allowance	(3,555)	(3,738)	(103)	(7,396)
	$ 763,292	$ 18,799	$ 94	$ 782,185
Commercial:				
R1 - R2 (excellent - good)	$ 261,852	$ -	$ -	$ 261,852
R3 (satisfactory)	2,785,744	370	10	2,786,124
R4 - R6 (less than satisfactory)	231,040	142,420	42	373,502
R7 - R8 (unsatisfactory)	-	13,288	16,545	29,833
R9 - R10 (credit-impaired)	-	-	22,424	22,424
Deferred fees	(2,344)	(112)	(28)	(2,484)
Loss allowance	(4,110)	(3,834)	(23,453)	(31,397)
	$ 3,272,182	$ 152,132	$ 15,540	$ 3,439,854

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

At December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,194,809	$ 43,563	$ 200	$ 1,238,572
Credit score 710 - 799 (good - very good)	2,085,737	171,737	897	2,258,371
Credit score 650 - 709 (fair - good)	802,630	169,010	2,408	974,048
Credit score 600 - 649 (poor)	248,360	50,809	2,764	301,933
Credit score < 600 (less than satisfactory)	120,320	23,760	857	144,937
Deferred fees	6,990	721	11	7,722
Loss allowance	(2,019)	(5,742)	(495)	(8,256)
	$ 4,456,827	$ 453,858	$ 6,642	$ 4,917,327
Personal:				
Credit score > 800 (excellent)	$ 375,752	$ 48	$ -	$ 375,800
Credit score 710 - 799 (good - very good)	321,326	361	76	321,763
Credit score 650 - 709 (fair - good)	110,809	6,090	3	116,902
Credit score 600 - 649 (poor)	20,861	18,355	-	39,216
Credit score < 600 (less than satisfactory)	7,457	43,049	474	50,980
Deferred fees	-	-	-	-
Loss allowance	(2,842)	(8,523)	(302)	(11,667)
	$ 833,363	$ 59,380	$ 251	$ 892,994
Commercial:				
R1 - R2 (excellent - good)	$ 156,876	$ 23	$ 5	$ 156,904
R3 (satisfactory)	2,864,610	2,160	332	2,867,102
R4 - R6 (less than satisfactory)	205,712	20,331	542	226,585
R7 - R8 (unsatisfactory)	-	53,451	12,699	66,150
R9 - R10 (credit-impaired)	-	-	20,352	20,352
Deferred fees	(2,176)	(51)	(23)	(2,250)
Loss allowance	(1,889)	(1,373)	(19,571)	(22,833)
	$ 3,223,133	$ 74,541	$ 14,336	$ 3,312,010

The following table presents the maximum exposure to credit risk of on balance sheet and off-balance sheet financial instruments. For financial assets recognized on the balance sheet, the maximum exposure to credit risk without taking account of any collateral held, equals their carrying amount. For loan commitments and other credit-related commitments that are irrevocable, the maximum exposure to credit risk without taking account of any collateral held, is the full amount of the committed facilities.

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

		2020		2019
Exposure recognized on the consolidated statement of financial position:				
Loans and accrued interest	$	9,186,341	$	9,182,188
Derivatives (net)		29,485		19,377
Term deposits and other securities		2,492,124		1,351,513
Other assets		166,018		243,537
		11,873,968		10,796,615
Exposure not recognized on the consolidated statement of financial position:				
Letters of credit		74,371		88,803
Unadvanced loans and lines of credit		1,955,034		1,830,391
		2,029,405		1,919,194
Maximum exposure	$	13,903,373	$	12,715,809

Collateral and other credit enhancements:

It is our lending policy to assess the member's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the member's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

Concentrations of credit risk:

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, or otherwise related. This risk may indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk is mitigated through the Credit Union's diversified geographic service area including the Lower Mainland, Fraser Valley, Thompson-Okanagan, Okanagan-Similkameen, Southern Vancouver Island and North Western British Columbia areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 13% (2019 - 11%) of its residential mortgages insured against credit loss.

(c) Liquidity risk:

Liquidity risk is the risk of the Credit Union being unable to meet its near-term obligations in a timely manner without incurring significant costs in the process. This is usually a result of the inability to convert securities or other hard assets into cash, without incurring a significant loss on the value of those assets.

Liquidity risk is managed in accordance with our liquidity policy approved by the Board of Directors. The liquidity policy of the Credit Union is that liquidity is managed on both an operational and strategic level on a total basis. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. Contingent liquidity is managed within the board approved Liquidity Contingency Plan that can be invoked quickly, utilizing diversified funding sources that can be accessed when needed. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The liquidity deposits must be

6. Financial risk management (continued):

(c) Liquidity risk (continued):

held on deposit with the Central 1 Credit Union as per the Credit Union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits from members and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2020 the Credit Union's liquidity exceeds minimum statutory requirements by $1,538.3 million (2019 - $471.7 million).

(d) Market risk:

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), the correlations between them and their levels of volatility. The principal market risk to which the Credit Union is exposed to is the risk of loss from fluctuations in the future cash flows of a financial instrument because of changes in interest rates.

Interest rate risk arises when the market values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This interest rate risk includes yield curve risk, basis risk, optionality risk and interest rate path risk.

The primary objectives of the Credit Union's market risk management process include: maximize earnings and return on capital within acceptable and controllable levels of the above risks; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain policies and procedures that are consistent with the short and long term strategic goals of the Board of Directors. The Asset Liability Committee ("ALCO") provides tactical and strategic direction and is responsible for ongoing oversight, review, and endorsement of operational guidelines on a regular basis. ALCO is assisted by Treasury in its day-to-day monitoring activities.

The Credit Union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12-months based on the current balance sheet structure and the scheduled maturity and re-pricing of the balance sheet. Several hundred randomly generated interest rate paths composed around a base rate forecast, a volatility % of randomly generated key rates; and assumptions regarding member behaviour and changes in composition of assets and liabilities which models the forecasts.

Growth assumptions are based on business plans. Member behaviour assumptions to assess embedded options in deposit and loan portfolios are based on analysis of trend information and management judgment.

The Credit Union will assess the results of the monthly forecast simulations. The maximum allowable risk exposure will be as follows:

Earnings at risk:

Earnings at risk is defined as the percentage of the reduction in the financial margin given a 1% increase and decrease in interest rates. A reduction in financial margin is not to exceed 10% of the next 12-months' financial margin resulting from this test.

Duration of equity:

The effective duration of equity is defined as the percentage change in the market value of equity (retained earnings, equity shares and derivatives) given a 1% range change in interest rates. The 1% change will consist of a 50-bp shock up and a 50-bp shock down. Given this 1% change, the effective duration of equity will not exceed a maximum of 10%.

6. Financial risk management (continued):

(d) Market risk (continued):

The following table shows the results of these forecast simulations as at December 31, 2020 and 2019:

	Policy limit	2020	Impact	2019	Impact
Earnings at risk	10%	0.77%	$ (1,684)	5.2%	$ (11,278)
Duration of equity	+/-10%	2.9%	-	3.5%	-

As at December 31, 2020 and 2019, the Credit Union was within policy limits.

(e) Capital management:

The Credit Union is regulated under the Act and is required to maintain a capital level at a minimum of 8% of risk-weighted assets.

When determining the sufficiency of capital, the Credit Union includes in its calculation amounts permitted by the Act including:

- retained earnings and contributed surplus;
- equity shares;
- system capital; and
- other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority.

Total capital above is reduced by:

- goodwill and other intangible assets;
- investments with banks/trusts and other;
- securitization deferred payment accounts; and
- investment in Venture Capital Corporations.

As at December 31, 2020 and 2019, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2020	2019
Primary capital	$ 827,576	$ 766,345
Secondary capital	123,455	114,550
Deductions from capital	(20,463)	(4,798)
Total capital	$ 930,568	$ 876,097

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by Board of Directors and take into account forecasted capital needs and market trends. The goal is to maintain adequate regulatory capital to meet the Credit Union's capital requirement, protect member deposits, and provide capacity for internally generated growth and strategic opportunities. Effective procedures and controls are established by management to achieve this goal and appropriate reporting is provided to Board of Directors on capital position and procedures and controls for managing the capital on a regular basis.

6. Financial risk management (continued):

(e) Capital management (continued):

In addition to the regular risk management practices, the Credit Union has developed a stress testing program that provides complimentary view on risk exposure and potential capital needs. A sufficient number of scenarios are performed to ensure capital level is sufficient to support the strategy.

A three-year capital plan is reviewed and approved by the Board of Directors annually.

Distributions of capital, such as share dividends, are only made after targets in the capital plan have been met. Each distribution must be approved by the Board of Directors.

The RIL is responsible for developing and conducting an annual review of capital management procedures relative to the policy requirements established. The RIL reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the RIL, reviews any written correspondence from the BC Financial Services Authority ("BCFSA") regarding capital management matters, and investigates and responds as appropriate.

7. Financial assets and liabilities:

The tables below set out the classifications and carrying amounts of the Credit Union's financial assets and liabilities as at December 31, 2020 and 2019:

2020	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ -	$ 1,386,162	$ -	$ -	$ 1,386,162
Derivative assets	29,485	-	-	-	29,485
Loans to members	-	9,142,749	-	-	9,142,749
Other assets	-	166,018	-	-	166,018
Term deposits and other	247,672	784,262	3500	502	1,035,936
Investment in pooled funds	218,783	-	-	-	218,783
Derivative liabilities	4,958	-	-	-	4,958
Deposits from members	-	10,537,238	-	-	10,537,238
Borrowings	-	600,670	-	-	600,670
Accounts payable and accrued liabilities	-	159,881	-	-	159,881

2019	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ -	$ 260,852	$ -	$ -	$ 260,852
Derivative assets	19,377	-	-	-	19,377
Loans to members	-	9,139,432	-	-	9,139,432
Other assets	-	243,537	-	-	243,537
Term deposits and other	152,534	876,320	3,500	502	1,032,856
Investment in pooled funds	158,991	-	-	-	158,991
Derivative liabilities	6,823	-	-	-	6,823
Deposits from members	-	9,651,799	-	-	9,651,799
Borrowings	-	412,766	-	-	412,766
Accounts payable and accrued liabilities	-	145,411	-	-	145,411

8. Cash resources:

		2020		2019
Cash and current accounts	$	148,757	$	101,186
Term deposits and accrued interest		1,237,405		159,666
	$	1,386,162	$	260,852

9. Derivatives:

	Fair value							
	2020				2019			
		Asset		Liability		Asset		Liability
Interest rate swaps used to manage interest rate risk:								
Receive fixed swaps	$	17,928	$	-	$	3,569	$	6,823
Pay fixed swaps		-		4,958		1,018		-
Other derivatives:								
Equity linked options		11,557		-		14,790		-
Total fair value	$	29,485	$	4,958	$	19,377	$	6,823

The fair value of derivatives includes net accrued interest receivable (payable) of $923 (2019 - $(357)).

	Notional amount							
		Within 1-year		Over 1-year		2020		2019
Interest rate swaps used to manage interest rate risk:								
Receive fixed swaps	$	245,000	$	550,000	$	795,000	$	1,345,000
Pay fixed swaps		-		100,000		100,000		100,000
		245,000		650,000		895,000		1,445,000
Other derivatives:								
Equity linked options		73,259		167,307		240,566		301,670
Total notional amount	$	318,259	$	817,307	$	1,135,566	$	1,746,670

9. Derivatives (continued):

The following table summarizes the time periods in which the hedged cash flows are expected to occur and affect profit or loss:

2020	Expected cash flows	Less than 1-year	1 to 5 years	Greater than 5-years
Assets	$ 20,369	$ 12,604	$ 7,765	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 20,369	$ 12,604	$ 7,765	$ -

2019	Expected cash flows	Less than 1-year	1 to 5 years	Greater than 5-years
Assets	$ 68,814	$ 32,300	$ 36,514	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 68,814	$ 32,300	$ 36,514	$ -

During the year, the Credit Union recognized a loss of $327 (2019 - $289) for ineffectiveness in cash flow hedges, which is recognized in net interest income in the statement of profit or loss.

10. Loans to members:

(a) Loans to members measured at amortized cost as at December 31:

	2020	2019
Residential mortgages	$ 4,909,328	$ 4,925,583
Personal:		
Personal loans	57,068	71,799
Personal lines of credit	732,513	832,862
Commercial:		
Commercial mortgages	3,238,214	3,042,951
Commercial loans	140,396	176,479
Commercial lines of credit	92,641	115,413
Accrued interest	16,181	17,101
	9,186,341	9,182,188
Allowance for expected credit losses	(43,592)	(42,756)
	$ 9,142,749	$ 9,139,432

10. Loans to members (continued):

(b) Reconciliation of allowance for ECL for the year ended December 31:

2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance, December 31, 2019	$ 2,019	$ 5,742	$ 495	$ 8,256
Net remeasurement	484	(3,161)	(84)	(2,761)
Originations	515	252	-	767
Derecognitions and maturities	(369)	(835)	(187)	(1,391)
Transfers to (from):				
Stage 1	(652)	-	-	(652)
Stage 2	-	297	-	297
Stage 3	-	-	355	355
Gross write-offs	(1)	(12)	(59)	(72)
Balance, December 31, 2020	$ 1,996	$ 2,283	$ 520	$ 4,799
Personal:				
Balance, December 31, 2019	$ 2,842	$ 8,523	$ 302	$ 11,667
Net remeasurement	1,990	(4,898)	375	(2,533)
Originations	521	298	-	819
Derecognitions and maturities	(340)	(811)	(95)	(1,246)
Transfers to (from):				
Stage 1	(1,182)	-	-	(1,182)
Stage 2	-	1,085	-	1,085
Stage 3	-	-	97	97
Gross write-offs	(276)	(459)	(576)	(1,311)
Balance, December 31, 2020	3,555	3,738	103	7,396
Commercial:				
Balance, December 31, 2019	1,889	1,373	19,571	22,833
Net remeasurement	12,966	1,307	16,361	30,634
Originations	689	113	784	1,586
Derecognitions and maturities	(267)	(137)	(55)	(459)
Transfers to (from):				
Stage 1	(11,073)	-	-	(11,073)
Stage 2	-	1,180	-	1,180
Stage 3	-	-	9,893	9,893
Gross write-offs	(94)	(2)	(23,101)	(23,197)
Balance, December 31, 2020	4,110	3,834	23,453	31,397
Total loans to members:				
Balance, December 31, 2019	6,750	15,638	20,368	42,756
Net remeasurement	15,440	(6,752)	16,652	25,340
Originations	1,725	663	784	3,172
Derecognitions and maturities	(976)	(1,783)	(337)	(3,096)
Transfers to (from):				
Stage 1	(12,907)	-	-	(12,907)
Stage 2	-	2,562	-	2,562
Stage 3	-	-	10,345	10,345
Gross write-offs	(371)	(473)	(23,736)	(24,580)
Balance, December 31, 2020	$ 9,661	$ 9,855	$ 24,076	$ 43,592

10. Loans to members (continued):

(b) Reconciliation of allowance for ECL for the year ended December 31 (continued):

2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance, December 31, 2018	$ 1,922	$ 5,920	$ 303	$ 8,145
Net remeasurement	2,003	(2,789)	(9)	(795)
Originations	541	1,491	-	2,032
Derecognitions and maturities	(242)	(701)	(139)	(1,082)
Transfers to (from):				
Stage 1	(2,203)	-	-	(2,203)
Stage 2	-	1,823	-	1,823
Stage 3	-	-	380	380
Gross write-offs	(2)	(2)	(40)	(44)
Balance, December 31, 2019	$ 2,019	$ 5,742	$ 495	$ 8,256
Personal:				
Balance, December 31, 2018	$ 3,124	$ 8,308	$ 447	$ 11,879
Net remeasurement	814	(4,528)	676	(3,038)
Originations	1,495	4,534	103	6,132
Derecognitions and maturities	(350)	(1,022)	(405)	(1,777)
Transfers to (from):				
Stage 1	(1,935)	-	-	(1,935)
Stage 2	-	1,765	-	1,765
Stage 3	-	-	170	170
Gross write-offs	(306)	(534)	(689)	(1,529)
Balance, December 31, 2019	2,842	8,523	302	11,667
Commercial:				
Balance, December 31, 2018	1,249	5,530	1,640	8,419
Net remeasurement	7,293	(2,565)	500	5,228
Originations	820	578	10,400	11,798
Derecognitions and maturities	(383)	(867)	(500)	(1,750)
Transfers to (from):				
Stage 1	(7,035)	-	-	(7,035)
Stage 2	-	(1,277)	-	(1,277)
Stage 3	-	-	8,312	8,312
Gross write-offs	(55)	(26)	(781)	(862)
Balance, December 31, 2019	1,889	1,373	19,571	22,833
Total loans to members:				
Balance, December 31, 2018	6,295	19,758	2,390	28,443
Net remeasurement	10,110	(9,882)	1,167	1,395
Originations	2,856	6,603	10,503	19,962
Derecognitions and maturities	(975)	(2,590)	(1,044)	(4,609)
Transfers to (from):				
Stage 1	(11,173)	-	-	(11,173)
Stage 2	-	2,311	-	2,311
Stage 3	-	-	8,862	8,862
Gross write-offs	(363)	(562)	(1,510)	(2,435)
Balance, December 31, 2019	$ 6,750	$ 15,638	$ 20,368	$ 42,756

10. Loans to members (continued):

(c) Forecasting forward-looking information:

Forward-looking information is incorporated into both the assessment of whether a loan has experienced a SICR since its initial recognition and the estimation of ECL. The models used to estimate ECL consider macroeconomic factors that are most closely correlated with credit risk in the relevant portfolios.

COVID-19 and the measures taken by Canadian federal, provincial and municipal governments to limit its spread have had a material adverse impact on the Canadian economy. To mitigate the economic impact, governments enacted policy measures to provide economic stimulus and financial support to individuals and businesses, and to settle financial market volatility.

The forward-looking macroeconomic scenario described below reflects our best estimate as at December 31, 2020. The rapidly evolving nature of this pandemic and its impacts on the economy, along with government relief and stimulus, has led to continuously changing macroeconomic assumptions. Hindsight cannot be used, so while these evolving assumptions may result in future forecasts that differ from those used in the ECL estimation as at December 31, 2020, those changes will be reflected in future years.

The primary macroeconomic variables impacting ECL for the residential mortgage, personal and commercial portfolios are the unemployment rate in B.C., change in house pricing index in B.C., change in real GDP, the 3-month Bankers' Acceptance Rate, the 3-month Government of Canada bond rate, and change in debt ratio. These primary macroeconomic variables for the next 12-months and for the remaining forecast period thereafter, used to estimate ECL, are as follows:

	Base-case scenario	
	Net 12-months (%)	Remaining forecast period (%)
Unemployment Rate – BC (average %)	6.8	5.2
Change in house pricing Index – BC	3.1	9.4
Change in real GDP	4.6	7.6
3-month Bankers' Acceptance Rate (average %)	0.3	1.2
3-month Government of Canada Bond Rate (average %)	0.2	0.8
Change in debt ratio	0.6	5.0

We make forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECLs. During 2020 and 2019, the base case scenario was assigned an 80% probability of occurring and the two less likely scenarios, upside and downside, were assigned a 10% probability of occurring. Multiple scenarios are forecasted to ensure that estimates of ECLs are unbiased.

The following table presents a comparison of the Credit Union's ECL using only the base-case scenario and downside scenario instead of the probability-weighted scenarios for performing loans:

	2020	2019
ECL – Three probability-weighted (actual)	$ 43,592	$ 42,756
ECL – Base-case scenario only	43,489	42,582
ECL – Downside scenario only	45,508	47,038
Difference – Actual versus base-case scenario	$ 103	$ 174
Difference – Actual versus downside scenario	(1,916)	(4,282)

10. Loans to members (continued):

(d) Collateral held as security for credit-impaired loans:

The fair value of the collateral held by the Credit Union as security for credit-impaired loans as at December 31, 2020 was $19,006 (2019 - $21,936). The Credit Union has estimated the fair value of the collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

As at December 31, 2020, accrued interest of $3,795 (2019 - $2,219) has been accrued on the credit-impaired loans but an allowance for ECL of $3,795 (2019 - $2,219) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

11. Investments:

	2020	2019
Central 1 Credit Union shares	$ 45,860	$ 45,096
Term deposits callable or maturing in three months or more	783,762	875,820
Leased vehicles net of accumulated amortization of $803 (2019 - $1,174)	1,349	4,278
Principal and interest reinvestment accounts	201,812	107,438
Investment in pooled funds	218,783	158,991
Other	4,502	4,502
	$ 1,256,068	$ 1,196,125

Investment in shares of Central 1 Credit Union are required by governing legislation and are a condition of membership in Central 1 Credit Union.

Amortization, for the year, in respect to leased vehicles amounted to $309 (2019 - $542).

12. Premises and equipment:

Premises and equipment comprise owned and leased assets:

	2020	2019
Premises and equipment owned	$ 72,680	$ 55,144
Right-of-use assets	54,826	56,515
	$ 127,506	$ 111,659

Premises and equipment owned 2020	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2019	$ 8,555	$ 30,292	$ 35,146	$ 29,983	$ 103,976
Acquisitions	-	20,778	2,425	2,634	25,837
Disposals	-	(1,801)	(4,997)	(13,521)	(20,319)
Transferred to held-for-sale	(276)	(1,041)	-	-	(1,317)
Balance, December 31, 2020	$ 8,279	$ 48,228	$ 32574	$ 19,096	$ 108,177
Accumulated depreciation and impairment losses:					
Balance, December 31, 2019	$ -	$ 9,305	$ 19,042	$ 20,485	$ 48,832
Disposals	-	(1,630)	(5,020)	(13,512)	(20,162)
Depreciation	-	1,159	3,170	2,882	7,211
Transferred to held-for-sale	-	(384)	-	-	(384)
Balance, December 31, 2020	$ -	$ 8,450	$ 17,192	$ 9,855	$ 35,497
Carrying amounts:					
Balance, December 31, 2020	$ 8,279	$ 39,778	$ 15,382	$ 9,241	$ 72,680

12. Premises and equipment (continued):

Premises and equipment owned 2019		Land		Buildings		Leasehold improvements		Other equipment		Total
Cost:										
Balance, December 31, 2018	$	11,638	$	33,790	$	39,309	$	40,781	$	125,518
Acquisitions		-		3,742		3,410		1,691		8,843
Disposals		(240)		(568)		(7,573)		(12,489)		(20,870)
Transferred to held-for-sale		(2,843)		(6,672)		-		-		(9,515)
Balance, December 31, 2019	$	8,555	$	30,292	$	35,146	$	29,983	$	103,976
Accumulated depreciation and impairment losses:										
Balance, December 31, 2018	$	-	$	10,297	$	23,010	$	29,006	$	62,313
Disposals		-		(177)		(6,928)		(12,348)		(19,453)
Depreciation		-		1,507		2,960		3,827		8,294
Transferred to held-for-sale		-		(2,322)		-		-		(2,322)
Balance, December 31, 2019	$	-	$	9,305	$	19,042	$	20,485	$	48,832
Carrying amounts:										
Balance, December 31, 2019	$	8,555	$	20,987	$	16,104	$	9,498	$	55,144

Right-of-use assets 2020		Buildings		Other equipment		Total
Balance, December 31, 2019	$	55,574	$	941	$	56,515
Additions/lease modifications		5,011		-		5,011
Disposals		(640)		-		(640)
Depreciation		(5,839)		(221)		(6,060)
Balance, December 31, 2020	$	54,106	$	720	$	54,826

Right-of-use assets 2019		Buildings		Other equipment		Total
Balance, January 1, 2019		66,148		1,107		67,255
Additions/lease modifications		1,834		-		1,834
Disposals		(6,443)		-		(6,443)
Depreciation		(5,965)		(166)		(6,131)
Balance, December 31, 2019	$	55,574	$	941	$	56,515

13. Intangible assets:

2020	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 23,344	$ 24,117
Acquisitions	-	-	-	16,789	16,789
Disposals	-	(600)	-	(5,838)	(6,438)
Balance, December 31, 2020	$ 173	$ -	$ -	$ 34,295	$ 34,468
Accumulated amortization and impairment losses:					
Balance, December 31, 2019	$ -	$ -	$ -	$ 17,358	$ 17,358
Disposals	-	-	-	(5,838)	(5,838)
Amortization	-	-	-	2,312	2,312
Balance, December 31, 2020	$ -	$ -	$ -	$ 13,832	$ 13,832
Carrying amounts:					
Balance, December 31, 2020	$ 173	$ -	$ -	$ 20,463	$ 20,636

2019	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2018	$ 11,915	$ 15,680	$ 2,205	$ 24,443	$ 54,243
Acquisitions	-	-	-	1,188	1,188
Disposals	(11,742)	(15,080)	(2,205)	(2,287)	(31,314)
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 23,344	$ 24,117
Accumulated amortization and impairment losses:					
Balance, December 31, 2018	$ 1,294	$ -	$ 1,543	$ 15,552	$ 18,389
Disposals	(1,294)	-	(1,543)	(1,070)	(3,907)
Amortization	-	-	-	2,876	2,876
Balance, December 31, 2019	$ -	$ -	$ -	$ 17,358	$ 17,358
Carrying amounts:					
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 5,986	$ 6,759

14. Other assets:

	2020	2019
Accounts receivable	$ 22,367	$ 33,918
Financing lease receivables	143,651	209,619
Prepaid expenses	25,293	19,234
	$ 191,311	$ 262,771

15. Deposits from members:

		2020		2019
Demand	$	4,380,913	$	3,384,991
Term		4,713,083		4,868,948
Registered savings plans		1,386,317		1,328,718
Class A membership shares		5,659		5,706
Accrued interest and dividends		51,266		63,436
	$	10,537,238	$	9,651,799

Credit Union Deposit Insurance Corporation ("CUDIC") guarantees all credit union deposits, with the exception of Class A shares which are not guaranteed.

Under agreements with trustees of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

Class A membership shares are preferred and redeemable, and accordingly are classified as deposits. An unlimited number of Class A voting shares are authorized with a par value of $1.

Class A shares shall be entitled to dividends at such rate, payable at such time or times, and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine.

The following table summarizes the time periods in which deposits from members are contractually payable by the Credit Union:

		Up to 1-month		1 to 3 months		3 to 12 months		1 to 3 years		Greater than 3-years		Total
2020	$	4,946,461	$	836,485	$	3,300,884	$	1,362,608	$	90,800	$	10,537,238
2019		3,880,396		748,133		3,082,157		1,838,956		102,157		9,651,799

16. Borrowings:

		2020		2019
Revolving facilities	$	100,000	$	100,000
Obligation under CMB program (note 28)		500,485		312,470
Accrued interest		185		296
	$	600,670	$	412,766

16. Borrowings (continued):

The Credit Union has three approved lines of credit totaling $685 million. Security for the first line of credit is an assignment of loans to members, accounts receivable and a demand debenture to the lender. For the second line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 105% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 110% of the approved credit facility.

Changes in borrowings arising from financing activities:

The following table summarizes the changes in borrowings arising from financing activities for the year ended December 31, 2020:

	December 31, 2019	Cash flow changes	Non-cash changes Accrued interest	December 31, 2020
Revolving facilities	$ 100,217	$ -	$ (56)	$ 100,161
Obligations under the CMB Program	312,549	188,015	(55)	500,509
	$ 412,766	$ 188,015	$ (111)	$ 600,670

17. Other liabilities:

	2020	2019
Accounts payable and accrued liabilities	$ 102,901	$ 86,939
Lease liabilities (note 18)	56,980	58,472
Deferred revenue	13,153	22,267
	$ 173,034	$ 167,678

18. Lease liabilities:

The following table presents the contractual undiscounted cash flows for lease obligations as at year end:

	2020	2019
Maturity analysis		
Less than one year	$ 7,625	$ 7,617
Between one and five years	27,724	27,490
More than five years	44,401	47,014
Total undiscounted lease liabilities	$ 79,750	$ 82,121

	2020	2019
Lease liabilities included in other liabilities:		
Less than one year	$ 4,699	$ 4,982
More than one year	52,281	53,490
Total	$ 56,980	$ 58,472

18. Lease liabilities (continued):

The Credit Union use incremental borrowing rates ranging from 4.12% to 5.11% (2019 - 5%) to discount its lease liabilities.

The following table presents amounts recognized in the consolidated statement of profit or loss not already disclosed elsewhere in the financial statements:

		2020		2019
Income from sub-leasing right-of-use assets	$	1,685	$	337
Expenses relating to short-term leases		3,692		5,041

During the year ended December 31, 2020, the total cash outflow for leases was $7,433 (2019 - $7,883).

19. Equity shares:

The Credit Union has authorized unlimited number of non-voting Class B equity shares, which have a par value and redemption value of $1 each.

The rules of the Credit Union state that the annual redemption of Class B shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class B shares shall be entitled to dividends at such rate, payable at such time or times and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

Class B equity shares are not guaranteed by CUDIC.

		Issued and outstanding		
		2020		2019
Class B non-voting investment equity shares	$	28,083	$	29,870

20. Net interest income:

		2020		2019
Interest income:				
Cash resources	$	14,055	$	21,378
Financial assets:				
Derivatives, net		4,225		(3,945)
Loans to members		312,341		342,402
Assets pledged as collateral		11,296		4,105
		341,917		363,940
Interest expense:				
Deposits from members		128,905		153,602
Secured borrowings		11,243		8,358
Wholesale borrowings		2,715		2,224
Lease liabilities		2,565		2,936
		145,428		167,120
Net interest income	$	196,489	$	196,820

21. Fee and commission income:

		2020		2019
Insurance commissions and fees	$	2,594	$	2,629
Account service fees		11,974		16,019
Loan administration fees		20,023		16,745
Fees from fiduciary activities and mutual funds		25,733		24,443
Foreign exchange		3,802		3,698
	$	64,126	$	63,534

22. Other income:

		2020		2019
Leasing revenue	$	11,851	$	13,852
Investment revenue		22,860		16,296
Other		21,518		10,360
	$	56,229	$	40,508

In 2020, the Credit Union recognized a modification gain of $4,876 on mandatory liquidity pool investments in deposit held with Central 1, in anticipation of a transition to a new statutory liquidity structure on January 1, 2021 (note 34). In addition, the Credit Union also recognized a gain of $10,120 on sale of its head office building (note 32(d)).

23. Personnel expenses:

		2020		2019
Salaries	$	107,150	$	107,865
Benefits		15,390		15,308
Pension		9,762		8,626
Other		5,817		6,886
	$	138,119	$	138,685

24. Other expenses:

		2020		2019
Administration	$	41,975	$	43,606
Data processing		25,293		23,527
Occupancy		12,816		9,701
	$	80,084	$	76,834

25. Income taxes:

		2020		2019
Current income tax	$	9,977	$	11,439
Deferred income tax		(1,516)		(2,918)
	$	8,461	$	8,521

Reconciliation of effective tax rate:

	2020 %	2019 %
Combined federal and provincial statutory tax rate	27.0	27.0
Credit Union preferred rate reduction	(10.1)	(11.1)
Other	(2.1)	0.7
	14.8	16.6

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

		2020		2019
Deferred tax assets:				
Allowance for impairment of loans	$	5,101	$	5,582
Non-capital loss carryforwards		-		10,007
Other accrued expenses		15,746		15,032
Other		13,192		45
	$	34,039	$	30,666
Deferred tax liabilities:				
Investments and other	$	3,596	$	2,702
Premises, equipment, and leases		27,064		26,102
	$	30,660	$	28,804

Deferred tax that is expected to reverse to the year 2030 has been measured using the effective rate that will apply for the period, which is 20.64% (2019 - 21.00%). The weighted average applicable tax rate was 22.53% (2019 - 21.84%).

As at December 31, 2020, deferred tax liabilities for temporary differences of $26,901 (2019 - $81,609) were not recognized as the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

A subsidiary of the Credit Union declared and paid dividends to the Credit Union which resulted in an income tax recovery of $12,799 to the subsidiary in 2020. Further details are provided in note 32.

26. Pension and post-retirement benefits:

The Credit Union provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Credit Union employees upon or after retirement.

The Credit Union funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by the Credit Union at the time of entitlement. Contributions for the defined contribution plan are paid by the Credit Union on an annual basis.

Supplemental retirement plans:

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2020 (prior period was measured at December 31, 2019). The effective date of the last actuarial valuation report for funding purposes was December 31, 2020 and the effective date of the next required actuarial valuation report will be December 31, 2021.

Amounts included in personnel expenses (note 23):

		2020		2019
Pension benefits:				
Defined contribution and multi-employer plan expense	$	9,649	$	8,512
Defined benefit plan expense		113		114
	$	9,762	$	8,626

Participation in multi-employer plan (the "Plan"):

The Credit Union is one of several employers that participates in the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multi-employer, 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. The Plan, as at September 30, 2020, has about 3,630 active employees and approximately 1,185 retired plan members, with reported assets of approximately $923.6 million.

At least once every 3-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 $31.6 million and a solvency deficiency of $99.5 million, based on market value assets of approximately $735 million. 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 $2,314 for employer contributions to the plan in fiscal year 2020 (2019 - $2,564).

27. Commitments and contingencies:

(a) Computer service contracts:

The Credit Union has computer service contracts through to 2025 and thereafter.

The following table summarizes the approximate computer service contract payments over the next 5-years:

2021	$	19,251
2022		13,283
2023		8,109
2024		5,666
2025		2,590
Thereafter		106

(b) Head office building:

The Credit Union committed to purchase a new office building with a closing date no later than October 2021 or earlier at the option of the vendor based on achieving certain terms and conditions outlined in the purchase agreement. The final purchase price shall be based on the building value which is either be agreed upon between the parties or calculated based on building net annual rent divided by the capitalization rate described in the purchase agreement. The exact final purchasing price is yet to be determined.

(c) Legal proceedings:

The Credit Union has claims and legal proceedings brought against it that arise from usual business activities. The Credit Union contests the validity of these claims and proceedings. While the outcome of outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Credit Union's financial position.

28. Securitizations:

The Credit Union periodically enters into agreements with Central 1 and other third parties which may include securitization of residential mortgages into SPE's which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was $411,823 (2019 - nil). The Credit Union also has recognized $411,823 (2019 - nil) of secured borrowing relating to securitization transactions as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans to members and they are pledged as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 1.19% (2019 - 1.67%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. CMB pools are due at maturity with a bullet payment.

28. Securitizations (continued):

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

Type of loan	Total principal	Principal amount over 60-days past due
Residential mortgages	$ 616,643	$ -

28. Securitizations (continued):

The secured borrowings mature as follows:

Maturity		% Rate	Secured borrowings
June 1	2021	2.14	$ 1,887
June 15	2021	1.01	45,052
July 1	2021	1.79	2,152
July 1	2021	1.79	3,069
September 1	2021	2.14	10,626
September 1	2021	1.79	9,741
October 1	2021	1.60	17,853
December 1	2021	1.69	7,109
December 1	2021	1.79	9,875
January 1	2022	1.69	7,186
May 1	2022	0.58	3,067
June 1	2022	0.79	9,813
June 1	2022	0.64	10,848
June 1	2022	0.64	15,903
June 1	2022	0.59	14,653
July 1	2022	0.61	3,647
July 1	2022	2.19	7,536
September 1	2022	1.39	24,612
September 1	2022	1.39	18,562
October 1	2022	2.19	10,274
October 1	2022	1.79	6,901
October 1	2022	0.68	1,654
October 1	2022	0.68	3,209
November 1	2022	0.71	4,557
December 1	2022	2.19	17,491
December 1	2022	0.88	11,548
January 1	2023	0.70	10,994
February 1	2023	1.39	10,701
March 1	2023	1.39	17,445
March 1	2023	1.94	8,874
August 1	2023	0.92	24,648
September 1	2023	0.94	21,466
October 1	2023	2.00	5,954
October 1	2023	0.96	17,524
March 1	2024	0.40	8,010
July 1	2024	0.46	5,634
September 1	2024	1.07	5,291
November 1	2024	0.48	14,781
December 1	2024	1.10	16,081
January 1	2025	0.51	5,981
January 1	2025	0.50	15,506
February 1	2025	1.06	16,404
March 1	2025	1.38	16,366
			$ 500,485

29. Interest rate sensitivity:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk as a result of a gap between the maturing or repricing behavior of interest sensitive assets and liabilities. The following is a summary of the Credit Union's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches with the Credit Union's interest sensitive assets and liabilities based on either maturing or repricing behavior.

	Within 3-months		4 – 12-months		Over 1-year			
2020	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 1,338,400	0.23	$ -	-	$ -	-	$ 47,762	$ 1,386,162
Loans	2,866,613	3.63	1,249,771	3.38	5,053,776	3.29	(27,411)	9,142,749
Other	706,609	0.44	118,990	0.69	651,515	1.64	182,864	1,659,978
	4,911,622	2.24	1,368,761	3.15	5,705,291	3.10	203,215	12,188,889
Liabilities:								
Member deposits	2,964,605	1.18	3,124,038	1.46	953,314	1.43	3,495,281	10,537,238
Borrowings and other	134,295	1.39	176,033	1.79	290,158	2.20	208,836	809,322
	3,098,900	1.19	3,300,071	1.48	1,243,472	1.61	3,704,117	11,346,560
Balance sheet mismatch	1,812,722		(1,931,310)		4,461,819		(3,500,902)	842,329
Derivatives, notional value:								
Asset	100,000	0.48	245,000	1.39	350,000	2.06	-	695,000
Liability	(595,000)	0.49	-		(100,000)	1.87	-	(695,000)
	(495,000)		245,000		250,000		-	-
Net mismatch	$ 1,317,722		$ (1,686,310)		$ 4,711,819		$ (3,500,902)	$ 842,329

	Within 3-months		4 – 12-months		Over 1-year			
2019	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 233,299	1.07	$ -	-	$ -	-	$ 27,553	$ 260,852
Loans	3,041,018	4.88	1,258,089	3.84	4,865,980	3.37	(25,655)	9,139,432
Other	700,501	1.82	169,439	1.92	261,389	1.81	503,221	1,634,550
	3,974,818	4.11	1,427,528	3.61	5,127,369	3.29	505,119	11,034,834
Liabilities:								
Member deposits	2,783,944	2.08	2,884,779	2.17	1,298,349	2.08	2,684,727	9,651,799
Borrowings and other	111,264	2.67	123,425	1.91	177,872	2.18	203,510	616,071
	2,895,208	2.1	3,008,204	2.16	1,476,221	2.09	2,888,237	10,267,870
Balance sheet mismatch	1,079,610		(1,580,676)		3,651,148		(2,383,118)	766,964
Derivatives, notional value:								
Asset	100,000	2.02	150,000	2.21	995,000	1.65	-	1,245,000
Liability	(1,145,000)	1.99	-	-	(100,000)	1.87	-	(1,245,000)
	(1,045,000)		150,000		895,000		-	-
Net mismatch	$ 34,610		$ (1,430,676)		$ 4,546,148		$ (2,383,118)	$ 766,964

30. Fair values of financial instruments:

The following table presents approximate fair values of the Credit Union's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the statement of financial position date. Fair values of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short-term nature. Fair values of derivative financial instruments have been determined based on market price quotations.

These fair values, presented for information only, reflect conditions that existed at the date of the statement of financial position.

	2020			2019		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$1,386,162	$ 1,386,161	$ (1)	$ 260,852	$ 260,716	$ (136)
Derivatives	29,485	29,485	-	19,377	19,377	-
Loans	9,142,749	9,195,373	52,624	9,139,432	8,922,613	(216,819)
Investments	1,256,068	1,269,186	13,118	1,196,125	1,207,631	11,506
Other	166,018	167,254	1,236	243,537	243,537	-
			66,977			(205,449)
Liabilities:						
Deposits	10,537,238	10,553,965	(16,727)	9,651,799	9,650,349	1,450
Borrowing	600,670	608,159	(7,489)	412,766	411,428	1,338
Derivatives	4,958	4,958	-	6,823	6,823	-
Other	159,881	159,881	-	145,411	145,411	-
			(24,216)			2,788
Fair value difference	$		$ 42,761			$ (202,661)

The fair value measurements are analyzed according to a fair value hierarchy with three levels as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

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

No transfer has been made into or out of Level 1, Level 2 or Level 3 during the year.

As at December 31, 2020, the Credit Union held cash and current accounts of $148,757 (2019 - $101,186) which is classified within Level 1 of the fair value hierarchy. All other financial instruments are classified within Level 2.

31. Related party information:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, post-employment benefit plans, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union including the Chief Executive Officer, Chief Financial Officer, Chief Member Officer, Chief Information & Digital Transformation Officer, Chief People and Culture Officer, Chief Credit Officer, Agile Enterprise Lead, Chief Risk Officer, Chief Governance and Corporate Affairs Officer, Head - Brand Engagement, President Envision Financial, President Valley First and the President Island Savings.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits:

The Credit Union provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2020 were loans of $3,920 (2019 - $3,156) and deposits of $3,839 (2019 - $2,527). No stage 3 ECL have been recognized with respect to these loans in 2020 or 2019.

At December 31, 2020, outstanding loans to directors, officers and employees of the Credit Union amounted to $274,335 (2019 - $248,596). All such loans were granted in accordance with normal lending terms. Employee loans are recorded at their fair value in the consolidated statement of financial position with the difference between market values and carrying values being recognized as personnel expenses in the consolidated statement of profit or loss.

(b) Key management compensation:

		2020		2019
Salaries and short-term employee benefits	$	7,360	$	7,128
Post-retirement and termination benefits		659		268
	$	8,019	$	7,396

The aggregate remuneration earned by directors of the Credit Union during 2020 was $564 (2019 - $597).

The Credit Union has included in accounts payable and other expenses a donation of $1,500 (2019 - $1,500) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2020	2019
First West Insurance Services Ltd.	100	100
FW Wealth Management Ltd.	100	100
First West Leasing Ltd.	100	100
FWCU Capital Corp.	100	100
619547 BC Ltd.	100	100
637506 BC Ltd.	-	100

As part of the sale of its head office building (note 32(d)), the Credit Union sold its shares of 637506 BC Ltd., the consideration being the par value of the shares.

32. Discontinued operation and assets held-for-sale:

On September 30, 2019, the Credit Union sold assets related to the insurance operations which operates 36 locations across British Columbia. The Credit Union also sold its 50% share holdings in Bulkley Valley Insurance Services Ltd. effective December 31, 2019. The Credit Union made the decision to sell this segment in early 2019, following a strategic decision to place greater focus on the Credit Union's key competencies in providing banking and investment services to its members.

Subsequent to the disposal, the Credit Union is providing transitional services to the purchaser of the discontinued operation.

In 2020, First West Insurance Services Ltd. paid a dividend of $35,000 to the parent, First West Credit Union, to realize a refundable dividend tax on hand of $12,799.

(a) Results of discontinued operation:

	2020	2019
Revenue	$ -	$ 24,744
Expenses	-	20,800
Results from operating activities	-	3,944
Income tax (recovery)	(12,799)	640
Results from operating activities, net of tax	12,799	3,304
Gain on sale of discontinued operations	-	60,980
Income tax	-	18,849
Profit from discontinued operations, net of tax	$ 12,799	$ 45,435

(b) Cash flow from (used in) discontinued operations:

	2020	2019
Net cash from (used in) operating activities	$ -	$ (4,479)
Net cash from (used in) investing activities	-	75,979
Net cash from (used in) financing activities	-	-
Net cash flows for the year	$ -	$ 71,500

(c) Effect of disposal on the financial position of the Credit Union:

	2020	2019
Cash proceeds (net of transaction costs of $3,236)	$ -	$ 75,979
Held in escrow	-	1,400
Proceeds included in accounts receivable	-	5,630
Proceeds from disposal of discontinued operations	-	83,009
Intangible assets	-	25,888
Premises and equipment	-	276
Investments	-	2,262
Accounts payable and accrued liabilities	-	(6,397)
Net assets	-	22,029
Gain on sale of discontinued operations	$ -	$ 60,980

32. Discontinued operation and assets held-for-sale (continued):

(d) Assets held-for-sale:

		2020		2019
Premises and equipment	$	933	$	7,193
Assets held-for-sale	$	933	$	7,193

On September 14, 2020, the Credit Union announced its intention to close five branches and consolidate their operations to other existing branches in the similar geographic locations across BC. The Credit Union owns the buildings and lands of two of these five branches, with carrying value of $933 as at December 31, 2020. The Credit Union was committed to a plan to sell these buildings and land. As a result, the buildings and lands were presented as asset held-for-sale as at December 31, 2020.

In December 2019, the Credit Union was committed to a plan to sell its head office building. Accordingly, the head office building was presented as assets held-for-sale. In September 2020, the Credit Union has sold this head office building. The gain on sale of the head office building was $10,120 and recognized in other income for the year ended December 31, 2020.

33. Off balance sheet arrangements:

During the year the Government of Canada (the "Government") has launched the Canada Emergency Business Account ("CEBA") Program, where the Credit Union issued loans that were funded by the Government. The Credit Union determined these loans meets the pass-through criteria, the risks and rewards were transferred to the Government, therefore these loans are derecognized from the consolidated statement of financial position. In addition to CEBA, the Credit Union also participate in a co-lending program launched by Business Development Bank of Canada ("BDC") where the Credit Union issued loans that are 80% funded by the government. Since the risks and rewards for this 80% were transferred to BDC, the Credit Union does not recognize this portion of the loans on the consolidated statement of financial position.

34. Subsequent event:

Prior to 2021, the Credit Union maintained its statutory liquidity requirement in the form of a mandatory liquidity pool investment in deposits with Central 1. Central 1 invested the funds from these deposits in marketable securities that qualified as high-quality liquid assets. As mandated by BC credit unions' regulator ("BCFSA"), this structure changed on January 1, 2021.

In the new structure, the Credit Union maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as high qualify liquidity assets. To transition to this new structure, the deposits held in the mandatory liquidity pool by the Credit Union of $926,340 were extinguished in exchange for a portfolio of high quality liquid assets which are held in a trust, with the Credit Union as the beneficiary, Central 1 as the trustee and Credential Qtrade Securities Inc. as the investment manager.

As part of this restructuring, the Credit Union recognized a modification gain of $4,876 on mandatory liquidity pool investments in deposit held with Central 1. This gain is included in other income for 2020. In addition, Central 1 redeemed at par the Credit Union's investment in Central 1 Class F shares for proceeds of $42,171 on January 8, 2021.

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