PROSPERA
CREDIT UNION

Consolidated Financial Statements 2020

prospera
CREDIT UNION

TOGETHER, WE'RE
FUTURE
STRONG

MANAGEMENT'S RESPONSIBILITY

These consolidated financial statements of Prospera Credit Union have been prepared by management in accordance with the requirements of the *Financial Institutions Act of British Columbia* and International Financial Reporting Standards ("IFRS"). These consolidated statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal accounting, operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and safeguarding the assets of the organization.

These consolidated financial statements are approved by the Board of Directors. The Audit Committee, comprised of four directors of the board, has reviewed the statements with management and the external auditors in detail.

KPMG LLP has been appointed by the membership as independent auditors to examine and report on these consolidated financial statements. They have had full and free access to the internal audit staff, other management staff and the Audit Committee of the board.

Gavin Toy, President and Chief Executive Officer	Mary Falconer, Chief Financial Officer and Corporate Secretary

March 10, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of Prospera Credit Union

Opinion

We have audited the consolidated financial statements of Prospera Credit Union (the Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of income 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 Credit Union as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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 Credit Union's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 10, 2021

PROSPERA CREDIT UNION

Consolidated statement of financial position
(Expressed in thousands of dollars)

December 31, 2020, with comparative information for 2019

	Notes	2020	2019 (Note 2)
Assets			
Cash and cash equivalents	7	$ 418,928	$ 88,938
Investments	8	1,223,941	535,061
Loans	9(a)	5,366,082	2,568,669
Leases receivable	9(b)	278,619	348,377
Premises and equipment	15	15,748	8,781
Right-of-use assets	16	36,760	25,647
Intangible assets	17	4,196	1,278
Deferred tax assets	28	1,943	1,782
Other assets	18	9,355	7,097
		$ 7,355,572	$ 3,585,630
Liabilities and Members' Equity			
Members' deposits	10	$ 6,093,888	$ 2,929,753
Accounts payable and accrued liabilities		38,919	14,429
Securitization debt obligations	9(c), 9(d)	791,478	383,299
Derivative liabilities	12	754	-
Current taxes payable	28	907	1,437
Lease liabilities	19	38,841	26,974
Deferred tax liabilities	28	4,063	6,312
Retirement benefit obligations	20	37,051	22,011
		7,005,901	3,384,215
Members' equity:			
Contributed surplus	2	130,916	-
Retained earnings		246,213	223,703
Accumulated other comprehensive loss		(27,458)	(22,288)
		349,671	201,415
		$ 7,355,572	$ 3,585,630

	Notes
Borrowings	11
Contingencies and commitments	29
Subsequent events	31

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Director

Art Van Pelt, Chair

Director

Colin MacKinnon

PROSPERA CREDIT UNION

Consolidated statement of income
(Expressed in thousands of dollars)

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

	Notes	2020	2019 (Note 2)
Interest income	21	$ 242,380	$ 131,819
Interest expense	21	(105,217)	(62,438)
Net interest income		137,163	69,381
Fee and commission income	22	25,873	12,863
Fee and commission expense	22	(6,227)	(2,880)
Net fee and commission income		19,646	9,983
Realized gains on financial instruments measured at fair value through profit or loss	8, 12	3,789	6,032
Unrealized gains (losses) on financial instruments measured at fair value through profit or loss	23	5,983	(299)
Impairment losses on financial assets	14(a)	(9,068)	(1,808)
Impairment losses on other assets	18	(2,547)	(1,585)
Other income	24	2,379	2,288
Net interest and other income		157,345	83,992
Operating expenses:			
Salary and employee benefits	25	(80,439)	(40,687)
General and administrative	26	(28,795)	(18,445)
Occupancy and equipment	27	(19,641)	(11,246)
		(128,875)	(70,378)
Income before income taxes		28,470	13,614
Provision for income taxes:			
Current	28	(5,301)	(1,817)
Deferred	28	(659)	(554)
		(5,960)	(2,371)
Net income		$ 22,510	$ 11,243

The accompanying notes form an integral part of these consolidated financial statements.

PROSPERA CREDIT UNION

Consolidated statement of comprehensive income
(Expressed in thousands of dollars)

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

	Notes		2020		2019 (Note 2)
Net income		$	22,510	$	11,243
Other comprehensive income (loss), net of tax:					
Items that will be reclassified to net income:					
Gains on debt instruments measured at fair value through other comprehensive income			-		103
Reclassification of realized gains on financial instruments measured at fair value through OCI to net income			-		(122)
Deferred tax recovery in OCI			-		3
Items that will never be reclassified to net income:					
Net actuarial losses on retirement benefit plans			(7,046)		(11,069)
Deferred tax recovery in OCI			1,876		2,007
			(5,170)		(9,078)
Total comprehensive income		$	17,340	$	2,165

The accompanying notes form an integral part of these consolidated financial statements.

PROSPERA CREDIT UNION

Consolidated statement of changes in members' equity
(Expressed in thousands of dollars)

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

	AOCI Fair value reserve	AOCI Defined benefit plans	Contributed surplus	Retained earnings	Total equity
Members' equity, January 1, 2020	$ -	$ (22,288)	$ -	$ 223,703	$ 201,415
Impact of business combination (note 2)	-	-	130,916	-	130,916
Net income	-	-	-	22,510	22,510
Other comprehensive income (loss), net of tax	-	(5,170)	-	-	(5,170)
Total comprehensive income (loss)	-	(5,170)	-	22,510	17,340
Members' equity, December 31, 2020	$ -	$ (27,458)	$ 130,916	$ 246,213	$ 349,671

	AOCI Fair value reserve	AOCI Defined benefit plans	Contributed surplus	Retained earnings	(Note 2) Total equity
Members' equity, January 1, 2019	$ 16	$ (13,226)	$ -	$ 212,460	$ 199,250
Net income	-	-	-	11,243	11,243
Other comprehensive income (loss), net of tax	(16)	(9,062)	-	-	(9,078)
Total comprehensive income (loss)	(16)	(9,062)	-	11,243	2,165
Members' equity, December 31, 2019	$ -	$ (22,288)	$ -	$ 223,703	$ 201,415

The accompanying notes form an integral part of these consolidated financial statements.

PROSPERA 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 (Note 2)
Cash flows provided by (used in):			
Cash flows from (used in) operating activities:			
Net income		$ 22,510	$ 11,243
Items not affecting cash:			
Depreciation and amortization	15, 16, 17	13,259	7,591
Impairment losses on financial assets	14(a)	9,068	1,808
Impairment losses on other assets	18	2,547	1,585
Net interest income	21	(137,163)	(69,381)
Realized gains on financial instruments measured at fair value through profit or loss	8,12	(3,789)	(6,032)
Realized gains on financial instruments measured at fair value through other comprehensive income	24	-	(122)
Unrealized (gains) loss on financial instruments measured at fair value through profit or loss	23	(5,983)	299
Loss on disposal of premises and equipment	15, 24	68	-
Provision for income taxes - current	28	5,301	1,817
Provision for income taxes - deferred	28	659	554
Interest paid		(123,593)	(54,681)
Interest received		247,538	132,349
Income tax paid		(4,474)	(1,000)
Income tax refund		500	1,554
Proceeds received from disposition of derivatives		1,804	-
Retirement benefit plans contributions	20(h)	(5,172)	(3,766)
Retirement benefit plans expense	20(b)	6,944	4,660
		30,024	28,478
Changes in non-cash operating working accounts:			
Loans		419,933	(27,553)
Leases receivable		68,077	(12,990)
Other assets		2,405	(4,146)
Members' deposits		73,756	151,476
Accounts payable and accrued liabilities		14,487	1,717
Net cash flows provided by operating activities		608,682	136,982
Cash flows from (used in) financing activities:			
Securitization debt increases		135,899	141,282
Securitization debt retirement		(230,004)	(105,932)
Repayment of borrowings	11	(69,998)	-
Repayment of lease liabilities		(8,372)	(4,732)
Net cash flows (used in) provided by financing activities		(172,475)	30,618
Cash flows from (used in) investing activities:			
Cash acquired on business combination	2	11,251	-
Net purchase of liquidity deposits		(61,546)	(254,837)
Net (purchase) sale of investments		(53,411)	67,166
Net investment in premises and equipment	15	(2,556)	(2,834)
Net investment in intangible assets	17	45	(153)
Net cash flows used in investing activities		(106,217)	(190,658)
Increase (decrease) in cash and cash equivalents		329,990	(23,058)
Cash and cash equivalents, beginning of year		88,938	111,996
Cash and cash equivalents, end of year		$ 418,928	$ 88,938

The accompanying notes form an integral part of these consolidated financial statements.

1. General information:

Prospera Credit Union ("Prospera" or the "credit union") is a full-service financial institution providing retail, wealth and commercial financial services to the residents of the Greater Vancouver, Lower Mainland, and Okanagan areas. The credit union, domiciled in Canada with its registered office at Suite 1900, 13450 - 102 Avenue, Surrey, British Columbia, is incorporated under the Credit Union Incorporation Act of British Columbia ("CUIA"), and its subsidiaries are incorporated under the Company Act of British Columbia. The credit union is regulated under the CUIA and the Financial Institutions Act of British Columbia ("FIA") and is authorized to serve members within British Columbia. Prospera has 27 full-service retail branches throughout British Columbia.

Through two of its wholly-owned subsidiaries, WS Leasing Ltd. and Mercado Capital Corporation, Prospera offers vehicle and equipment leasing to individuals and businesses in all provinces and territories in Canada, except Quebec. WS Leasing Ltd. and Mercado Capital Corporation are permitted to conduct financial leasing business extra-provincially under the Credit Union Extra-provincial Business of Subsidiaries Regulations of the CUIA.

These consolidated financial statements for the year ended December 31, 2020 were approved by the Board of Directors on March 10, 2021.

2. Business combination:

On February 28, 2019, Westminster Savings Credit Union ("Westminster Savings") and the legacy credit union known as Prospera Credit Union ("Legacy PCU") submitted an application for consent for amalgamation to the BC Financial Services Authority ("BCFSA"). On September 23, 2019, consent was issued by BCFSA and on November 21, 2019, the members from both legacy credit unions voted on and approved the amalgamation.

On January 1, 2020 (the "acquisition date"), Westminster Savings and Legacy PCU combined their respective operations by way of an amalgamation to build on the strengths of each credit union, to recognize operational synergies and to capture economies of scale as a combined entity. A single credit union was formed operating under the name of Prospera Credit Union.

On the amalgamation date, the issued shares for Westminster Savings and Legacy PCU were exchanged for shares in the combined entity of Prospera as follows:

a) One (1) class A membership equity share of Prospera was issued in exchange for each issued class A membership equity share of Westminster Savings.

b) One (1) class A membership equity share of Prospera was issued in exchange for each issued class A membership equity share of Legacy PCU.

Each member is required to have five (5) Class A member equity shares. Following the share exchange, Prospera redeemed amounts in excess of the required five (5) class A membership equity shares.

(Expressed in thousands of dollars, unless otherwise indicated)

2. Business combination (continued):

Included in the acquisition was the 100% owned subsidiaries of Legacy PCU which included Prospera Insurance Agencies Ltd., Prospera Technologies Inc., Prospera Holdings Ltd., and 413297 BC Ltd.

On the acquisition date, the asset and liabilities of Legacy PCU were fair valued in accordance with the assumptions and estimates disclosed in note 6(b). The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date:

	Notes	January 1, 2020
Cash and cash equivalents		$ 11,251
Investments		567,962
Loans		3,228,566
Current taxes receivable		1,858
Premises and equipment	15	9,080
Right-of-use assets	16	15,204
Intangible assets	17	4,000
Deferred tax assets		1,194
Other assets		7,171
Derivative assets	12	282
Total assets acquired		$ 3,846,568
Members' deposits		$ 3,110,923
Accounts payable and accrued liabilities		10,004
Borrowings	11	69,998
Securitization debt obligations	9(c)	501,328
Lease liabilities		15,368
Retirement benefit obligations	20	6,222
Derivative liabilities	12	1,809
Total liabilities assumed		$ 3,715,652
Estimated net assets acquired		$ 130,916

The estimated net assets acquired of $130,916 comprise the balance of contributed surplus as of January 1, 2020 on the consolidated statement of changes in members' equity.

The business combination is accounted for using the acquisition method under IFRS 3, *Business Combinations* ("IFRS 3"), with Westminster Savings acquiring 100% of the net assets of Legacy PCU. Management judgement was required in the determination of the acquirer in accordance with IFRS 3 and IFRS 10, *Consolidated Financial Statements*. The fair value of the net assets acquired were subsequently measured in accordance with the accounting policies disclosed in note 4(e).

2. Business combination (continued):

The results for the year ended December 31, 2020 include the results for the combined credit union. The 2019 comparative information presented in these financial statements is based on the financial results of Westminster Savings as the acquirer in this business combination (note 4 (c)).

During the year ended December 31, 2020, the credit union completed various integration activities including the business combination accounting and integrated financial reporting. As a result of these integration efforts, the reporting of segregated results in the statement of comprehensive income for the year is considered impracticable. The amounts of revenue and profit or loss reported in the statement of comprehensive income for the year ended December 31, 2020 include the combined credit union.

In 2020, the credit union incurred $9,571 related to the amalgamation and ongoing integration efforts (2019 - $3,196). These costs were recognized under salary and employee benefits, and general and administrative expenses in the consolidated statement of income.

3. Basis of preparation:

(a) Statement of compliance:

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

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, the functional currency of the credit union and its subsidiaries.

(c) Comparative information:

Certain of the comparative information presented in these consolidated financial statements have been reclassified, where appropriate, to conform to the current year’s presentation.

4. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are set out below.

(a) Basis of measurement:

These consolidated financial statements have been prepared using the historical cost basis, except for the following:

- certain financial assets and financial liabilities which are measured at fair value;
- certain assets which have been written down to fair value less cost to sell; and
- retirement benefit obligations, which are measured at the present value of the defined benefit obligation, less the fair value of plan assets, and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(b) Basis of consolidation:

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Prospera Credit Union and its 100% owned subsidiaries, Prospera Insurance Agencies Ltd., Prospera Technologies Inc., Prospera Holdings Ltd., 413297 BC Ltd., Westminster Savings Financial Planning Ltd., WS Leasing Ltd., Mercado Capital Corporation and its subsidiary Mercado Financing Ltd. Subsidiaries are entities controlled by the credit union.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Upon consolidation, intercompany balances, income, expenses and cash flows arising from intercompany transactions are fully eliminated. Intercompany losses are eliminated unless the transaction provides evidence of impairment of the asset.

(c) Business combination:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the credit union obtained control of the acquiree. The credit union controls an acquiree when it is exposed, or has rights, to variable returns from its involvement with the acquiree and has the ability to affect those returns through its power over the acquiree. In assessing control, the credit union considers factors primarily related to control such as relative size of the organizations, voting rights, and composition of the Board of Directors and senior management.

4. Significant accounting policies (continued):

(c) Business combination (continued):

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is measured as the excess of the consideration transferred, including any amount of non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and liabilities assumed. No goodwill was recorded on the business combination described in note 2. Transaction costs are expensed as incurred.

(d) Foreign currency transactions:

Foreign currency transactions are recorded, on initial recognition, in Canadian dollars, using the spot exchange rates on the dates of the transactions. At the end of each reporting period:

- monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the closing exchange rate at the reporting date;
- 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; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items denominated in foreign currencies and from translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in net income in the period they arise in accordance with the nature of the foreign exchange gain or loss.

Foreign exchange gains or losses related to monetary financial assets or monetary financial liabilities measured at fair value through profit or loss (“FVTPL”) are included in the net gains or losses recognized on the financial assets or financial liabilities in the consolidated statement of income. Foreign exchange gains or losses related to monetary financial assets or monetary financial liabilities measured at amortized cost are included in other income in the consolidated statement of income. For monetary financial assets measured at fair value through other comprehensive income (“FVOCI”), foreign exchange gains or losses related to the fair value adjustments are recognized in other comprehensive income, while foreign exchange gains or losses related to the amortized cost component are recognized in other income in the consolidated statement of income.

For non-monetary items for which a gain or loss is recognized in net income, the gain or loss includes any related exchange component. For non-monetary items for which a gain or loss is recognized in other comprehensive income, the gain or loss includes any related exchange component. Foreign exchange gains or losses related to non-monetary financial assets measured at FVTPL are included in the net gains or losses recognized in the consolidated statement of income.

4. Significant accounting policies (continued):

(e) Financial instruments:

The accounting policies below have been applied to financial instruments in these consolidated financial statements.

Recognition:

The credit union recognizes a financial instrument in its consolidated statement of financial position when it becomes a party to the contractual provisions of the financial instrument. For purchases and sales of investments, this is the settlement date of the transaction. All other financial instruments are recognized on the date they are originated.

Initial measurement:

On initial recognition, a financial instrument, excluding leases receivable, is measured at its fair value plus or minus transaction costs that are directly attributable to its acquisition or issue. Transaction costs incurred on the origination of a financial instrument at FVTPL are expensed as incurred.

Classification and subsequent measurement:

Subsequent measurement of financial instruments depends on the classification of the financial assets and financial liabilities.

(*i*) Financial assets:

The credit union’s financial assets, excluding leases receivable, are comprised of cash and cash equivalents, investments in debt and equity instruments, loans and derivative assets.

On initial recognition, financial assets are classified as subsequently measured at amortized cost, FVOCI or FVTPL based on the credit union's business models for managing its financial assets and the contractual cash flow characteristics of the financial assets.

4. Significant accounting policies (continued):

(e) Financial instruments (continued):

Classification and subsequent measurement (continued):

(*i*) Financial assets (continued):

Amortized cost:

A financial asset is subsequently measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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 on the principal amount outstanding ("the SPPI criteria"). Principal is defined as the fair value of the financial asset at initial recognition, and interest consists of consideration for the time value of money, for credit risk associated with the principal amount outstanding, and for other basic lending risks and costs.

Financial assets that meet the above criteria are subsequently measured at amortized cost using the effective interest method. The effective interest method calculates the amortized cost of a financial asset and allocates the effective interest income over the term of the financial asset. The effective interest rate is the rate that exactly discounts estimated future cash receipts throughout the term of the financial asset to the gross carrying amount of a financial asset, being the amortized cost before adjusting for any loss allowance.

FVOCI:

A financial asset is classified as and subsequently measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the SPPI criteria.

4. Significant accounting policies (continued):

(e) Financial instruments (continued):

Classification and subsequent measurement (continued):

(*i*) Financial assets (continued):

FVOCI (continued):

Investments measured at FVOCI are measured at fair value with fair value gains or losses, net of impairment losses, recognized in other comprehensive income during the period they arise, until the financial asset is derecognized. Fair value gains and losses recognized in other comprehensive income include any related foreign exchange component.

On initial recognition of an equity instrument that is not held for trading, the credit union may irrevocably elect to classify the equity instrument as FVOCI. This election is made on an investment-by-investment basis. The credit union has not applied this election to date.

FVTPL:

Financial assets that are not measured at amortized cost or at FVOCI are subsequently measured at FVTPL.

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 a measurement or recognition inconsistency. The credit union has not designated any financial assets as FVTPL on this basis.

The credit union enters into interest rate swaps periodically to manage interest rate risk. Interest rate swaps are measured at FVTPL and disclosed as derivative assets when they have a positive fair value, and as derivative liabilities in the consolidated statement of financial position, when they have a negative fair value.

Financial assets measured at FVTPL are measured at fair value with fair value gains or losses recognized in net income during the period they arise. Fair value gains and losses include any related foreign exchange component.

Financial assets are reclassified when, and only when, the credit union changes its business model for managing the financial assets. There were no changes to the credit union's business models during 2020.

4. Significant accounting policies (continued):

(e) Financial instruments (continued):

Classification and subsequent measurement (continued):

(*ii*) Financial liabilities:

The credit union's financial liabilities are comprised of members' deposits, members' shares (included in members' deposits in the consolidated statement of financial position), accounts payable and accrued liabilities, securitization debt obligations, derivative financial liabilities and lease liabilities (note 4(m)).

Financial liabilities are subsequently measured at amortized cost except for derivative financial liabilities which are subsequently measured at FVTPL. Changes in the fair value of derivative financial liabilities are recognized in net income in the period they arise.

Derecognition:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the credit union has transferred substantially all the risks and rewards of ownership of the financial asset.

Upon derecognition of a financial asset measured at amortized cost, realized gains or losses are recognized in net income. Upon derecognition of a financial asset debt instrument measured at FVOCI, the cumulative gains or losses previously recognized in other comprehensive income is reclassified from the fair value reserve component of equity to net income as a reclassification adjustment.

A financial liability is derecognized when it is extinguished (i.e., when the obligation specified in the contract is discharged, cancelled, or expires).

Modifications:

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the modification does not result in the derecognition of that financial asset, the gross carrying amount of the financial asset is recalculated as the present value of the modified contractual cash flows, discounted using the original effective interest rate. A modification gain or loss is recognized in net income for the difference between the new carrying amount and the carrying amount prior to modification. Any costs or fees incurred are included in the carrying amount of the modified financial asset and amortized over the remaining term of the modified financial asset.

4. Significant accounting policies (continued):

(e) Financial instruments (continued):

Leases receivable:

The credit union's vehicle and equipment leases are classified as finance leases as they transfer substantially all the risks and rewards incidental to ownership of the assets to the lessees. Vehicle and equipment leases receivable are recorded at the credit union's net investment in the leases, which is calculated as the present value of the future minimum lease payments, including the estimated residual value of the vehicles and equipment, net of an allowance for credit losses. Minimum lease payments received during the term of a lease are apportioned between interest income and a reduction of the outstanding lease receivable.

Estimated unguaranteed residual values on closed-end leases are reviewed at the end of each reporting period. If there has been a reduction in an estimated unguaranteed residual value, the credit union's net investment in the lease is recalculated and any difference between the amount recalculated and previous amount recorded is recognized in net income.

(f) Impairment of financial assets:

The credit union recognizes a loss allowance for expected credit losses ("ECL") at each reporting date for all financial assets that are measured at amortized cost and at FVOCI (debt instruments) and leases receivable.

Staging:

At each reporting date, the credit union assesses whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment of whether there has been a significant increase in credit risk since initial recognition ("SICR"), the credit union compares the risk of a default occurring over the expected remaining life of the financial asset as at the reporting date with the risk of a default occurring over the life of the financial asset as at the date of initial recognition. In addition, a SICR is considered to have occurred when contractual payments of a financial asset are more than 30 days past due.

When the credit risk of a financial asset has not increased significantly since initial recognition the financial asset is categorized as a Stage 1 financial asset. When the credit risk of a financial asset has increased significantly since initial recognition, the financial asset is categorized as a Stage 2 financial asset. When a financial asset is credit-impaired, it is categorized as a Stage 3 financial asset. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Financial assets that are classified as credit-impaired and as Stage 3 financial assets are consistent with those identified as being in default.

4. Significant accounting policies (continued):

(f) Impairment of financial assets (continued):

Definition of default:

Default is defined and considered by the credit union to have occurred when either or both of the following have occurred:

- the credit union determines that the borrower is unwilling, unable or otherwise unlikely to fulfill its credit obligations in full, without recourse by the credit union to actions such as realizing security (if held); or
- the borrower has been unable to remedy a material breach of its credit agreement for 90 days or more (which includes an outstanding credit obligation being past due 90 days or more).

Calculation of ECL:

The loss allowance recognized for a Stage 1 financial asset is equal to the 12-month ECL. 12-month ECL are calculated as the present value of the lifetime cash shortfalls that will result if a default occurred within 12 months after the reporting date (or a shorter period if the expected remaining life of a financial asset is less than 12 months), weighted by the probability of that default occurring.

The loss allowance recognized for a Stage 2 or Stage 3 financial asset is equal to lifetime ECL. Lifetime ECL for Stage 2 financial assets are calculated as the present value of the lifetime cash shortfalls that would result from all possible default events over the expected remaining life of a financial asset. The discount rate used in calculating the present value of lifetime cash shortfalls of a financial asset is the original effective interest rate.

The 12-month ECL and lifetime ECL for Stage 1 and Stage 2 financial assets, respectively, are calculated based on estimates of the probability of default (“PD”), loss given default (“LGD”), exposure at default (“EAD”) and the impacts of forward-looking information and forecasts of macroeconomic conditions. The maximum period considered when determining the expected remaining life of a financial asset for calculating lifetime ECL for Stage 2 financial assets is the maximum contractual period (including extension options). For revolving credit facilities with no fixed terms (e.g., lines of credit), the expected remaining life represents the period that the credit union expects to be exposed to credit risk. The loss allowance for Stage 3 financial assets is calculated as the difference between the gross carrying amount and the present value of estimated future cash flows.

If the credit union had measured the loss allowance for a financial asset at an amount equal to the lifetime ECL in the previous reporting period, but determines at the current reporting date that there is no longer a SICR associated with the financial asset, the loss allowance recognized is re-measured to equal the 12 month ECL at the current reporting date.

4. Significant accounting policies (continued):

(f) Impairment of financial assets (continued):

Calculation of ECL (continued):

At each reporting date, in the consolidated statement of income, the credit union recognizes, as an impairment loss (gain) on financial assets, the amount of ECL (or reversal) that are required to adjust the loss allowance.

Write-offs and repossessed property:

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. When a loan or lease receivable is in default and the underlying security is repossessed by the credit union, the loan or lease receivable is derecognized and the repossessed collateral is recognized in the consolidated statement of financial position and classified as held for sale and measured at the lower of its carrying amount and fair value less costs to sell.

Vehicles and equipment securing leases receivable that have been repossessed are included in other assets in the consolidated statement of financial position. Subsequent to initial recognition, a decrease in the fair value of repossessed collateral, less costs to sell, is recognized in net income, as an impairment loss on other assets. An impairment gain on other assets is recognized for any subsequent increases in fair value, less costs to sell, but not in excess of the cumulative impairment loss previously recognized on the asset held for sale.

(g) Income taxes:

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and the amounts attributed to the assets and liabilities for tax purposes. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Income tax expense (recovery) is comprised of current and deferred taxes. Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized in other comprehensive income or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

4. Significant accounting policies (continued):

(h) Non-financial assets:

Premises and equipment:

Land is carried at cost and is not depreciated. Premises and equipment assets are recorded at cost less accumulated depreciation and any accumulated impairment losses. These assets are depreciated over their estimated useful lives using the following depreciation methods and periods:

Asset	Method	Period
Computer and Automated Teller Machine ("ATM") equipment	Straight-line	3, 5, or 10 years
Furniture and equipment	Straight-line	5 years
	Double declining balance	15 years
Leasehold improvements	Straight-line	Lesser of useful life and the lease term
Building and betterments	Straight-line	7 to 30 years

The estimated useful lives and depreciation methods used are reviewed at the end of each reporting period, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives or depreciation methods resulting from such review are accounted for prospectively.

The credit union assesses at the end of each reporting period, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, whether there is any indication that a premise or equipment asset is impaired. Impairment is assessed on an individual asset basis when the fair value less costs of disposal or value in use of the asset can be determined reliably.

An asset is impaired when its carrying amount exceeds its recoverable amount. If there is indication that an asset or cash-generating unit is impaired, the credit union estimates the recoverable amount of the asset or cash-generating unit. The recoverable amount is the higher of its fair value less costs to sell and its value in use. The carrying amount is reduced to its recoverable amount and the amount of write down is recognized in net income as an impairment loss on non-financial assets. Upon recognition of an impairment loss, subsequent depreciation of the asset is based on the revised carrying amount and remaining useful life.

4. Significant accounting policies (continued):

(h) Non-financial assets (continued):

Intangible assets:

Intangible assets include computer software licenses, core deposit and customer relationship assets acquired through business combinations, and other intangible assets. Intangible assets are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the following periods:

Asset	Period
Trademarks	14 years
Software	2 to 10 years
Core deposits	8 years
Customer relationships	10 years

The amortization period and amortization method for an intangible asset with a finite useful life are reviewed at the end of each reporting period, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives or amortization methods resulting from such review are accounted for prospectively.

Intangible assets with finite lives are assessed for impairment annually and whenever there is an indication that an intangible asset may be impaired. When an intangible asset with a finite life is impaired, the excess of its carrying amount over the recoverable amount is recognized in net income as an impairment loss on non-financial assets.

(i) Provisions:

Provisions are liabilities that are uncertain in timing or amount. A provision is recognized if the credit union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the obligation can be estimated reliably. Provisions are measured as the present value of estimated future expenditures required to settle the present obligation at the date of the reporting period. The discount rate used in measuring the present value is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are reviewed at the date of each reporting period and adjusted or reversed to reflect management’s current best estimate of the expenditures required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4. Significant accounting policies (continued):

(i) Provisions (continued):

Contingent assets and contingent liabilities are possible assets and possible obligations, respectively, that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the credit union. Contingent assets and contingent liabilities are not recognized in the consolidated financial statements. A contingent asset is disclosed when an inflow of economic benefits is probable. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

(j) Retirement benefit obligations:

The credit union provides retirement benefits to its employees through various pension plans and a non-pension post-retirement benefit plan (collectively called “retirement plans”). The plans are funded through employer and employee contributions to trustee-administered funds. Benefits are provided to the credit union’s employees through various defined contribution, defined benefit, supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including health care, dental benefits or cash alternatives are provided to eligible credit union employees upon or after retirement.

The credit union has both defined benefit and defined contribution retirement plans. A defined benefit retirement plan defines the amount of benefits that an employee will receive on retirement, dependent on one or more factors such as age, years of service and compensation. Under a defined contribution retirement plan, the credit union pays fixed contributions into a separate fund and has no legal or constructive obligations to pay further contributions.

Defined benefit plans:

The net defined benefit liability (asset) recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the date of the consolidated statement of financial position, less the fair value of the defined benefit plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The credit union uses the projected unit credit method to determine the present value of its defined benefit obligation and the related current service cost and, where applicable, past service cost. The discount rate used in determining the present value of the defined benefit obligation is the interest rate on high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit liability.

Current service cost, including past service cost and any gain or loss on settlement, and net interest on the net defined benefit liability (asset) is recognized in net income, within salaries and employee benefits expense. Past service cost, representing the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment or curtailment, is recognized in net income at the earlier of when the amendment or curtailment occurs or when the credit union recognizes related restructuring or termination costs. A gain or loss on settlement, representing the difference between the

4. Significant accounting policies (continued):

(j) Retirement benefit obligations (continued):

Defined benefit plans (continued):

present value of the defined benefit obligation being settled and the settlement price, is recognized in net income when the settlement occurs.

Remeasurements of the net defined benefit liability (asset), which comprises actuarial gains and losses, the return on defined benefit plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), are recognized in other comprehensive income and are not reclassified to net income in a subsequent period.

Defined contribution plans:

Under the credit union's defined contribution retirement plans, contributions are recognized as an employee benefit expense in net income when they are due. Prepaid contributions are recognized within other assets in the consolidated statement of financial position to the extent that the prepayment will result in a cash refund or a reduction in future payments.

Participation in multi-employer retirement plan:

The credit union provides defined retirement benefits to certain employees through a multi-employer plan. There are two divisions within this multi-employer plan, a 1.75% division and a 1.20% division. The credit union is the only remaining participant in the 1.20% division of the plan, whereas a number of member credit unions continue to participate in the 1.75% division of the plan. Plan assets and liabilities are pooled for the 1.75% division of the plan and the actuary does not determine an individual employer's own unfunded liability. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in management's opinion, there is no reasonable way to allocate any defined benefit obligations.

Accordingly, within these consolidated financial statements, the credit union accounts for the 1.75% division of the plan as a defined contribution retirement plan, and the 1.20% division of the plan as a defined benefit retirement plan.

(k) Interest income and interest expense:

Interest income and interest expense earned and incurred on interest-bearing financial assets and financial liabilities are recognized as interest income and interest expense, respectively, in the consolidated statement of income using the effective interest method. Under the effective interest method, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. When a financial asset or a group of financial assets is credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset.

4. Significant accounting policies (continued):

(k) Interest income and interest expense (continued):

When calculating the effective interest rate, the credit union estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

(l) Net fee and commission income:

Net fees and commissions are recognized in net income in the period the related performance obligations are satisfied, unless they are considered to be an integral part of the effective interest rate of a financial asset, in which case the net fee and commission is allocated to interest income using the effective interest method.

For performance obligations that are satisfied over time, including monthly members' services and financial planning and wealth management services, revenue is recognized over the period that the promised services are performed.

For performance obligations that are satisfied at a point in time, comprising transaction-based fees and commissions, such as appraisals, registration, prepayment and other loan fees, ATM transaction fees, and insurance and visa commissions, revenue is recognized when the member obtains control of the promised good or service.

(m) Leases:

The credit union accounts for leases using the principles under IFRS 16, *Leases* ("IFRS 16"). At inception of a contract, the credit union assesses whether a contract is, or contains, a lease as defined in IFRS 16. A contract is or contains a lease if the contract allows the right to control the use of an identified asset in exchange for consideration.

The credit union recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which is comprised of:

- the initial amount of the lease liability;
- plus any lease payments made at or before the commencement date and any initial direct costs incurred;
- plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located; and
- less any lease incentives received.

The ROU asset is subsequently depreciated from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. Depreciation is recorded on a straight-line basis as this most closely reflects the expected pattern of consumption of the future economic benefit. The ROU asset is reduced by accumulated depreciation and impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

4. Significant accounting policies (continued):

(m) Leases (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the credit union's incremental borrowing rate. Generally, the credit union uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in the assessment of whether the credit union will exercise an extension or a termination option in the lease. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in the consolidated statement of income if the carrying amount of the ROU asset has been reduced to zero.

5. Impact of COVID-19:

On March 11, 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization. The COVID-19 pandemic continues to have a significant adverse impact on the economy. Measures undertaken to contain the spread of the virus, including the closure of non-essential businesses, succeeded in curbing the initial spread of infection, allowing for the partial easing of these measures later in the year. As a result, certain sectors of the economy had seen a resumption of activity. However, there is a risk that the recent retightening of physical distancing measures enacted by governments and businesses in response to the resurgence in infection rates could impact economic activity beyond levels that were previously anticipated. As a result, the credit union continues to operate in an uncertain macroeconomic environment.

(a) Payment deferrals:

In response to the COVID-19 pandemic, the credit union implemented payment deferral programs for loans and leases receivable. In the calculation of ECL, the agreement to a payment deferral on its own does not represent a SICR for an individual borrower that would require migration from Stage 1 to Stage 2 under IFRS 9, nor are facilities with payment deferrals considered past due.

Loans and leases receivable that have migrated to Stage 2 have experienced a SICR. In assessing credit risk, the credit union monitors the credit quality of impacted borrowers using sound credit risk management practices. The loan modifications due to payment deferrals did not result in any modification gains or losses.

As at December 31, 2020, the gross carrying amount of loans and leases receivable for which payment deferrals have been approved and principal and interest payments have not resumed totaled $20,882 (2019 – nil). The total outstanding payments deferred at December 31, 2020 are $11,081 (2019 – nil).

5. Impact of COVID-19 (continued):

(b) Impact on estimates and assumptions:

The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions due to increased market volatility and uncertain macroeconomic conditions. This increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates as disclosed in note 6(b).

(c) Canada Emergency Business Account ("CEBA") program

The Government of Canada ("GOC") has implemented a CEBA program to support Canadian businesses that have been adversely impacted by COVID-19. Eligible businesses that are approved by the GOC will have access to interest-free, partially forgivable loans of up to $60 made to qualifying small businesses and not-for-profit organizations to help cover their operating costs during a period when their revenues have been temporarily reduced. The CEBA program is underwritten by the GOC with the credit union acting as a credit facility administrator to provide loans to existing members that meet the underwriting standards of the GOC. Loans advanced under the CEBA program are not recognized on the consolidated statement of financial position of the credit union as they are funded by the GOC and all of the resulting cash flows and associated risks and rewards, including any exposure to payment defaults and principal forgiveness are assumed by the GOC. The credit union collects a servicing fee which is intended to reimburse the costs associated with administering the loans, which is recognized in the consolidated statement of income.

6. Judgements and estimates:

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the credit union's accounting policies and the reported amounts of assets, liabilities, income and expenses.

(a) Significant judgements:

The critical judgements that management has made in the process of applying the credit union's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Classification and measurement of financial assets:

Determining the appropriate classification and measurement of the credit union's financial assets under IFRS 9 requires management to make judgements as to the objectives of the business models that the financial assets are held within and whether the contractual cash flows of the financial assets represent solely payments of principal and interest on the principal amount outstanding on initial recognition (note 4(e)). Annually, the assessment of business models is reviewed to determine if any facts or circumstances have changed that would result in a change of business model.

6. Judgements and estimates (continued):

(a) Significant judgements (continued):

In assessing the credit union's business models, management considers all relevant evidence available at the date of assessment, including but not limited to:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and the financial assets held within it and the way in which those risks are managed;
- how managers of the business model are compensated; and
- the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

Securitization and derecognition of financial assets:

In determining whether a transferred financial asset should be derecognized, management makes certain judgements to determine whether the credit union has transferred substantially all the risks and rewards of ownership of the financial asset. Management has determined that the credit union has retained substantially all the risks and rewards of ownership of the loans and leases receivable it has securitized and accordingly, the transferred assets continue to be recognized in these consolidated financial statements (notes 9(c) and 9(d)).

(b) Assumptions and estimates:

The preparation of these consolidated financial statements requires that management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the credit union's assets and liabilities at the end of the reporting period. Actual results may differ from these estimates as the estimation process is inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the credit union's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period are as follows:

Loss allowance for expected credit losses on financial assets:

In determining the amount recognized as a loss allowance for ECL on financial assets measured at amortized cost and at FVOCI and leases receivable as required by IFRS 9, management first assessed whether there has been a SICR for its financial assets. The assessments of SICR reflect management's view of the risk of default occurring in a future period for the financial assets. Actual occurrence of default may differ from these estimates.

The calculation of 12-month ECL for Stage 1 financial assets and lifetime ECL for Stage 2 financial assets and credit-impaired financial assets requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure

6. Judgements and estimates (continued):

(b) Assumptions and estimates (continued):

at default, impacts of forward-looking information and forecasts of macroeconomic conditions to the credit union's ECL and expected remaining lives of the financial assets (note 14(a)). Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the credit union's consolidated financial statements.

Management overlays to loss allowance for ECL are adjustments which are used in circumstances where management determines that existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic or political factors, along with expected changes to data that are not incorporated in current inputs or forward-looking information are examples of such circumstances.

Fair value measurement:

Certain financial assets and non-financial assets are measured at or based on the fair value of the assets at the reporting date (notes 2, 7, 8, 9 and 18). Fair value measurements are based on quoted market prices when available. When quoted market prices are not available, the credit union uses valuation techniques to estimate fair values. Valuation techniques may involve the use of observable or unobservable inputs. Changes in estimates of inputs used can result in a material adjustment to the carrying amount of the underlying asset.

Deferred income taxes:

The credit union records tax liabilities (assets) based on the amount expected to be paid to (recovered from) taxation authorities. Final income taxes paid (recovered) based on amounts assessed by taxation authorities may differ, resulting in adjustments to income taxes in subsequent periods.

In determining the amount of deferred tax assets to recognize, management makes estimates of future taxable income, deposit balances and expected timing of reversals of existing temporary differences. Deferred tax assets are remeasured at the end of each reporting period which includes a reassessment of the probability of realizing unrecognized income tax assets.

Retirement benefit obligations:

In determining the present value of the credit union's defined benefit obligation and resulting net defined benefit liability (asset) recognized in the statement of financial position, various assumptions about the future are made such as mortality rates, salary levels, inflation, discount rate and expected return on assets (note 20). Actual experience may differ from these assumptions resulting in actuarial gains or losses recognized in other comprehensive income of subsequent periods.

(Expressed in thousands of dollars, unless otherwise indicated)

7. Cash and cash equivalents:

	2020	2019
Measured at FVTPL:		
Bid and liquidity deposits - original maturities < 91 days	$ 382,771	$ 70,567
Measured at amortized cost:		
Cash	35,773	18,371
Fixed income investments - original maturities < 91 days	384	-
	$ 418,928	$ 88,938

Cash includes balances in cash reserve accounts of $4,481 (2019 - $3,899) (notes 9(c) and 9(d)).

8. Investments:

	2020	2019
Measured at FVTPL:		
Bid and liquidity deposits - original maturities > 90 days	$ 951,635	$ 484,382
Central 1 shares	29,221	13,861
Preferred shares	6,588	1,141
Other investments in equity instruments	1,126	203
Measured at amortized cost:		
Principal and interest reinvestment accounts (note 9(c))	233,194	32,893
Sub note - junior note	2,177	2,581
	$ 1,223,941	$ 535,061

During the year, the credit union disposed of investments recognizing a gain of $293 (2019 - $6,032) in realized gains on financial instruments measured at fair value through profit and loss.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable:

(a) Loans:

	2020	2019
Consumer mortgages at amortized cost	$ 3,390,665	$ 1,676,616
Consumer loans at amortized cost	402,361	236,502
Consumer loans at FVTPL	49,369	-
Total consumer mortgages and loans	3,842,395	1,913,118
Commercial mortgages at amortized cost	1,169,990	373,294
Commercial loans at amortized cost	354,440	282,468
Total commercial mortgages and loans	1,524,430	655,762
Accrued interest receivable	8,174	3,510
Deferred fees	2,441	556
Allowance for impairment losses on loans	(11,358)	(4,277)
	$ 5,366,082	$ 2,568,669

Consumer mortgages include mortgages which have been securitized for inclusion in the National Housing Act (“NHA”) Mortgage-Backed Securities program, Canada Mortgage Bond (“CMB”) Program and under an Asset-Backed Commercial Paper Program and remain recognized in the consolidated statement of financial position as the securitization transactions did not meet the criteria for derecognition of the financial assets (note 9(c)). At December 31, 2020, the carrying amounts of consumer mortgages recognized in the consolidated statement of financial position underlying the issued mortgage-backed securities were $526,798 (2019 - $298,948). There were no outstanding securities under the Asset-Backed Commercial Paper Program at December 31, 2020 or December 31, 2019.

(b) Leases receivable:

	2020	2019
Vehicle leases receivable	$ 202,941	$ 226,812
Equipment leases receivable	76,364	120,857
	279,305	347,669
Deferred fees	1,745	2,921
Allowance for impairment losses on leases receivable	(2,431)	(2,213)
	$ 278,619	$ 348,377

At December 31, 2020, vehicles and equipment collateral which have been repossessed by the credit union amounted to $1,579 (2019 - $4,101). These assets are measured at the lower of their carrying amounts and fair value less costs to sell and are included in other assets (note 18) in the consolidated statement of financial position.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable (continued):

(b) Leases receivable (continued):

At December 31, 2020, equipment leases receivable included $47,597 (2019 - $56,582) of leases receivable which have been securitized and remain recognized in the consolidated statement of financial position as the securitization transactions did not meet the criteria for derecognition of the financial assets (note 9(d)).

The table below sets out the credit union's investment in leases and the present value of the minimum lease payments receivable at December 31, for each of the following periods, and a reconciliation between the two amounts at December 31:

	2020	2019
Gross investment in leases receivable:		
Not later than 1 year	$ 103,665	$ 112,061
Later than 1 year and not later than 5 years	201,170	272,686
Later than 5 years	166	450
	305,001	385,197
Unearned finance income	(25,696)	(37,528)
	279,305	347,669
Present value of minimum lease payments receivable:		
Not later than 1 year	98,472	104,136
Later than 1 year and not later than 5 years	180,669	243,095
Later than 5 years	164	438
	$ 279,305	$ 347,669

(c) Loans securitized:

Periodically, the credit union securitizes consumer mortgages, primarily to obtain diverse, low cost funding and to manage interest rate risk. Securitization involves selling loans to special purpose vehicles or trusts (securitization vehicles), which buy the loans and in turn, issue interest bearing securities to investors at specified interest rates.

Securitization contracts are assessed to determine whether the transfers of financial assets would result in all or a portion of the transferred mortgage receivables being derecognized from the consolidated statement of financial position. The derecognition criteria is met when the credit union transfers its contractual rights to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership of the financial assets, including credit risk, prepayment risk and interest rate risk.

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

At December 31, 2020 and 2019, none of the credit union's mortgage receivables that have been securitized qualified for derecognition as the credit union retained substantially all the risks and rewards of ownership of the transferred financial assets. At December 31, 2020 and 2019, the credit union had no right or obligation to repurchase any of the mortgage receivables that have been securitized and sold.

Contracts with the securitization vehicles provide for the payment to the credit union over time of the excess of the sum of interest and fees collected from the underlying borrowers, in connection with the mortgage receivables sold, over the yield paid to investors by the securitization vehicle.

Mortgage-Backed Securities ("MBS") and the CMB Program:

The credit union is an approved issuer of MBS. MBS are sold directly to third parties and amortize on the same basis as the underlying mortgages.

In addition, MBS can also be sold into the CMB program. Direct participation in the CMB program involves selling MBS to the Canada Housing Trust, a special purpose vehicle, which in turn issues Canada Mortgage Bonds to third party investors. Canada Housing Trust uses the proceeds of CMB issuances to fund the purchase of MBS from the credit union and other approved issuers of MBS.

Transfers of financial assets by the credit union, either directly by selling MBS to third parties or by transferring MBS under the CMB program, do not qualify for derecognition principally due to the credit union retaining risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities resulting in the recognition of securitization liabilities and are presented as securitization debt obligations in the consolidated statement of financial position. The proceeds received are subsequently measured at amortized cost.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Program (continued):

The securitization debt obligations are limited recourse liabilities. Securitization liabilities recognized upon sale of MBS directly to third parties amortize on the same basis as the underlying mortgages. Securitization liabilities recognized upon transfers of MBS under the CMB program are mostly non-amortizing and are repaid in full on the final maturity date of the Canada Mortgage Bonds. Interest payments on MBS sold directly to third parties are made monthly. Under the CMB program, interest payments to the bond holders are made semi-annually. Under the CMB program, collections of principal and interest on the underlying mortgages are retained in principal and interest reinvestment accounts. The balances in these accounts are reinvested to ensure there are sufficient funds available to service the interest coupon on the securitization liabilities and the eventual settlement of the liabilities on maturity of the Canada Mortgage Bonds, which is typically at the end of five years. At December 31, 2020, the total balance of the principal and interest reinvestment accounts related to the CMB program recognized in the consolidated statement of financial position was $233,194 (2019 - $32,893) (note 8).

At December 31, 2020, the balance of mortgage receivables underlying the MBS that have been sold directly to third parties or transferred directly under the CMB Program was $526,798 (2019 - $298,948) (note 9(a)). At December 31, 2020, $25,854 (2019 - nil) of mortgage receivables had been utilized to create an MBS but had not been sold to third parties or transferred under the CMB program.

The table below is a continuity schedule showing the change in the carrying amount of mortgage receivables, during the year ended December 31, that are underlying the issued MBS that have been sold to third parties and the CMB program.

	2020	2019
Balance at January 1	$ 298,948	$ 241,189
Securitizations - acquired in business combination	363,880	-
Securitizations - new	120,552	119,318
Amortization	(22,742)	(9,436)
Prepayments and liquidations	(164,563)	(50,379)
Maturities	(69,277)	(1,744)
Balance at December 31	$ 526,798	$ 298,948

At December 31, 2020, the balance of the securitization debt obligations related to these securitized mortgage receivables was $743,133 (2019 - $326,072).

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Mortgage-Backed Securities ("MBS") and the CMB Program (continued):

The table below is a continuity schedule showing the change during the year ended December 31 in the carrying amounts of the securitization debt obligations relating to MBS sold to third parties or transferred under the CMB program.

	2020	2019
Balance at January 1	$ 326,072	$ 258,684
Obligation acquired in business combination (note 2)	501,328	-
Net cash changes	(85,206)	67,388
Other	939	-
Balance at December 31	$ 743,133	$ 326,072

The table below summarizes the carrying amounts of the mortgage receivables securitized and sold and the reinvestment accounts along with the associated securitized debt obligations, for MBS sold directly to third parties or transferred under the CMB Program. None of these securitization transactions qualified for derecognition.

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Mortgage receivables/ securitized debt obligations	$ 526,798	$ 742,873	$ 298,948	$ 325,989
Principal and interest reinvestment accounts	233,194	-	32,893	-
Accrued interest	-	260	-	83
	$ 759,992	$ 743,133	$ 331,841	$ 326,072

Asset-Backed Commercial Paper ("ABCP") Program:

The credit union participates in an ABCP program to securitize uninsured consumer mortgage receivables.

Under the program, uninsured consumer mortgage receivables are securitized with a trust vehicle which, in turn, funds the purchase of mortgage receivables from the credit union by issuing ABCP to investors. The ABCP is secured by cash flows received on the underlying consumer mortgage receivables. Central 1 Credit Union ("Central 1") plays a key role in this securitization program by providing a performance guarantee. The performance guarantor is responsible for ensuring the performance of the credit union by guaranteeing that all payments of interest and principal are made when due.

9. Loans and leases receivable (continued):

(c) Loans securitized (continued):

Asset-Backed Commercial Paper ("ABCP") Program (continued):

Transfers of financial assets under the ABCP program do not qualify for derecognition principally due to the credit union retaining significant exposure to risks associated with the transferred assets. As such, transactions under this program are accounted for as financing activities and result in the recognition of securitization debt obligations that are subsequently measured at amortized cost. Under the ABCP program, the credit union receives the mortgage interest on the transferred uninsured consumer mortgage receivables and pays the funding cost of the program.

A pool of uninsured consumer mortgage receivables was established in 2015. The program had a co-ownership structure, whereby a portion of the pool of uninsured consumer mortgage receivables were securitized with the trust and the credit union retained ownership of the remaining interest in the pool. The credit union elected to apply all principal collected on the underlying consumer mortgage receivables against its interest in the co-ownership pool.

In March 2019, the credit union bought back the total outstanding securitized pool in the amount of $26,591. As a result of the buyback, there were no amounts outstanding under this program at December 31, 2020 or at December 31, 2019.

(d) Leases receivable securitized:

The credit union securitizes leases receivable to manage funding and interest rate risk. Leases receivable are securitized through Mercado Financing Ltd., a special purpose vehicle wholly owned by Mercado Capital Corporation. Under this structure, the trust that acquires the leases receivable has no recourse to any other assets of the credit union. Similarly, Mercado Financing Ltd.'s assets are not available to satisfy any claims of creditors of the credit union.

Securitized leases receivable do not qualify for derecognition principally due to the credit union retaining significant exposure to credit and prepayment risks associated with the transferred leases receivable. As such, these transactions are accounted for as financing activities and result in the recognition of securitization debt obligations for the securitization proceeds received which are subsequently measured at amortized cost.

(Expressed in thousands of dollars, unless otherwise indicated)

9. Loans and leases receivable (continued):

(d) Leases receivable securitized (continued):

During 2020, the credit union securitized $15,822 (2019 - $22,096) of leases receivable. The balance of leases receivable recognized in the consolidated statement of financial position that have been securitized at December 31, 2020 was $47,597 (2019 - $56,582). At December 31, 2020, the securitization debt obligations relating to leases receivable securitized were $48,345 (2019 - $57,227).

The table below is a continuity schedule showing the change during the year ended December 31 in the carrying amounts of the securitization debt obligations relating to leases receivable securitized that did not qualify for derecognition.

	2020	2019
Balance at January 1	$ 57,227	$ 59,022
Net cash changes	(8,899)	(1,762)
Other	17	(33)
Balance at December 31	$ 48,345	$ 57,227

Securitization debt obligations associated with leases receivable securitized are limited recourse liabilities. The special purpose vehicles or trusts have recourse against the cash flows on the securitized leases receivable. In addition, the credit union funds a cash reserve account. Credit losses on leases receivable are applied against the cash reserve account. The balance of the cash reserve account is returned to the credit union as the securitized assets amortize. The balance of the cash reserve account is included in cash and cash equivalents in the consolidated statement of financial position. At December 31, 2020, the balance of the cash reserve account was $4,481 (2019 - $3,899) (note 7).

(Expressed in thousands of dollars, unless otherwise indicated)

10. Members' deposits:

	2020	2019
Demand deposits	$ 2,335,553	$ 932,041
Term deposits	3,218,230	1,708,051
Registered savings plans	504,070	264,810
Member shares	600	281
Accrued interest payable	35,435	24,570
	$ 6,093,888	$ 2,929,753

The number of member shares issued at December 31, 2020 was 600,295 (2019 - 280,785). Each member is required to hold a total of five shares with a par value of $1 per share. These shares entitle the holder to membership in the credit union, access to the products and services offered and to other member entitlements. Member shares do not earn interest or share in the earnings of the credit union and are redeemed at par upon termination of membership.

11. Borrowings:

As at December 31, 2020, the credit union had three approved credit facilities totaling $558,000 (2019 - $248,000). The first, with Central 1, is secured by a general charge over the assets of the credit union. For credit facilities with other financial institutions, security in the amount of $181,013 (2019 - $116,511) has been provided by a first charge against specific insured consumer mortgages which are in priority position in relation to the general charge of Central 1. All borrowings are repayable within 12 months.

As part of the business combination (note 2), the credit union acquired borrowings in the form of a credit facility of $54,998 which was subsequently repaid on January 2, 2020. During the year ended December 31, 2020, the credit union did not draw on its credit facilities at any other time (2019 - nil). The amount outstanding under the credit facilities at December 31, 2020 was nil (2019 - nil).

As part of the business combination (note 2), the credit union also acquired borrowings in the form of a subordinated debt agreement in the amount of $15,000. The agreement had an original term to maturity of 10 years with a maturity date of June 26, 2027. On January 9, 2020, the credit union exercised the available option to prepay and satisfy in full all debts, liabilities, and obligations owing under the subordinated debt agreement.

(Expressed in thousands of dollars, unless otherwise indicated)

12. Derivatives:

The table below presents the fair value and notional amounts of the credit union's derivative liabilities at December 31, 2020:

	Notional Amount	Fair Value
Interest rate swaps		
Pay fixed	$ 20,000	$ (754)

Prospera acquired several derivatives on the business combination at January 1, 2020. The fair values of these instruments included in the net assets acquired were $282 of derivative assets and $1,809 of derivative liabilities (note 2).

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period, based on agreed upon fixed and floating rates. Notional amounts are the contract amounts used to calculate the cash flow and are not exchanged; they do not represent credit or market risk exposure. The credit union manages credit risk by dealing with counterparties with a minimum credit rating of "A" and setting specific limits for investments with those counterparties.

The credit union is subject to an enforceable master netting arrangement in the form of an International Swaps and Derivatives Association (ISDA) agreement with a derivative counterparty. Under the terms of that agreement, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreement. No amounts are offset and presented net on the consolidated statement of financial position.

During the year ended December 31, 2020, a loss of $1,011 was recorded in unrealized gains (losses) on financial instruments measured at fair value through profit and loss (note 23).

In 2020, the credit union derecognized all of the derivatives except the interest rate swap noted above and recorded a gain upon disposal of $3,496 (2019 - nil) in realized gains on financial instruments measured at fair value through profit and loss.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Financial instruments:

(a) Financial assets and financial liabilities by category:

The following tables summarize the credit union's financial assets and financial liabilities by category at December 31, excluding leases receivable which are measured at the credit union's net investment in leases.

2020	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
Cash and cash equivalents	$ 36,157	$ 382,771	$ -	$ 418,928
Investments	235,371	988,570	-	1,223,941
Loans	5,316,713	49,369	-	5,366,082
Members' deposits	(6,093,888)	-	-	(6,093,888)
Accounts payable and accrued liabilities	(38,919)	-	-	(38,919)
Securitization debt obligations	(791,478)	-	-	(791,478)
Derivative liabilities	-	(754)	-	(754)
Lease liabilities	(38,841)	-	-	(38,841)
	$ (1,374,885)	$ 1,419,956	$ -	$ 45,071

2019	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
Cash and cash equivalents	$ 18,371	$ 70,567	$ -	$ 88,938
Investments	35,474	499,587	-	535,061
Loans	2,568,669	-	-	2,568,669
Members' deposits	(2,929,753)	-	-	(2,929,753)
Accounts payable and accrued liabilities	(14,429)	-	-	(14,429)
Securitization debt obligations	(383,299)	-	-	(383,299)
Lease liabilities	(26,974)	-	-	(26,974)
	$ (731,941)	$ 570,154	$ -	$ (161,787)

(b) Fair value information:

The fair value hierarchy established under IFRS categorizes inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Financial instruments (continued):

(b) Fair value information (continued):

The following table sets out the fair values of the credit union's financial assets and financial liabilities recognized in the statement of financial position at December 31, and the levels of the fair value hierarchy within which the fair value measurements are categorized, as compared to the carrying amounts:

2020	Fair value Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets:					
Measured at fair value:					
Cash equivalents	$ -	$ 382,771	$ -	$ 382,771	$ 382,771
Investments	6,588	981,982	-	988,570	988,570
Loans	-	-	49,369	49,369	49,369
Measured at amortized cost:					
Cash and cash equivalents	36,157	-	-	36,157	36,157
Investments	-	236,340	-	236,340	235,371
Loans	-	5,395,645	-	5,395,645	5,316,713
Leases receivable	-	281,226	-	281,226	278,619
	$ 42,745	$ 7,277,964	$ 49,369	$ 7,370,078	$ 7,287,570
Financial liabilities:					
Measured at amortized cost:					
Members' deposits	$ -	$ 6,035,991	$ -	$ 6,035,991	$ 6,093,888
Accounts payable and accrued liabilities	38,919	-	-	38,919	38,919
Securitization debt obligations	-	803,462	-	803,462	791,478
Derivative liabilities	-	754	-	754	754
	$ 38,919	$ 6,840,207	$ -	$ 6,879,126	$ 6,925,039

2019	Fair value Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets:					
Measured at fair value:					
Cash equivalents	$ -	$ 70,567	$ -	$ 70,567	$ 70,567
Investments	1,141	498,446	-	499,587	499,587
Measured at amortized cost:					
Cash and cash equivalents	18,371	-	-	18,371	18,371
Investments	-	35,360	-	35,360	35,474
Loans	-	2,570,097	-	2,570,097	2,568,669
Leases receivable	-	348,100	-	348,100	348,377
	$ 19,512	$ 3,522,570	$ -	$ 3,542,082	$ 3,541,045
Financial liabilities:					
Measured at amortized cost:					
Members' deposits	$ -	$ 2,891,133	$ -	$ 2,891,133	$ 2,929,753
Accounts payable and accrued liabilities	14,429	-	-	14,429	14,429
Securitization debt obligations	-	380,505	-	380,505	383,299
	$ 14,429	$ 3,271,638	$ -	$ 3,286,067	$ 3,327,481

13. Financial instruments (continued):

(b) Fair value information (continued):

During the years ended December 31, 2020 and 2019, there were no transfers between the levels of fair value hierarchy.

Valuation methodologies:

Fair values for financial assets are determined based on quoted market prices ("Level 1") when available. When a financial asset is not quoted in an active market, fair value is determined using quoted prices for similar instruments, other third party evidence or valuation techniques, including discounted future cash flows, that estimate the price at which an orderly transaction to sell the financial asset would take place between market participants at the measurement date under current market conditions. When using valuation techniques, the credit union maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The carrying amounts of cash and cash equivalents, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of the financial assets.

The fair values of loans (other than loans carried at fair value), leases receivable and members' deposits with fixed rates and fixed maturity dates are measured as the present value of future cash flows at current market interest rates offered for financial instruments with similar terms and risks ("Level 2"). Other inputs to the valuation model for measuring fair values of fixed rate loans and leases receivable include scheduled loan amortization rates and estimated prepayment rates.

The fair values of securitization debt obligations are estimated based on the present value of the future cash flows, discounted using the credit union's current rate of borrowing ("Level 2").

The fair value of derivative financial instruments is determined by using quoted market benchmark rates from an independent source. The valuation method used includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data ("Level 2").

The fair values of the preferred share investments are based on quoted market prices ("Level 1"). The fair values of investments that are considered "Level 2" include the following:

- the fair values of investments in liquidity deposits, principal and interest reinvestment accounts and sub note - junior notes are estimated based on the present value of future cash flows, discounted using current market interest rates for investments with similar risks and maturity dates ("Level 2").
- the fair value of investments in Central 1 Class A and Class F shares are based on the redemption amount ("Level 2"), which is equal to par.

(Expressed in thousands of dollars, unless otherwise indicated)

13. Financial instruments (continued):

(b) Fair value information (continued):

Valuation methodologies (continued):

- the fair value of investments in Central 1 Class E shares is estimated based on their cost, unless redemption is likely, in which case the fair value equals the redemption amount ("Level 2"). As permitted by IFRS 9, the cost of Central 1 Class E shares is considered an appropriate estimate of the fair value when there is insufficient more recent information available to measure fair value.
- as permitted by IFRS 9 in limited circumstances, the costs of investments in equity securities of other financial service providers are considered appropriate estimates of the fair values ("Level 2") due to insufficient more recent information available to measure fair value.

Included in loans is a portfolio of consumer loans acquired on January 1, 2020 as part of the business combination that is carried at fair value (note 2). Fair value is calculated using a valuation model that considers the present value of the expected net cash flows to be generated from the loan portfolio, taking into account the risk free rate, loss given default, credit spread, and prepayment rates.

The following table reconciles the credit union's Level 3 fair value measurement of the loan portfolio from opening balance to closing balance at December 31:

	2020
Balance at January 1	$ -
Loans acquired on business combination	68,093
Principal payments received	(17,690)
Current year write off experience	(2,035)
Current year recoveries	538
Change in fair value estimate	463
Balance at December 31	$ 49,369

(Expressed in thousands of dollars, unless otherwise indicated)

13. Financial instruments (continued):

(b) Fair value information (continued):

Valuation methodologies (continued):

The key inputs used in the valuation of the fair model of the loan portfolio are shown in the following table.

Input	2020
Risk free rate	0.25% to 1.67%
Loss given default	90%
Credit spread	2.41% to 14.99%
Prepayment rate	0.05% to 3.73%

The sensitivity of fair value to changes in Level 3 inputs for the loan portfolio is shown in the following table.

		2020	
Input		Increase	Decrease
Change in risk free rate	50 bps	$ (527)	$ 527
Change in loss given default	1,000 bps	(704)	704
Change in credit spread	100 bps	(1,006)	1,043
Change in prepayment rate	100 bps	(470)	470

14. Financial risks and risk management:

The nature of Prospera's business activities results in a consolidated statement of financial position that consists primarily of financial instruments. The types of risks arising from these financial instruments to which the credit union is exposed and the credit union's objectives, policies and processes for managing the risks and the methods used to measure the risks are described below.

(a) Credit risk:

Credit risk is the risk of financial loss for the credit union resulting from a borrower's or lessee's inability to repay or from the inability of a counterparty to a financial instrument to complete or fulfill financial obligations to the credit union. Credit risk arises principally from loans, leases receivable and investments. There is also credit risk in cash and cash equivalents, unfunded loan and lease receivable commitments, interest rate swaps, and letters of credit.

Credit risk management:

Management of credit risk is an integral part of the credit union's activities and is managed in accordance with lending and investment policies approved by the Board of Directors. These policies identify authorized loans, leases receivable and investment types, limit asset

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

concentrations, stipulate credit evaluation standards and delegate approval authorities. Management policies have also been implemented including evaluating a member's ability to

Credit risk management (continued):

repay a loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over-limit amounts. Management carefully monitors and manages the credit union's exposure to credit risk by a combination of methods. The overall management of credit risk is centralized in the Management Credit Committee, which reports to the Board's Risk, Investment and Loan Committee, which in turn reports to the Board of Directors. The Risk, Investment and Loan Committee and the Board of Directors are responsible for approving and monitoring the credit union's tolerance for credit exposures which is done through review and approval of the credit union's lending policies and through the monitoring of limits on credit exposures to individual members and across sectors.

The credit union employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced. The credit union maintains investment and lending policies which impose guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral types for loans and leases receivable are:

- mortgages over residential and commercial properties;
- charges over vehicles, other property, or over business assets such as equipment, inventory, accounts receivable and other assets; and
- charges over financial instruments such as deposits or other securities.

Credit risk arises from investments held by the credit union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by Treasury which reports to the Asset-Liability Committee, which in turn reports to the Risk, Investment and Loan Committee. These investments are limited to approved, reputable counterparties that are monitored on an ongoing basis to ensure that an appropriate risk-return profile is maintained in keeping with the credit union's policies. There are also limits on concentrations of individual asset types to ensure that the portfolio is well diversified.

Inputs and assumptions for measuring expected credit losses:

(*i*) Significant increase in credit risk:

A SICR is considered to have occurred when the remaining lifetime probability of default of a financial asset has increased significantly since initial recognition.

For consumer loans and consumer leases receivable, SICR is assessed based on the movements in credit scores since initial recognition. For commercial loans, SICR is assessed based on movements in internal risk ratings assigned to each financial asset since initial recognition. For commercial leases receivable, SICR is assessed based on whether there have been one or more missed payments since initial recognition.

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued):

(i) Significant increase in credit risk (continued):

For all loans and leases receivable, a SICR is considered to have occurred when the financial assets are more than 30 days past maturity and outstanding. The credit union also employs qualitative measures to identify loans and leases that have significantly deteriorated in credit quality.

For cash and cash equivalents and investments measured at amortized cost and investments in debt instruments measured at FVOCI, SICR is assessed based on deterioration in the external credit ratings of the financial instruments' counterparties from investment grade to non-investment grade.

(ii) Calculating expected credit losses:

As permitted by IFRS 9, the loss allowance for Stage 1 and Stage 2 loans and leases receivable is 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.

Where modeling is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- line of business (consumer banking, commercial banking, consumer leasing, and commercial leasing);
- credit risk ratings, which are based on ranges of similar Beacon scores (consumer loans and leases receivable), internal risk ratings (commercial loans), or payment history (commercial leases receivable);
- collateral type;
- insured status; and
- similar expected prepayment rates or draw down rates.

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued):

(*ii*) Calculating expected credit losses (continued):

Probability of default::

The 12-month ECL for Stage 1 assets and lifetime ECL for Stage 2 assets are calculated using the 12-month PD and lifetime PD, respectively and are determined as follows:

- consumer banking and consumer leasing assets - based on Beacon scores, and the credit union's average historical annual default rate for the relevant PD segment.
- commercial banking assets - 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.
- commercial leasing assets - based on the number of missed payments for the assets and the credit union's average historical annual default rate for the relevant PD segment.

The lifetime PD for all loans and leases receivable are calculated based on the 12-month PD 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. LGD is primarily estimated based on the current collateral values of the financial assets discounted for the time to obtain and collect on the collateral upon default, the estimated costs to obtain and collect on the collateral, and the current book value of the financial asset. Current collateral values are primarily based on external market evidence at the reporting date (e.g., property valuations from Landcor Data Corporation and vehicle valuations from Canadian Black Book). When external market evidence is not available, the current collateral value is based on the appraised value of the collateral at origination or estimated based on the initial capital costs.

Forward-looking information and macroeconomic factors:

The FLF component represents management's estimate of the impacts on the ECL of forward-looking information and forecasts of macroeconomic conditions to the credit union's ECL. 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 ECL. Multiple scenarios are forecasted to ensure that estimates of ECL are unbiased.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued):

(*ii*) Calculating expected credit losses (continued):

Forward-looking information and macroeconomic factors (continued):

The forward-looking and macroeconomic factors considered in determining the FLF inputs to the ECL calculation at December 31, 2020 and December 31, 2019 were GDP, interest rates, housing starts, vacancy data, house pricing index and unemployment rate. The forecasting of forward-looking information required a heightened application of judgement in a number of areas as the forecast reflects numerous assumptions and uncertainties regarding the economic impact of the COVID-19 pandemic including the pace of economic recovery and vaccination.

The primary macroeconomic variables used to estimate ECL are as follows:

Forward-looking information	Next 12 months	Remaining forecast period
GDP[1]	4.40% to 5.50%	4.00% to 5.20%
Interest rates – overnight rate	0.25%	0.50%
House pricing index change	1.50%	N/A
Unemployment rate[1]	6.50% to 9.60%	5.60% to 7.20%
Housing starts	(4.43)%	5.22%

[1] Range includes various provinces in which loans and leases receivable are located

Management judgement and overlays have been utilized in assessing the potential impact of government support programs, member and customer deferrals, and the expected duration of the pandemic. The ultimate impacts will depend on future developments that are highly uncertain, such as the scope, severity and duration of the pandemic and actions taken by governments, monetary authorities, regulators, financial institutions and other third parties in response.

Exposure at default:

The EAD is an estimate of a loan or lease receivable 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 or lease receivable. Expected prepayments (partial or full) prior to maturity is estimated on a portfolio basis.

For lines of credit and multi-advance commercial loans that allow borrowers to draw down on the loans over time to coincide with construction progress, the EAD is determined based on the credit union's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Inputs and assumptions for measuring expected credit losses (continued):

(*ii*) Calculating expected credit losses (continued):

Time value of money:

The 12-month and lifetime ECL 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 and leases receivable.

Credit-impaired financial assets:

When identifying loans and leases receivable that are credit-impaired for which the loss allowance for ECL is calculated individually, the credit union determines whether indicators of a borrower's unlikeliness to pay exist. Evidence that a financial asset of the credit union is credit-impaired includes observable data about the following events:

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

The credit union applies the following quantitative thresholds for identifying loans and leases receivable that are credit-impaired:

- commercial loans or leases receivable risk rated poor;
- loans or leases receivable that are 90 or more days past due or classified as non-performing loans or recovery loans (lines of credit); and
- loans or leases receivable that are 90 or more days past maturity and outstanding.

Cash and cash equivalents and investments:

The credit union is required to recognize a loss allowance on cash and cash equivalents and investments measured at amortized cost, and investments measured at FVOCI, at each reporting date. The 12-month ECL for Stage 1 financial assets and lifetime ECL for Stage 2 financial assets are based on external credit ratings of the financial instruments' counterparties and historical PD data provided by Moody's. As of December 31, 2020, there is no loss allowance recognized for these assets (2019 - nil).

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses:

The following tables show reconciliations from the opening balance to the closing balance of the credit union's ECL allowance on loans and leases receivable, by class of financial asset and stage. The credit union segmented its financial assets into four segments representing shared credit risk characteristics defined as Consumer loans and Commercial loans, representing all mortgages and loans, and Consumer leases and Commercial leases, representing vehicle and equipment leases.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Balance at January 1	$ 73	$ 215	$ 166	$ 454
Change in provision	106	211	298	615
Balance at December 31	$ 179	$ 426	$ 464	$ 1,069
Commercial loans:				
Balance at January 1	$ 2,028	$ 1,552	$ 243	$ 3,823
Change in provision	991	4,926	549	6,466
Balance at December 31	$ 3,019	$ 6,478	$ 792	$ 10,289
Consumer leases:				
Balance at January 1	$ 132	$ 263	$ 6	$ 401
Change in provision	(21)	(12)	48	15
Balance at December 31	$ 111	$ 251	$ 54	$ 416
Commercial leases:				
Balance at January 1	$ 850	$ 895	$ 67	$ 1,812
Change in provision	81	157	(35)	203
Balance at December 31	$ 931	$ 1,052	$ 32	$ 2,015
Total balance at January 1	$ 3,083	$ 2,925	$ 482	$ 6,490
Total change in provision	1,157	5,282	860	7,299
Total balance at December 31	$ 4,240	$ 8,207	$ 1,342	$ 13,789

There were no significant changes to ECL due to changes in gross carrying amounts during the year.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses (continued):

	2019			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Balance at January 1	$ 107	$ 265	$ 55	$ 427
Change in provision	(34)	(50)	111	27
Balance at December 31	$ 73	$ 215	$ 166	$ 454
Commercial loans:				
Balance at January 1	$ 1,517	$ 2,043	$ 263	$ 3,823
Change in provision	511	(491)	(20)	-
Balance at December 31	$ 2,028	$ 1,552	$ 243	$ 3,823
Consumer leases:				
Balance at January 1	$ 98	$ 159	$ 21	$ 278
Change in provision	34	104	(15)	123
Balance at December 31	$ 132	$ 263	$ 6	$ 401
Commercial leases:				
Balance at January 1	$ 747	$ 907	$ 40	$ 1,694
Change in provision	103	(12)	27	118
Balance at December 31	$ 850	$ 895	$ 67	$ 1,812
Total balance at January 1	$ 2,469	$ 3,374	$ 379	$ 6,222
Total change in provision	614	(449)	103	268
Total balance at December 31	$ 3,083	$ 2,925	$ 482	$ 6,490

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Allowance for credit losses (continued):

As part of the business combination (note 2), Prospera purchased a portfolio of loans that were considered credit impaired at the acquisition date. These loans consisted of Legacy PCU's Stage 3 assets and had a fair value adjustment on acquisition equal to their lifetime expected credit losses of $1,613. IFRS 9 prescribes specific treatment in respect of purchased or originated assets that are credit-impaired at initial recognition ("POCI" assets). At initial recognition, POCI assets do not carry an impairment allowance. However, at subsequent reporting periods, the credit union is required to assess the change in lifetime expected credit losses related to these assets and record this change as a current year impairment gain or loss. As at December 31, 2020, the remaining balance of the lifetime expected credit losses for these POCI assets was $560. No additional impairment allowance was recorded in 2020 for these assets. A net impairment gain of $400 was recorded in bad debt recoveries in 2020.

The amounts recognized in the consolidated statement of income for impairment losses on financial assets during the years ended December 31 were as follows:

	2020	2019
Increase (decrease) in allowance for credit losses - loans	$ 7,081	$ 27
Increase (decrease) in allowance for credit losses - leases receivable	218	241
Direct write-offs - loans	306	258
Direct write-offs - leases receivable	1,463	1,782
Decrease in loss allowance for unguaranteed lease residual values	-	(500)
	$ 9,068	$ 1,808

Credit quality and credit risk exposures - loans and leases receivable:

The following tables set out information about the credit quality of the credit union's loans measured at amortized cost, leases receivable, letters of credit and other credit risk exposures, by stage at December 31, 2020 and December 31, 2019. The amounts in the table represent the gross values of the credit union's committed and undrawn exposures to credit risk. The acquisition date of loans acquired through the business combination is January 1, 2020, which is the initial recognition date in assessing whether there has been a SICR. As a result, all loans acquired were either classified as Stage 1 or POCI assets on acquisition.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Credit quality and credit risk exposures - loans and leases receivable (continued):

2020	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Excellent	$ 2,841,365	$ 240,509	$ 486	$ 3,082,360
Good	821,304	375,008	2,044	1,198,356
Fair	57,890	108,878	108	166,876
Poor	10,619	57,214	5,345	73,178
	$ 3,731,178	$ 781,609	$ 7,983	$ 4,520,770
Commercial loans:				
Excellent	$ 118,990	$ -	$ -	$ 118,990
Good	1,017,425	122,161	6,115	1,145,701
Satisfactory	144,445	71,323	4,288	220,056
Less than satisfactory	1,418	133,224	9,771	144,413
Credit-impaired	-	-	3,668	3,668
	$ 1,282,278	$ 326,708	$ 23,842	$ 1,632,828
Consumer leases:				
Excellent	$ 53,693	$ 3,524	$ 237	$ 57,454
Good	19,838	11,526	16	31,380
Fair	1,606	3,634	7	5,247
Poor	110	3,211	1	3,322
	$ 75,247	$ 21,895	$ 261	$ 97,403
Commercial leases:				
Excellent	$ 167,153	$ 1,169	$ 102	$ 168,424
Good	-	6,551	-	6,551
Fair	-	2,880	-	2,880
Poor	-	4,047	-	4,047
	$ 167,153	$ 14,647	$ 102	$ 181,902
Total	$ 5,255,856	$ 1,144,859	$ 32,188	$ 6,432,903

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Credit quality and credit risk exposures - loans and leases receivable (continued):

2019	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Excellent	$ 1,299,882	$ 84,645	$ 9	$ 1,384,536
Good	469,278	218,050	-	687,328
Fair	44,985	83,379	8	128,372
Poor	5,560	37,179	3,011	45,750
	$ 1,819,705	$ 423,253	$ 3,028	$ 2,245,986
Commercial loans:				
Excellent	$ 20,604	$ -	$ -	$ 20,604
Good	595,477	34,094	-	629,571
Satisfactory	-	5,874	-	5,874
Less than satisfactory	87	20,796	-	20,883
Credit-impaired	-	-	5,606	5,606
	$ 616,168	$ 60,764	$ 5,606	$ 682,538
Consumer leases:				
Excellent	$ 58,235	$ 2,251	$ 22	$ 60,508
Good	28,736	13,439	5	42,180
Fair	3,090	6,135	-	9,225
Poor	798	3,911	-	4,709
	$ 90,859	$ 25,736	$ 27	$ 116,622
Commercial leases:				
Excellent	$ 214,797	$ 1,775	$ 32	$ 216,604
Good	-	7,006	-	7,006
Fair	-	2,497	133	2,630
Poor	-	4,772	35	4,807
	$ 214,797	$ 16,050	$ 200	$ 231,047
Total	$ 2,741,529	$ 525,803	$ 8,861	$ 3,276,193

Cash equivalents and investments in debt and equity instruments - measured at FVTPL:

At December 31, 2020, the carrying amount of cash equivalents and investments measured at FVTPL of $1,371,341 (2019 - $570,154) represents the credit union's maximum exposure to credit risk on these assets. The credit risk exposure on these assets is considered low as the majority of these assets are high quality investments with low risk counterparties.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(a) Credit risk (continued):

Collateral held and other credit enhancements:

As part of its lending activities, the credit union takes security as collateral for loans and leases receivable. The credit union maintains guidelines on the acceptability of specific types of collateral. Management monitors the amount of exposure to limit any concentrations of risk and to ensure that the overall loans and leases receivable portfolios are diversified in keeping with the credit union's policies.

For undrawn commitments, the commitment to advance funds is contingent on the pledging of acceptable collateral, in keeping with the credit union's policies.

Where significant impairment indicators are identified, the credit union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The following tables set out information on the collateral held by the credit union as security for its loans and leases receivable at December 31:

2020	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 649,656	$ 2,731,952	$ 9,057	$ -	$ -	$ -	$ 3,390,665
Consumer loans	-	304,212	45,106	2,554	15,853	84,005	451,730
Commercial mortgages	-	1,157,332	5,685	2,238	4,735	-	1,169,990
Commercial loans	-	314,813	1,879	1,717	33,126	2,905	354,440
Vehicle leases receivable	-	-	-	202,941	-	-	202,941
Equipment leases receivable	-	-	-	-	76,364	-	76,364
	$ 649,656	$ 4,508,309	$ 61,727	$ 209,450	$ 130,078	$ 86,910	$ 5,646,130

2019	Insured mortgages	First mortgages	Other mortgages	Vehicles and transport	Other assets	Unsecured	Total
Consumer mortgages	$ 433,703	$ 1,225,499	$ 17,106	$ -	$ -	$ 308	$ 1,676,616
Consumer loans	-	151,903	57,824	1,427	4,784	20,564	236,502
Commercial mortgages	-	372,536	758	-	-	-	373,294
Commercial loans	-	273,164	8	23	7,987	1,286	282,468
Vehicle leases receivable	-	-	-	226,812	-	-	226,812
Equipment leases receivable	-	-	-	-	120,857	-	120,857
	$ 433,703	$ 2,023,102	$ 75,696	$ 228,262	$ 133,628	$ 22,158	$ 2,916,549

14. Financial risks and risk management (continued):

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the impact that changes in interest rates may have on income and economic values due to the mismatch between positions that are subject to interest rate adjustments in a specified period. Interest rate risk results primarily from differences in the maturity dates or repricing dates of interest-bearing assets and liabilities. The credit union monitors interest rate risk inherent in the portfolio. It employs techniques, including maturity and repricing schedules and portfolio modeling to measure interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of the credit union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Other types of interest rate risk may involve basis risk, which is the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (e.g., the difference between prime lending rates and savings deposit rates). As all premises lease contracts are at fixed rates, the credit union's lease liabilities are not subject to interest rate risk.

Net interest income may increase or decrease in response to changes in market interest rates. Accordingly, the credit union sets limits on the level of interest rate risk exposure. Interest rate risk is managed by Treasury and monitored by the Asset-Liability Committee.

Income simulation is used to assess the credit union's interest rate exposure. Interest rate shock analysis involves measuring the impact of a change of 100 basis points or greater in interest rates. Income simulation and interest rate shock analysis are calculated monthly and reported to the Asset-Liability Committee quarterly. At December 31, 2020, the credit union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $6,169 (2019 - increase net interest income by $316) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $5,953 (2019 – decrease net interest income by $988) over the next 12 months.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(b) Interest rate risk (continued):

Interest rate risk measurement:

The following tables summarize the carrying amounts of the credit union's financial assets and financial liabilities and resulting interest rate sensitivity based on the earlier of the contractual repricing or maturity dates (adjusted for prepayment assumptions):

2020	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	0.71%	$ 418,928	$ -	$ -	$ -	$ -	$ 418,928
Investments	0.82%	388,292	588,855	240,374	2,595	3,825	1,223,941
Loans	3.28%	1,799,807	825,559	2,223,311	518,148	(743)	5,366,082
Leases receivable	5.67%	29,648	81,646	161,797	6,214	(686)	278,619
	2.81%	$ 2,636,675	$ 1,496,060	$ 2,625,482	$ 526,957	$ 2,396	$ 7,287,570
Liabilities							
Members' deposits	1.09%	$ 3,140,157	$ 2,066,495	$ 837,394	$ 13,807	$ 36,035	$ 6,093,888
Securitization debt obligations	1.68%	60,857	315,329	414,501	4,639	(3,848)	791,478
Derivative liabilities	-	-	-	-	-	754	754
Accounts payable and accrued liabilities	-	-	-	-	-	38,919	38,919
	1.15%	$ 3,201,014	$ 2,381,824	$ 1,251,895	$ 18,446	$ 71,860	$ 6,925,039
Notional amount of derivatives							
Pay Fixed	1.73%	$ -	$ -	$ -	$ (20,000)	$ -	$ (20,000)
Received floating	0.48%	$ 20,000	$ -	$ -	$ -	$ -	$ 20,000
Interest rate sensitivity gap	1.66%	$ (544,339)	$ (885,764)	$ 1,373,587	$ 488,511	$ (69,464)	$ 362,531

2019	Effective rate	Within 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	1.80%	$ 88,938	$ -	$ -	$ -	$ -	$ 88,938
Investments	1.71%	137,117	266,201	75,843	40,191	15,709	535,061
Loans	3.83%	1,013,045	329,886	992,705	233,244	(211)	2,568,669
Leases receivable	5.85%	34,250	93,501	208,623	11,295	708	348,377
	3.66%	$ 1,273,350	$ 689,588	$ 1,277,171	$ 284,730	$ 16,206	$ 3,541,045
Liabilities							
Members' deposits	1.85%	$ 1,553,460	$ 1,131,375	$ 206,026	$ 14,041	$ 24,851	$ 2,929,753
Securitization debt obligations	2.05%	43,241	63,657	244,484	31,764	153	383,299
Accounts payable and accrued liabilities	-	-	-	-	-	14,429	14,429
	1.87%	$ 1,596,701	$ 1,195,032	$ 450,510	$ 45,805	$ 39,433	$ 3,327,481
Interest rate sensitivity gap	1.79%	$ (323,351)	$ (505,444)	$ 826,661	$ 238,925	$ (23,227)	$ 213,564

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result in the credit union being unable to meet financial obligations in a timely manner and at reasonable prices.

(Expressed in thousands of dollars, unless otherwise indicated)

14. Financial risks and risk management (continued):

(c) Liquidity risk (continued):

To mitigate this risk, the credit union is required by regulation to maintain sufficient levels of liquid assets. Required liquidity levels are expressed as a percentage of members' deposits, borrowings and the portion of securitization debt obligation relating to consumer mortgages. The minimum liquidity levels required by regulation are 8% in 2020 (2019 - 8%). At December 31, 2020 and 2019, the credit union's liquidity exceeded the required level.

Liquidity is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain prudent levels of liquidity in relation to its members' deposits and other debt obligations, in order to retain customer confidence in the credit union and to enable the credit union to meet all financial obligations. This is achieved through management of loan portfolio growth in relation to deposit growth, asset securitizations, and asset-liability maturity management techniques. The credit union also maintains committed borrowing facilities that it can access to meet liquidity needs (note 11).

Management reviews forecasts of the credit union's liquidity requirements on a monthly basis as part of its liquidity management program and ensures funding is available to meet cash requirements.

<u>Liquidity risk measurement:</u>

The table below sets out the contractual maturities of the credit union's financial liabilities which shows the undiscounted future cash flows contractually payable by the credit union:

2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Members' deposits	$ 2,642,287	$ 429,167	$ 2,186,673	$ 867,787	$ 26,409	$ 6,152,323
Securitization debt obligations	7,992	22,382	318,187	445,945	10,809	805,315
Accounts payable and accrued liabilities	38,919	-	-	-	-	38,919
Derivative liabilities	-	-	(253)	(635)	-	(888)
Total financial liabilities	$ 2,689,198	$ 451,549	$ 2,504,607	$1,313,097	$ 37,218	$ 6,995,669

2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Members' deposits	$ 1,128,696	$ 369,880	$ 1,213,376	$ 222,518	$ 43,430	$ 2,977,900
Securitization debt obligations	6,139	9,734	55,640	288,034	45,579	405,126
Accounts payable and accrued liabilities	14,429	-	-	-	-	14,429
Total financial liabilities	$ 1,149,264	$ 379,614	$ 1,269,016	$ 510,552	$ 89,009	$ 3,397,455

14. Financial risks and risk management (continued):

(d) Equity price risk:

The credit union's investment portfolio includes equity investments. Fluctuations in the value of equity securities impact the recognition of both realized and unrealized gains and losses on equity investments. The credit union has policies in place to limit and monitor its exposure to individual issuers and classes of securities.

A 10% change in equity prices would have a $659 impact on net income for the year ended December 31, 2020 (2019 - $114). This analysis is based on the assumption that all equity investments increase/decrease in price while all other variables are held constant.

(e) Foreign exchange risk:

The credit union is subject to currency risk which arises on financial instruments that are denominated in a foreign currency. Foreign exchange risk is managed in accordance with a policy approved by the Board of Directors. The credit union's policy is to limit the maximum unhedged aggregate exposure to foreign currency to US$5 million. The foreign exchange exposure for the year ended December 31, 2020 is within the policy limit.

During the year ended December 31, 2020, the credit union recognized foreign exchange income of $949 (2019 - $1,461) in unrealized gains (losses) on financial instruments at FVTPL and other income in the consolidated statement of income.

(f) Capital management:

Capital risk is the potential for adverse changes or an event that creates an inadequate or insufficient capital base required to support the credit union's strategic intent and/or regulatory requirements.

The FIA regulations prescribe the minimum required capital that must be held by the credit union. The level of capital required is based on the risk-weighted value of the assets held by the credit union. The prescribed minimum ratio of capital to risk-weighted assets is 8%, along with a requirement that at least 35% of its capital base consist of retained earnings. Capital is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain a prudent relationship between the capital base and the underlying risks of the business, in order to support business growth and expansion of services to members. Credit union policy requires that a capital ratio of 12% (2019 - 11.5%) be maintained.

Management regards a strong capital base as an integral part of the credit union's business strategy. The credit union's objectives for capital management include maintaining substantially all credit union capital in the form of retained earnings. The credit union maintains a capital plan to ensure that long-term capital requirements are met. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

At December 31, 2020 and 2019, the credit union's capital ratios were in compliance with the regulatory requirements and with the credit union's internal policy requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

15. Premises and equipment:

2020	Computer and ATM equipment	Furniture and equipment	Leasehold improvements	Land and building	Total
Balance at January 1	$ 1,029	$ 4,020	$ 3,732	$ -	$ 8,781
Impact of business combination (note 2)	1,621	2,293	1,716	3,450	9,080
Additions	191	466	1,902	-	2,559
Disposals	(13)	(58)	-	-	(71)
Depreciation	(1,188)	(2,254)	(1,055)	(104)	(4,601)
Balance at December 31	$ 1,640	$ 4,467	$ 6,295	$ 3,346	$ 15,748
At December 31					
Cost	$ 6,276	$ 15,903	$ 15,870	$ 3,450	$ 41,499
Accumulated depreciation	(4,636)	(11,436)	(9,575)	(104)	(25,751)
Carrying amount	$ 1,640	$ 4,467	$ 6,295	$ 3,346	$ 15,748

2019	Computer and ATM equipment	Furniture and equipment	Leasehold improvements	Land and building	Total
Balance at January 1	$ 1,264	$ 4,032	$ 2,927	$ -	$ 8,223
Additions	158	1,436	1,240	-	2,834
Disposals	-	-	-		-
Depreciation	(393)	(1,448)	(435)	-	(2,276)
Balance at December 31	$ 1,029	$ 4,020	$ 3,732	$ -	$ 8,781
At December 31					
Cost	$ 4,630	$ 13,627	$ 13,283	$ -	$ 31,540
Accumulated depreciation	(3,601)	(9,607)	(9,551)	-	(22,759)
Carrying amount	$ 1,029	$ 4,020	$ 3,732	$	$ 8,781

During 2020 the credit union disposed of assets resulting in a net loss of $68 which was recognized in the consolidated statement of income within other income (note 24). During 2019 the credit union did not dispose of any premises and equipment.

Depreciation of premises and equipment is recognized in the consolidated statement of income within occupancy and equipment expenses (note 27).

(Expressed in thousands of dollars, unless otherwise indicated)

16. Right-of-use assets:

	2020
Balance at January 1	$ 25,647
Impact of business combination (note 2)	15,204
Additions	3,530
Depreciation	(7,621)
Balance at December 31	$ 36,760
At December 31	
Cost	$ 48,669
Accumulated depreciation	(11,909)
Carrying amount	$ 36,760

	2019
Balance at January 1	$ -
Recognition of ROU asset on initial application of IFRS 16	25,940
Adjusted balance at January 1, 2019	25,940
Additions	4,468
Depreciation	(4,761)
Balance at December 31	$ 25,647
At December 31	
Cost	$ 30,408
Accumulated depreciation	(4,761)
Carrying amount	$ 25,647

Depreciation of right-of-use assets is recognized in the consolidated statement of income within occupancy and equipment expenses (note 27).

(Expressed in thousands of dollars, unless otherwise indicated)

17. Intangible assets:

2020	Computer software licences	Other intangible assets	Core deposit intangibles	Total
Balance at January 1	$ 1,056	$ 222	$ -	$ 1,278
Impact of business combination (note 2)	-	-	4,000	4,000
Additions	-	-	-	-
Disposals	(45)	-	-	(45)
Amortization	(383)	(157)	(497)	(1,037)
Balance at December 31	$ 628	$ 65	$ 3,503	$ 4,196
At December 31				
Cost	$ 5,039	$ 2,192	$ 4,000	$ 11,231
Accumulated amortization and impairment	(4,411)	(2,127)	(497)	(7,035)
Carrying amount	$ 628	$ 65	$ 3,503	$ 4,196

2019	Computer software licences	Other intangible assets	Core deposit intangibles	Total
Balance at January 1	$ 1,301	$ 378	$ -	$ 1,679
Additions	354	-	-	354
Disposals	(201)	-	-	(201)
Amortization	(398)	(156)	-	(554)
Balance at December 31	$ 1,056	$ 222	$ -	$ 1,278
At December 31				
Cost	$ 5,084	$ 2,192	$ -	$ 7,276
Accumulated amortization and impairment	(4,028)	(1,970)	-	(5,998)
Carrying amount	$ 1,056	$ 222	$ -	$ 1,278

Amortization of intangible assets is recognized in the consolidated statement of income within general and administrative expenses (note 26).

(Expressed in thousands of dollars, unless otherwise indicated)

18. Other assets:

	2020	2019
Repossessed property (note 9(b))	$ 1,579	$ 4,101
Accounts receivable	2,390	1,349
Prepaid expenses	5,386	1,647
	$ 9,355	$ 7,097

During the year ended December 31, 2020, the credit union recognized impairment losses of $2,547 (2019 - $1,585) on repossessed property, included in impairment losses on other assets in the consolidated statement of income. During the year ended December 31, 2020, the credit union recognized recoveries from repossessed property of $1,491 (2019 - $630), included in fee and commission income in the consolidated statement of income.

19. Lease liabilities:

2020	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 7,686	$ (1,106)	$ 6,580
Between one and five years	23,853	(2,591)	21,262
More than five years	11,811	(812)	10,999
Balance at December 31	$ 43,350	$ (4,509)	$ 38,841

2019	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 4,436	$ (778)	$ 3,658
Between one and five years	13,225	(2,197)	11,028
More than five years	13,370	(1,082)	12,288
Balance at December 31	$ 31,031	$ (4,057)	$ 26,974

20. Retirement benefit obligations:

Retirement benefit plans are provided to the credit union's employees through various defined contribution, defined benefit, supplemental retirement and multi-employer retirement benefit plans. Other post-retirement benefits including health care, dental benefits or cash alternatives are provided to eligible credit union employees upon or after retirement.

As a result of the business combination that took effect on January 1, 2020 (note 2), the credit union acquired four defined retirement benefit plans. When combined with the three plans in operation prior to this event, the credit union now operates seven defined retirement benefit plans, five of which are funded by the credit union based on actuarially prescribed amounts and two are unfunded where benefits are paid by the credit union at the time of entitlement. The risk characteristics and assumptions are similar for all defined retirement benefit plans.

The credit union provides retirement benefits through three defined retirement benefit plans that serve a number of active, deferred, and retired employees but are closed to new entrants. These are the Westminster Savings Employee Pension Plan (the "WSEPP"), in addition to two plans acquired on January 1, 2020 as part of the business combination: the BC Credit Union Employees Pension Plan, 1.20% division (the "1.20% plan") and the Pension Plan for Former Employees of Fraser Valley Credit Union (the "FVPP"). Active participants in these defined retirement benefit plans continue to accrue benefits under the plans.

The credit union also acquired a non-pension post-retirement benefits plan (the "PRBP") on January 1, 2020 that provides benefits including health care and dental benefits to a small number of retired employees.

As a result of the business combination, participation in the 1.75% division of the multi-employer plan increased to reflect a broader group of employees. There is no retirement benefit obligation reflected in the statement of financial position for this plan (note 4(j)) and does not form part of the figures in the tables below.

The credit union has three defined retirement benefit Supplemental Employee Retirement Plans ("SERP 1", "SERP" 2 and "SERP 3"), collectively referred to as the SERPs. SERP 1 serves a small number of retired participants and is closed to new participants. SERP 2 became effective January 1, 2018 and serves a small number of participants. SERP 3 was acquired on January 1, 2020 as a result of the business combination and serves a small number of retired or deferred participants with no active members. New participants in SERP 2 and SERP 3 are subject to board approval.

The defined retirement benefit expense and plan contributions are determined in consultation with independent actuaries. The plans are required to have an actuarial valuation performed once every three years. For the defined retirement benefit portion of the WSEPP, SERP 1 and SERP 2 plans, the latest actuarial valuation was performed as at December 31, 2019 and for the 1.20% Plan, FVPP, SERP 3 and PRBP, as at December 31, 2018. The benefit obligation and plan assets for all defined retirement benefit plans as at December 31, 2020 have been estimated by the actuary by extrapolating the results

(Expressed in thousands of dollars, unless otherwise indicated)

20. Retirement benefit obligations (continued):

from the latest actuarial valuation performed using the assumptions noted. The next valuations are required to be completed in 2022 (1.20% Plan, FVPP, SERP 3 and PRBP), with an effective date of December 31, 2021 and 2023 (WSEPP, SERP 1 and SERP 2), with an effective date of December 31, 2022.

(a) Funded status of defined retirement benefit plans:

The credit union's net defined retirement benefit liability, presented as retirement benefit obligations in the consolidated statement of financial position, reflects the funded status of the defined retirement benefit portion of the plans. The funded status of these plans is calculated as the difference between the fair value of the plan assets and the present value of the retirement benefit obligations as follows:

	2020	2019
Fair value of plan assets		
Fair value of plan assets, beginning of year	$ 66,013	$ 61,278
Fair value of plan assets acquired in the year (note 2)	27,642	-
Interest income on plan assets	2,884	2,455
Return on plan assets greater (less) than discount rate	3,621	2,106
Employer contributions	5,172	3,766
Benefit payments	(7,457)	(3,592)
Fair value plan assets, end of year	97,875	66,013
Present value of defined retirement benefit obligations		
Benefit obligation, beginning of year	88,024	71,327
Obligations acquired in the year (note 2)	33,864	-
Current service cost	6,059	4,334
Interest cost	3,769	2,781
Benefit payments	(7,457)	(3,592)
Actuarial (gain) loss	10,667	13,174
Benefit obligation, end of year	134,926	88,024
Deficiency of plan assets over obligations	$ (37,051)	$ (22,011)

The unfunded portion of the defined retirement benefit obligation (SERP 3 and PRBP) is $1,063 (2019 - nil). The accrued benefit obligation for SERP 3 is secured by an irrevocable letter of credit issued by the credit union in the amount of $534 (2019 - nil).

(Expressed in thousands of dollars, unless otherwise indicated)

20. Retirement benefit obligations (continued):

(b) Defined retirement benefit expense:

The amounts recognized in the consolidated statement of income for the defined retirement benefit expense, included in salary and employee benefits expense, were as follows:

	2020	2019
Current service cost	$ 6,059	$ 4,334
Net interest on net defined retirement benefit obligations	885	326
Defined retirement benefit expense	$ 6,944	$ 4,660

(c) Investment returns:

The expected return on the defined retirement benefit plan assets is determined by considering the discount rate that is used to measure the defined retirement benefit obligations. Expected yields on fixed interest investments are based on gross redemption yields at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

(d) Investment composition and diversification:

The actual return on plan assets for the year ended December 31, 2020, including interest income, was a gain of $6,505 (2019 - $4,561).

Assets for the defined retirement benefit plans are held in diversified and balanced funds in which the target asset allocation is mandated by the relative Pension Plan Investment Policies. The objective of these investment policies is to seek acceptable returns with low risk over the expected investment time horizon. The weighted average allocation of the fair value of plan assets, by asset class, at December 31 was as follows:

	2020	2019
Equity securities	40.8%	48.1%
Debt securities	45.7%	48.7%
Other	13.5%	3.2%
	100.0%	100.0%

(Expressed in thousands of dollars, unless otherwise indicated)

20. Retirement benefit obligations (continued):

(e) Actuarial assumptions:

Assumptions regarding future mortality experience are determined based on actuarial advice in accordance with published statistics and experience in Canada. Mortality assumptions are based on the Canadian Pension Mortality (CPM) tables. These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

The weighted average value of the significant assumptions used in the measurement of the present value of the defined retirement benefit obligations were as follows:

	2020	2019
Discount rate	2.6%	3.2%
Salary scale	2.9%	3.0%
Inflation	2.0%	2.0%

At December 31, 2020, the weighted average duration of the defined benefit obligations was 20.0 years (2019 - 20.2 years).

(f) Actuarial losses:

Actuarial gains and losses comprise the impact to the asset or liability arising from changes in assumptions used to actuarially determine the present value of the benefit obligation and related assets or differences between prior assumptions and actual experience.

Actuarial gains and losses on plan liabilities and assets are summarized below:

	2020	2019
Actuarial losses on plan liabilities	$ 10,667	$ 13,175
Actuarial (gains) on plan assets	(3,621)	(2,106)
	$ 7,046	$ 11,069

(Expressed in thousands of dollars, unless otherwise indicated)

20. Retirement benefit obligations (continued):

(g) Sensitivity to changes in discount rates:

The sensitivity of the credit union's defined benefit obligations to changes in the discount rate assumption is shown below:

	2020	2019
Discount rate:		
Impact of a 1% increase	$ (23,088)	$ (15,605)
Impact of a 1% decrease	30,643	19,477

The results shown in the sensitivity table were determined by recalculating the defined benefit obligations, changing only the assumption for which the sensitivity is required, and calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the prior period to the methods or assumptions used in preparing the sensitivity analysis.

(h) Defined retirement benefit contributions:

During the year ended December 31, 2020, the credit union made contributions of $5,172 (2019 - $3,766) to the defined retirement benefit plans. Expected contributions to the plans for the year ending December 31, 2021 are $4,922.

(i) Defined contribution retirement expense:

During the year ended December 31, 2020, the credit union recognized retirement expense of $425 (2019 - $213) in the consolidated statement of income, included in salary and employee benefits expense, representing the contributions to its defined contribution retirement benefit of the WSEPP.

(j) Participation in multi-employer plan:

The credit union also participates in a multi-employer defined benefit pension plan for certain eligible employees. The credit union is one of several employers that participate in the BC Credit Union Employees' Pension Plan with a 1.75% provision (the "1.75% division") that is a contributory defined benefit pension plan governed by a Board of Trustees. The 1.75% division is funded through contributions as determined through actuarial valuation, collectively, from the participating employers and employees based on the pensionable earnings and age of the respective participating employees. The contributions are expensed as invoiced by the 1.75% division (note 4(j)).

(Expressed in thousands of dollars, unless otherwise indicated)

20. Retirement benefit obligations (continued):

(j) Participation in multi-employer plan (continued):

During the year ended December 31, 2020, the credit union recognized pension expense of $2,454 (2019 – $2) in the consolidated statement of income, included in salary and employee benefits expense, representing the contributions to the 1.75% division.

The latest actuarial valuation for the 1.75% division was performed as at December 31, 2018 and the next valuation is required to be completed in 2021 with an effective date of December 31, 2020.

21. Net interest income:

	2020	2019
Interest income:		
Interest from cash and cash equivalents:		
At amortized cost	$ 142	$ 162
At FVTPL	759	2,222
Interest and dividends from investments:		
At FVTPL	10,561	7,095
At FVOCI	-	34
At amortized cost	3,099	613
Interest from loans	209,469	101,705
Interest from leases receivable	18,350	19,988
	242,380	131,819
Interest expense:		
Interest expense on borrowings	67	177
Interest expense on members' deposits	84,319	52,513
Interest expense on securitization debt obligations	19,181	8,868
Interest expense on derivatives	345	-
Interest expense on lease liabilities	1,305	880
	105,217	62,438
	$ 137,163	$ 69,381

(Expressed in thousands of dollars, unless otherwise indicated)

22. Net fee and commission income:

	2020	2019
Fee and commission income:		
Wealth management fees	$ 11,990	$ 6,478
Member service fees and commissions	7,261	2,995
Insurance, mortgage and visa commissions	2,638	1,583
Loan and leases receivable fees	1,490	780
ATM Network fees	505	342
Fee and commission income from contracts with customers	23,884	12,178
Bad debt recoveries	1,989	685
Total fee and commission income	25,873	12,863
Fee and commission expense:		
Member service expenses	2,559	1,072
Loan and leases receivable expenses	1,709	1,017
Loans and leases receivable securitization fees	733	301
Other fees	1,226	490
Total fee and commission expense	6,227	2,880
Net fee and commission income	$ 19,646	$ 9,983

23. Unrealized gains (losses) on financial instruments measured at FVTPL:

	2020	2019
Gains on investments	$ 8,988	$ 406
Foreign exchange losses on investments	(1,498)	(705)
Losses on derivatives	(1,011)	-
Losses on loans	(496)	-
	$ 5,983	$ (299)

24. Other income:

	2020	2019
Foreign exchange gains (losses)	$ 2,447	$ 2,166
Losses on disposition of assets (note 15)	(68)	-
Reclassification of realized gains on financial instruments measured at fair value through OCI to net income	-	122
	$ 2,379	$ 2,288

(Expressed in thousands of dollars, unless otherwise indicated)

25. Salary and employee benefits:

	2020	2019
Salaries and commissions expense	$ 63,207	$ 31,172
Employee benefits expense	16,112	8,206
Other	1,120	1,309
	$ 80,439	$ 40,687

26. General and administrative:

	2020	2019
Data processing and electronic banking	$ 11,627	$ 6,539
Consulting and legal	6,060	2,952
Insurance, audit and dues	4,748	3,686
Stationary, supplies and other	3,599	2,797
Marketing and sales expenses	1,242	1,533
Amortization of intangible assets	1,037	554
Community investment	482	384
	$ 28,795	$ 18,445

27. Occupancy and equipment:

	2020	2019
Depreciation of right-of-use assets	$ 7,621	$ 4,761
Property tax and common area	4,398	2,586
Depreciation of premises equipment	4,601	2,276
Repairs and maintenance, utilities and security	2,753	1,327
Rent	268	296
	$ 19,641	$ 11,246

(Expressed in thousands of dollars, unless otherwise indicated)

28. Income taxes:

		2020		2019
Current taxes:				
Corporate tax on income for the year	$	3,891	$	2,366
Other		(40)		(549)
Adjustment resulting from business combination		1,450		-
		5,301		1,817
Deferred taxes:				
Origination and reversal of temporary difference		(358)		303
Change in estimated tax rate applied		1,017		251
		659		554
Income tax expense	$	5,960	$	2,371

The combined federal and provincial corporate income tax rate for 2020 is 27.0% (2019 - 27.0%). The credit union's income tax expense (recovery) differs from the amount that would arise using the combined corporate income tax rate as a result of the following items:

	2020			2019		
		Amount	% of pre-tax income		Amount	% of pre-tax income
Income taxes based on combined statutory income tax rates	$	7,687	27.0 %	$	3,675	27.0 %
Credit union rate reduction		(2,887)	(10.1)%		(1,326)	(9.7)%
Non-deductible or taxable items		(25)	(0.1)%		(45)	(0.3)%
Effect of change in estimated tax rate on deferred tax provision		1,017	3.6 %		252	1.8 %
Other		168	0.5 %		(185)	(1.4)%
Actual income tax expense	$	5,960	20.9 %	$	2,371	17.4 %

The effective tax rate for 2020, based on income before tax, was 20.9% (2019 - 17.4%). Deferred taxes are calculated on temporary differences under the liability method using tax rates expected to apply when the liability is settled, or the asset is realized. Deferred tax assets and liabilities recognized in the statement of financial position at December 31 are attributable to the following items:

(Expressed in thousands of dollars, unless otherwise indicated)

28. Income taxes (continued):

	2020	2019
Deferred tax assets:		
Pension	$ 6,592	$ 4,716
Allowance for losses on loans and leases receivable	2,747	1,238
Deferred revenues	1,174	1,601
Loss carryforward	85	2,001
Premises and equipment	475	254
ROU assets and lease liabilities, net	403	241
Leasing	1,004	-
Members' deposits	458	-
	$ 12,938	$ 10,051
Deferred tax liabilities:		
Pension	$ 148	$ 443
Leasing	12,716	12,224
Deferred expenses	1,516	1,914
Core deposit intangible	678	-
	$ 15,058	$ 14,581
Net deferred tax assets[1]	$ 1,943	$ 1,782
Net deferred tax liabilities[1]	$ (4,063)	$ (6,312)

[1] Deferred tax assets and liabilities are assessed by legal entity and presented on a net basis on the statement of financial position.

29. Contingencies and commitments:

The credit union is involved in various claims arising in the normal course of business, in which the likelihood of a loss and amount of loss, if any, is not readily determinable. The outcome of such matters, individually or in aggregate, may be material to the consolidated financial position or results of operations of the credit union.

The credit union is committed to payments for information systems under contracts for $15,027 (2019 - $8,634).

(Expressed in thousands of dollars, unless otherwise indicated)

30. Related party transactions:

Related parties of the credit union include wholly owned subsidiaries, various retirement plans including the WSEPP, the FVPP, the PRBP and SERPs (note 20), and Westminster Savings Foundation, as well as directors and key management personnel and their close family members.

As a sponsor of the retirement plans, the credit union provides administrative services to the plans. These services are not charged to the plans. For the FVPP, SERP 1, SERP 2 and the WSEPP, actuarial and other administrative expenses of these plans are paid directly by the plans. For the PRBP and SERP 3, the credit union paid $6 (2019 – nil) of actuarial and other administrative expenses.

Deposits maintained on behalf of Westminster Savings Foundation by the credit union at December 31, 2020 amounted to $296 (2019 - $439). The credit union paid interest of $7 during the year ended December 31, 2020 (2019 - $6) on these deposits.

During the year the credit union did not sell any investments to the Westminster Savings Foundation. In 2019 the credit union sold preferred shares to the Westminster Savings Foundation at the fair market value of $646.

(a) Directors and key management personnel:

Directors and key management personnel include all members of the Prospera Board of Directors, and key management who have authority for planning, directing or controlling the activities of the organization, and their close family members.

A number of banking transactions are entered into with directors and key management personnel (and close family members) in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of such transactions, outstanding balances at December 31, and related expense and income for the years ended December 31 were as follows:

	Loans		Deposits	
	2020	2019	2020	2019
Balance at January 1	$ 1,840	$ 750	$ 2,152	$ 2,311
Net transactions during the year	2,150	1,090	280	(159)
Balance at December 31	$ 3,990	$ 1,840	$ 2,432	$ 2,152
Interest income earned on loans/ paid on deposits during the year	$ 64	$ 34	$ 46	$ 18

There was no allowance for credit losses recognized in respect of loans receivable from related parties at December 31, 2020 (2019 - nil) and no impairment losses recognized during the year ended December 31, 2020 (2019 - nil). The loans receivable from directors and key management personnel (and close family members) at December 31, 2020 and 2019, are repayable monthly over a range of 1 to 5 years and have interest rates ranging from 0.75% to 4.95%. The loans advanced to the directors and key management personnel (and close family members) during the year are secured by real estate or chattels.

(Expressed in thousands of dollars, unless otherwise indicated)

30. Related party transactions (continued):

(a) Directors and key management personnel (continued):

The deposits from directors and key management personnel (and close family members) outstanding at December 31, 2020 and 2019 are unsecured, carry interest rates from nil (2019 – nil) to 2.75% (2019 – 2.80%) and are repayable on demand or up to 5 years for term deposits.

(b) Key management compensation:

Post-employment and termination benefits, representing retirement pension obligations and termination benefit amounts paid or payable to directors and members of key management who left the organization during the years ended December 31, recognized in the consolidated statement of income in salary and employee benefits expense, were as follows:

	2020	2019
Salaries and other short-term employee benefits	$ 5,925	$ 4,641
Post-employment and termination benefits	654	625
Total	$ 6,579	$ 5,266

31. Subsequent events:

Prior to 2021 the credit union maintained its statutory liquidity requirement in the form of an investment in deposits with Central 1. Central 1 invested the funds from these deposits in marketable securities that qualified as high-quality liquid assets (“HQLA”). As mandated by the credit unions’ regulator (BCFSA), this structure changed on January 1, 2021.

In the new structure, the credit union now maintains its statutory liquidity requirement by investing directly in HQLA. To transition to this new structure, on January 1, 2021 the statutory liquidity deposits of $612,857 held in the mandatory liquidity pool at Central 1 were extinguished to exchange for HQLA of an equivalent amount. The HQLA are now held in a trust, with the credit union as beneficiary, Central 1 as the trustee and Credential Qtrade Securities Inc. as the investment manager.

As part of this restructuring, Central 1 redeemed at par the credit union’s investment in Central 1 Class F shares for proceeds of $26,731. The segregation of the mandatory liquidity pool did not have an income statement impact on the credit union.