Consolidated financial statements of
Westoba Credit Union Limited

December 31, 2020

Management's Responsibility

To the Members of

Westoba Credit Union Limited

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

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

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report.
The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external accountants. The Board is also responsible for recommending the appointment of the Credit Union's external auditor.

Deloitte LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

John R Ediger

Chief Executive Officer

February 22, 2021

Deloitte LLP
2300 – 360 Main Street
Winnipeg MB R3C 3Z3
Canada

Tel: 204-944-3601
Fax: 204-947-9390
www.deloitte.ca

Independent Auditor's Report

To the Members of
Westoba Credit Union Limited

Opinion

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

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 22, 2021

Westoba Credit Union Limited

Summary consolidated statement of financial position

As at December 31, 2020

	2020	2019
	$	$
Assets		
Cash and cash equivalents	**68,366,597**	47,663,934
Accounts receivable	**2,837,320**	1,657,507
Investments	**203,572,535**	165,993,829
Income taxes receivable	**181,844**	114,697
Derivative asset	**34,201**	348,858
Property held for sale	**919,826**	919,826
Member loans receivable	**1,242,318,799**	1,127,623,188
Prepaid expenses and deposits	**2,639,841**	2,341,016
Property and equipment	**21,694,764**	23,213,191
Right of use asset	**912,757**	1,095,308
Goodwill	**868,310**	868,310
	1,544,346,794	1,371,839,664
Liabilities		
Member deposits	**1,423,357,264**	1,269,968,810
Accounts payable and accrued liabilities	**4,354,653**	7,028,538
Securitized borrowings	**20,381,288**	—
Lease liability	**901,831**	1,085,753
Derivative liability	**3,135,021**	769,951
Deferred income tax liabilities	**176,530**	619,967
	1,452,306,587	1,279,473,019
Members' equity		
Member shares	**18,537,321**	17,724,424
Retained earnings	**73,502,886**	74,642,221
	92,040,207	92,366,645
	1,544,346,794	1,371,839,664

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

Approved on behalf of the Board

______________________, Director

______________________, Director

Westoba Credit Union Limited

Summary consolidated statement of comprehensive income

Year ended December 31, 2020

	2020	2019
	$	$
Interest income		
Member loans	**43,463,714**	43,056,943
Investments	**4,471,027**	7,078,683
	47,934,741	50,135,626
Interest expense	**20,247,811**	22,050,062
Net interest income	**27,686,930**	28,085,564
Operating expenses		
Administration	**7,405,343**	8,068,672
Amortization	**2,122,899**	2,056,604
Member Security	**1,185,027**	1,080,296
Occupancy	**1,865,110**	1,860,614
Organizational	**734,217**	788,682
Personnel	**15,247,063**	16,115,108
	28,559,659	29,969,976
Other income	**7,545,649**	6,717,138
Income before the following	**6,672,920**	4,832,726
Provision for credit losses	**5,334,216**	828,144
Unrealized and realized losses on derivatives	**2,555,508**	922,564
Loss (gain) on sale of fixed assets	**27,442**	(28,031)
	7,917,166	1,722,677
Net (loss) income before income taxes	**(1,244,246)**	3,110,049
Income tax expense (recovery)		
Current	**47,580**	406,498
Deferred	**(443,437)**	328,112
	(395,857)	734,610
Net (loss) income and comprehensive (loss) income	**(848,389)**	2,375,439

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

Westoba Credit Union Limited

Summary consolidated statement of changes in members' equity

Year ended December 31, 2020

	Member shares	Retained earnings	Total equity
	$	$	$
Balance January 1, 2019	14,489,243	72,709,556	87,198,799
Net income and comprehensive income	—	2,375,439	2,375,439
Issuance of member shares	4,359,241	—	4,359,241
Redemption of member shares	(1,124,060)	—	(1,124,060)
Dividend on preference shares, net of tax recovery	—	(442,774)	(442,774)
Balance December 31, 2019	17,724,424	74,642,221	92,366,645
Net income and comprehensive income	—	(848,389)	(848,389)
Issuance of member shares	1,277,014	—	1,277,014
Redemption of member shares	(464,117)	—	(464,117)
Dividend on preference shares, net of tax recovery	—	(290,946)	(290,946)
Balance December 31, 2020	**18,537,321**	**73,502,886**	**92,040,207**

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

Westoba Credit Union Limited
Summary consolidated statement of cash flows
Year ended December 31, 2020

	2020	2019
	$	$
Operating activities		
Net (loss) income	**(848,389)**	2,375,439
Adjustments for:		
Net interest income	**(27,686,930)**	(28,085,564)
Provisions for credit losses	**5,334,216**	828,144
Unrealized and realized losses on derivatives	**2,555,508**	922,564
Loss (gain) on sale of fixed assets	**27,442**	(28,031)
Amortization of property and equipment	**1,926,639**	1,874,017
Amortization of right of use asset	**182,551**	182,587
Current income tax expense	**47,580**	406,498
Deferred income tax recovery	**(443,437)**	328,112
Changes in non-cash working capital		
Member loans receivable, net of repayments	**(119,784,296)**	(38,863,175)
Accounts receivable	**(1,179,813)**	(1,089,509)
Prepaid expenses and deposits	**(298,825)**	(838,621)
Member deposits, net of withdrawals	**154,068,842**	27,947,805
Securitized borrowings	**20,381,288**	—
Accounts payable and accrued liabilities	**(2,490,976)**	924,643
Interest received	**48,003,539**	50,460,282
Interest paid	**(20,928,199)**	(20,539,072)
Income taxes paid	**(113,826)**	(622,810)
	58,752,914	(3,816,691)
Investing activities		
Investment purchases	**(180,696,635)**	(149,208,328)
Investment proceeds upon maturity	**142,803,600**	158,185,800
Additions to property and equipment	**(435,654)**	(336,397)
Proceeds on disposal of property and equipment	-	28,031
	(38,328,689)	8,669,106
Financing activities		
Capital lease payments	**(183,922)**	(192,142)
Issuance of members' shares, net of redemptions	**812,897**	3,235,180
Dividend paid on preference shares	**(350,537)**	(509,190)
	278,438	2,533,848
Net increase in cash and cash equivalents during the year	**20,702,663**	7,386,263
Cash and cash equivalents, beginning of the year	**47,663,934**	40,277,671
Cash and cash equivalents, end of the year	**68,366,597**	47,663,934

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

1. Reporting entity information

Westoba Credit Union Limited (the "Credit Union") was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba. The Credit Union serves members in Brandon, Winnipeg and the surrounding communities.

The consolidated financial statements of the Credit Union, as at and for the year ended December 31, 2020 are comprised of the Credit Union and two wholly owned subsidiaries, Westoba Financial Solutions Ltd. and Westoba Financial Services Limited. Together, these entities are referred to as Westoba Credit Union Limited. The address of the Credit Union's registered office is 220 10th Street, Brandon, Manitoba, R7A 4E8.

2. Basis of preparation

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").

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the following:

- Financial assets held at fair value through profit and loss (FVTPL), which have been measured at fair value, which include certain investments and derivatives; and
- Property held for resale which is measured at the lower of fair value less costs to sell and the carrying value of the asset at the time it was classified as held for sale.

These consolidated financial statements for the year ended December 31, 2020 were approved and authorized for issue by the Board of Directors on February 22, 2021.

Functional and presentation currency

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries Westoba Financial Services Limited and Westoba Financial Solutions Ltd. All intercompany assets and liabilities, equity, income and expenses relating to transactions between Westoba and its subsidiaries are eliminated in full upon consolidation.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

3. Significant accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Financial instruments

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

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issues of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The measurement categories are as follows:

- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVTOCI"); or
- Amortized cost.

The application of these categories specifically is as follows:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is to both collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

The Credit Union holds no debt instruments that are subsequently measured at FVTOCI.

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. The principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

An originated or acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Credit Union determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business model objective. The Credit Union's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Credit Union has business models for managing its financial instruments which reflect how the Credit Union manages its financial assets in order to generate cash flows. The Credit Union's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Credit Union considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Credit Union does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

Debt instruments at amortized cost

The Credit Union assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Credit Union's business model for managing the asset.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

At initial recognition of a financial asset, the Credit Union determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Credit Union reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Credit Union has not identified a change in its business models.

Debt instruments are measured at amortized cost using the effective interest method, and are subject to impairment. See the *Impairment* section below. Interest income on debt instruments at amortized cost is recognized in interest on member loans receivable and investment income on the statement of income and other comprehensive income.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability, and of allocating interest income or expense over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at FVTPL

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; and/or
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 22.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment

The Credit Union assesses loss allowance for ECL on its financial instruments that are not measured at FVTPL. Loss allowances are recognized on member loans receivable (Note 8).

No impairment loss is recognized on equity instruments.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. Lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are an estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Credit Union under the contract and the cash flows that the Credit Union expects to receive, discounted at the asset's EIR.

The Credit Union measures ECL on an individual basis. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

a) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit impaired. The Credit Union assesses whether debt instruments that are financial assets measured at amortized cost are credit-impaired at each reporting date.

b) Definition of default

The Credit Union considers a financial instrument to be in default (Stage 3) as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or value of the underlying collateral.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

b) Definition of default (continued)

In addition to these observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. The Credit Union does not currently rebut this presumption except for certain insured loans where, due to the strength of the underlying credit enhancement, it is reasonably certain that collection efforts will result in a full recovery of the defaulted loan.

c) Significant increase in credit risk

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. In making this assessment, the Credit Union considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

There is a particular focus on assets that are included on a 'watch list', given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Credit Union considers the credit score changes of its members and events such as bankruptcy.

There is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue. The Credit Union currently does not rebut this presumption.

More information about credit risk is provided in Note 22.

d) Model parameters

The following variables represent the key inputs in the Credit Union's ECLs:

- Probability of Default ("PD") – an estimate of the likelihood of default over a given time horizon.
- Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.
- Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.

These parameters are generally derived from aggregated historical loss data within the Credit Union system by major asset class.

These inputs and assumptions are assessed each reporting period considering both positive and negative aspects of the current economic environment. ECL models use some historical information in their methodologies and assumptions, and therefore are not able to address all considerations of the current economic state. Sensitivities are performed to address this by changing the input or assumptions based on the best information that is available. Where a sensitivity shows that the loan book has a risk that is not adequately covered by the model calculation, the sensitivity is used to provide justification of any overlay that is applied to the ECL. As at December 31, 2020, management has applied an overlay of $3,683,180 for certain commercial loans significantly impacted by the COVID-19 pandemic.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

e) Forward looking information

The measurement of ECLs for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

In its models, the Credit Union relies on forward-looking macroeconomic factors, such as housing starts, unemployment rates and real GDP.

The Credit Union utilizes multiple probability-weighted scenarios to estimate the forward-looking macroeconomic factors. The Credit Union considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Credit Union relies upon forecasts generated by an external vendor. The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by the Credit Union using judgment.

Typically the Credit Union will probability-weight the "base case" scenario most heavily as it represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

f) Write-offs

The Credit Union writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may occur earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the consolidated statement of comprehensive income.

g) Presentation of provision for credit losses

The Credit Union presents its provision for credit losses in the consolidated financial statements as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount;
- For debt instruments measured at FVOCI, no allowance is recognized in the consolidated statement of financial position because the carrying value of these assets is their fair value. However, the amount of impairment that would otherwise have been recognized had the instrument been measured at amortized cost is reclassified from accumulated other comprehensive income ("AOCI") to the consolidated statement of comprehensive income; and
- For undrawn lending commitments, as a provision in accounts payable.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

h) *Modification and derecognition of financial assets*

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine significant increase in credit risk. Where modification results in derecognition, the original asset is derecognized, and the new asset is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized as a gain or loss in the income statement.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities may be designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities at FVTPL are measured at fair value with changes in fair value being recognized in the consolidated statement of income and comprehensive income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

With the exception of its derivative financial instruments which are FVTPL, the Credit Union's holdings in financial liabilities are classified as measured at amortized cost.

Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost, which is considered to be equivalent to fair value due to the short-term nature of these assets.

Member loans receivable

Member loans receivable include personal loans, residential mortgages and commercial loans, and are recognized when the cash is advanced to the borrower. All member loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are subsequently measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued)

Syndication

The Credit Union syndicates groups of assets with various other financial institutions primarily to create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's consolidated statement of financial position. All loans syndicated by the Credit Union have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income over the period the services are performed.

Securitization

The Credit Union securitizes groups of assets by selling them to an independent special or qualifying special purpose entity ("SPE") or trust. Such transactions create liquidity for the Credit Union and release capital for future needs. As the Credit Union remains exposed to substantially all of the risks and rewards of the transferred assets, the underlying loans have not been derecognized and continue to be recognized in the Credit Union's consolidated statement of financial position with a corresponding liability being recognized as securitized borrowings.

Derivatives

The Credit Union uses interest rate swap derivatives to manage its exposure to interest rate risk. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

As at December 31, 2020, the Credit Union has no embedded derivatives that require bifurcation.

Property and equipment

Property and equipment are measured at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

	Method	Rate
Buildings	Straight-line	2.5%
Automobiles	Straight-line	20%
Computer equipment	Straight-line	33%
Furniture and fixtures	Straight-line	20%
Leasehold improvement	Straight-line	term of lease
Security equipment	Straight-line	20%

3. Significant accounting policies (continued)

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income and comprehensive income. Assets in progress or under construction are not amortized until completed and put into use.

Leases

The lease liability is initially measured at the present value of the future 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. The lease liability is measured at amortized cost using the effective interest method. The Credit Union assesses at lease commencement whether it is reasonably certain to exercise an extension or termination option to include in the lease term. The lease liability is then remeasured when there is a change in the expected future lease payments or if there is a significant event or change in circumstance that would impact whether it is reasonably certain to exercise options to extend or terminate the lease. When there is a remeasurement, a corresponding adjustment is made to the carrying amount of the right of use ("ROU") asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to below zero.

Lease payments included in the measurement of the lease liability comprise of; fixed payments, in-substance fixed payments, variable lease payments that depend on an index or a rate, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The Credit Union recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and expenditures that are directly attributable to the acquisition of the asset. The ROU asset is subsequently amortized using the straight-light method from the commencement date of the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property, plant and equipment above. The ROU asset is periodically reviewed for impairments, if any, and adjusted for certain remeasurements of the lease liability.

The Credit Union has elected to not recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases and recognizes these lease payments as an occupancy expense on a straight-line basis over the lease term. Variable lease payments that are not included in the measurement of the lease liability are included in occupancy expense.

Goodwill

Goodwill is recorded as the excess of consideration transferred over the fair value of the identifiable net assets acquired in a business combination, less accumulated impairment charges, and is allocated to the cash-generating units expected to benefit from the acquisition for the purpose of impairment testing. These cash-generating units represent the lowest level at which goodwill is monitored for internal management purposes.

3. Significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

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

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Accounts payable and accrued liabilities

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

Member deposits

Member deposits are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued)

Member shares

Member shares are classified equity in accordance with their terms.

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The interest income is calculated by applying the effective interest rate to the gross carrying amount of the non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the effective interest rate to the amortized cost of the credit-impaired financial assets.

Other income includes service charges on products, transaction fees, other fees and commissions, which are recognized over the period the services are performed.

Income taxes

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

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

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

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

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

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the year-end date. Translation gains and losses are recognized in profit or loss for the current period.

COVID-19

The global pandemic declared by the World Health Organization on March 11, 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgements exercised by management. Although the development of successful vaccine candidates towards the end of 2020 signals a turning point in pandemic, ongoing delays in the deployment of these vaccine and continuing public health restrictions indicate that the pandemic

3. Significant accounting policies (continued)

will continue to negatively impact the Canadian and Manitoban economy for the foreseeable future.

The main effects of the COVID-19 pandemic on the Credit Union's consolidated financial statements for the year ended December 31, 2020 are as follows:

- During the early stages of the pandemic, the Credit Union offered certain relief measures to its members, including a loan deferral program. As at year end, the Credit Union has discontinued these widespread programs and the majority of members who took advantage of the program have reverted to their normal payment terms.
- The Credit Union experienced a significant increase in liquidity as public health restrictions and financial uncertainty caused many members to change their spending habits and increase their savings.
- Lower interest rates resulting in compressed interest margin combined with increased allowances for credit losses, particularly for commercial loans in heavily impacted sectors, significantly reduced the Credit Union's profit and loss as compared to the previous year.

In response to the COVID-19 pandemic, the Government of Canada introduced a number of assistance programs to help individuals and businesses through the pandemic. The Credit Union participated in the following assistance programs:

- **Canada Emergency Business Account ("CEBA"):** under the CEBA program, the Credit Union has provided interest-free loans until December 31, 2022 (and at a rate of 5% thereafter), funded by the Export Development Bank of Canada ("EDC"), to existing eligible small business members. As the Credit Union does not retain substantially all of the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from the Credit Union's consolidated statement of financial position.
- **Canadian Emergency Wage Subsidy ("CEWS"):** the Credit Union has applied for government assistance under the CEWS program, whereby companies meeting specified eligibility criteria based on declines in revenue experienced during the pandemic are eligible to receive a subsidy to cover a portion of their employee wages. The Credit Union has determined that there is reasonable assurance that it will comply with all conditions attached the program and that payment will be received and therefore has recognized the estimated CEWS funding as revenue within other income on a systemic basis over the periods in which the associated personnel expenses were incurred.

Change in accounting policies

The following new standards, and their resulting consequential amendments were applied for the first time in the current year:

IFRS 3 Business combinations

Effective January 1, 2020, the Credit Union adopted amendments to IFRS 3 Business combinations. The amendments to IFRS 3 provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. It is applied prospectively for annual periods beginning on or after January 1, 2020. The implementation of the amendments to IFRS 3 had no impact on the Credit Union in the current year.

IAS 1 Presentation of Financial Statements

Effective January 1, 2020, the Credit Union adopted amendments to IAS 1 Presentation of financial statements. The amendments to IAS 1 provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. It is applied prospectively for annual periods beginning on or

3. Significant accounting policies (continued)

after January 1, 2020. The implementation of the amendments to IAS 1 did not have a significant impact on the Credit Union.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2020, the Credit Union adopted amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments to IAS 8 provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. It is applied prospectively for annual periods beginning on or after January 1, 2020. The implementation of the amendments to IAS 8 did not have a significant impact on the Credit Union.

4. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, profits and losses during the reporting period. Accordingly, actual results may differ from those estimates. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on historical experience and other factors, including expectations with regard to future events.

The following are the critical judgments that management have made in the process of applying the Credit Union's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Allowance for credit losses

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investments that are determined to have low credit risk at the reporting date and loans where credit risk has not increased significantly since their initial recognition. The measurement of loss allowances on loans is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgments are also required in applying the account requirements for measuring the ECL, such as:

- Determining criteria for significant increase of credit risk: IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Credit Union takes into account qualitative and quantitative reasonable and supportable information.
- Choosing appropriate models and assumptions: The Credit Union uses various models and assumptions in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.
- When measuring ECL the Credit Union uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers.
- Probability of default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, and assumptions/expectations of future conditions.
- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

The allowance for credit losses on member loans receivable is disclosed in more detail in Note 8.

4. Significant accounting judgments, estimates and assumptions (continued)

Impairment of non-financial assets

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

Income taxes

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

Fair value measurements and valuation processes

Some of the Credit Union's financial assets and liabilities are measured at fair value for financial reporting purposes or the fair value is disclosed. In estimating the fair value, the Credit Union uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Credit Union utilizes valuation techniques, such as discounted cash flow models to calculate the fair value.

Classification of financial assets

Business Model Assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Credit Union's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated;
- The stated objective for managing the financial asset, frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. Examples of events that could change the amount and timing of cash flows are leverage features, prepayment and extension terms, terms that limit the Credit Union's claim to cash flows from specified assets, and features that modify consideration of the time value of money.

5. Investments

	2020	2019
	$	$
Equity investments		
Credit Union Central of Manitoba shares	**11,141,015**	17,167,030
Other shares and investments	**5,421,313**	5,421,313
Debt investments		
Credit Union Central of Manitoba term deposits	**186,722,650**	142,803,600
Accrued interest	**287,557**	601,886
	203,572,535	165,993,829

Terms deposits consist of 15 deposits earning interest between 0.11% and 0.25% (1.70% and 1.96% in 2019). The term deposit maturities range from January 2021 to March 2021 (2019 - January to May 2020).

The Credit Union is required to maintain 8.00% of its total member deposits in specified liquidity deposits offered by CUCM. As of December 31, 2020 the Credit Union met this requirement.

The Credit Union has classified its investment in Credit Union Central of Manitoba ("CUCM") and Concentra Bank ("Concentra") equity securities as FVTPL. The Credit union has assessed that these equity securities exhibit characteristics that indicate that fair value approximates cost.

The shares in CUCM are required as a condition of membership with CUCM. There is no active market for these shares as they are issued only by virtue of membership in CUCM. The shares are redeemable upon withdrawal of membership or at the discretion of the board of directors of CUCM. The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with the Credit Unions Act (Manitoba) providing for the redemption of its share capital.

The shares in Concentra are not quoted in an active market and are redeemable at par value subject to the approval of OSFI and the requirements of the Bank Act (Canada). Where fair value can be reasonably estimated, such as when redemption value is equal to par value, the equity instrument is measured at par value, which is the best estimate of fair value.

6. Derivatives

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of the transactions outstanding at December 31 and are indicative of either the market risk or credit risk.

6. Derivatives (continued)

		2020	2019
	1-5 years	**>5 years**	
	$	**$**	$
Derivatives at FVTPL			
Interest rate swaps	**868,923**	**36,062,961**	38,104,576

			2020	2019
	Assets	**Liabilities**	**Net fair value**	Net fair value
	$	**$**	**$**	$
Derivatives at FVTPL				
Interest rate swaps	**34,201**	**(3,135,021)**	**(3,100,820)**	(421,093)

The Credit Union currently enters into interest rate swaps with Credit Union Central of Manitoba to manage exposure to interest rate risk. The Credit Union pays a fixed interest rate ranging from 1.54% to 2.63% (2019 – 1.54% to 2.63%) and receives a floating interest rate ranging from the CAD-BA-CDOR 1 month rate to the CAD-BA-CDOR 3 month rate. Unrealized losses on these derivatives is $2,206,640 (2019 – losses of $905,441) and realized losses on these derivatives is $348,868 (2019 – losses of $17,123).

7. Member loans receivable

	2020	2019
	$	$
Personal	**173,668,222**	146,043,288
Residential mortgages	**524,469,489**	435,105,236
Commercial	**550,806,521**	548,090,962
	1,248,944,232	1,129,239,486
Less: allowance for credit losses (Note 8)	**(6,625,433)**	(1,616,298)
Net loans to members	**1,242,318,799**	1,127,623,188

Residential mortgages are repayable in monthly blended principal and interest installments over a maximum term of five years based on a maximum amortization period of thirty years.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

7. Member loans receivable (continued)

Concentration of credit risk and collateral held as security

	2020	2019
	$	$
Unsecured loans	**299,418,872**	267,429,445
Residential mortgages secured by residential properties		
Uninsured	**290,564,825**	254,302,023
Insured through Genworth Financial Canada	**60,302,702**	57,496,374
Insured through CMHC	**173,601,963**	123,306,840
Commercial loans secured by commercial properties	**425,055,870**	426,704,804
	1,248,944,232	1,129,239,486

Residential mortgage lending

The Credit Union holds residential properties as collateral for the residential mortgage loans it grants to its members. The valuation of the collateral for the loan to value ("LTV") ratio below excludes any adjustments for obtaining and selling the collateral and is typically based on the collateral value at origination. The table below shows the exposures from residential mortgage loans that are credit impaired (i.e. Stage 3) by ranges of LTV.

		2020
	Gross carrying amount	**Loss allowance**
	$	**$**
LTV ratio		
Genworth insured	**292,817**	**—**
CMHC insured	**1,436,427**	**—**
Less than 50%	**46,063**	**7,528**
50 - 60 %	**125,547**	**4,137**
60 - 70%	**79,556**	**4,264**
70 - 80%	**1,606,044**	**322,462**
More than 80%	**348,878**	**120,380**
	3,935,332	**458,771**

		2019
	Gross carrying amount	Loss allowance
	$	$
LTV ratio		
Genworth insured	333,072	—
CMHC insured	2,853,926	28,420
Less than 50%	179,210	7,538
50 - 60 %	124,747	2,187
60 - 70%	—	—
70 - 80%	1,432,176	241,222
More than 80%	228,624	81,237
	5,151,755	360,604

The estimated value of the respective collateral on the above credit-impaired residential mortgages is $5,243,199 as at December 31, 2020 ($6,675,684 as at December 31, 2019).

7. Member loans receivable (continued)

Personal lending

The Credit Union's personal lending portfolio consists of unsecured loans.

Corporate lending

The Credit Union requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customer's creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason, the valuation of collateral held against corporate lending is not routinely updated.

For credit-impaired loans the Credit Union updates the valuation of collateral to inform its credit risk management actions. At December 31, 2020 the gross carrying amount of credit-impaired commercial loans, was $71,568,742 (2019 - $270,737) and the estimated value of the respective collateral was $77,594,588 (2019 - $210,976).

8. Allowance for credit losses

	Personal	**Residential Mortgages**	**Commercial**	**2020 Total**	2019 Total
	$	**$**	**$**	**$**	$
Balance, beginning of year	**577,799**	**557,402**	**481,097**	**1,616,298**	1,419,507
Amounts written off	**(228,571)**	**(96,510)**	**—**	**(325,081)**	(631,353)
Provision for credit losses	**199,069**	**258,562**	**4,876,585**	**5,334,216**	828,144
Balance, end of year	**548,297**	**719,454**	**5,357,682**	**6,625,433**	1,616,298

The tables below analyze the movement of the IFRS 9 loss allowance during the fiscal 2020 year:

Loss allowance **Personal**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	$	**$**	**$**	**$**
Loss allowance as at January 1, 2020	**106,175**	**1,723**	**601,962**	**577,799**
Additions to stage	**369,599**	**1,285**	**145,819**	**516,703**
Newly recognized financial assets	**67,663**	**—**	**—**	**67,663**
Derecognized financial assets	**(36,720)**	**—**	**(121,467)**	**(158,187)**
Change in model/methodology	**(357,063)**	**(2,108)**	**—**	**(359,171)**
Amounts written off	**—**	**—**	**(228,571)**	**(228,571)**
Loss allowance as at December 31, 2020	**149,654**	**900**	**397,743**	**548,297**

8. Allowance for credit losses (continued)

Loss allowance **Residential Mortgages**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	$	**$**	**$**	**$**
Loss allowance as at January 1, 2020	**196,460**	**338**	**360,604**	**557,402**
Additions to stage	**32,642**	**2,557**	**77,940**	**113,139**
Newly recognized financial assets	**142,593**	**—**	**—**	**142,593**
Derecognized financial assets	**(75,116)**	**—**	**(247,716)**	**(322,832)**
Change in model/methodology	**(34,294)**	**(361)**	**360,317**	**325,662**
Amounts written off	**—**	**—**	**(96,510)**	**(96,510)**
Loss allowance as at December 31, 2020	**262,285**	**2,534**	**454,635**	**719,454**

Loss allowance **Commercial**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	$	**$**	**$**	**$**
Loss allowance as at January 1, 2020	**408,531**	**12,805**	**59,761**	**481,097**
Additions to stage	**(92,689)**	**7,194**	**—**	**(85,495)**
Newly recognized financial assets	**289,548**	**—**	**—**	**289,548**
Derecognized financial assets	**(344,044)**	**—**	**(47,776)**	**(391,820)**
Change in model/methodology	**1,076,951**	**78,763**	**3,908,638**	**5,064,352**
Amounts written off	**—**	**—**	**—**	**—**
Loss allowance as at December 31, 2020	**1,338,297**	**98,762**	**3,920,623**	**5,357,682**

The tables below analyze the movement of the IFRS 9 loss allowance during the fiscal 2019 year:

Loss allowance **Personal**	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$	$	$	$
Loss allowance as at January 1, 2019	67,687	833	555,017	623,537
Additions to stage	(4,825)	(80)	—	(4,905)
Newly recognized financial assets	59,780	—	—	59,780
Derecognized financial assets	(23,257)	—	(135,638)	(158,895)
Change in model inputs	6,790	970	611,609	619,369
Amounts written off	—	—	(561,087)	(561,087)
Loss allowance as at December 31, 2019	106,175	1,723	469,901	577,799

8. Allowance for credit losses (continued)

Loss allowance **Residential Mortgages**	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$	$	$	$
Loss allowance as at January 1, 2019	173,601	743	104,930	279,274
Additions to stage	(4,010)	(381)	—	(4,391)
Newly recognized financial assets	108,160	—	—	108,160
Derecognized financial assets	(68,729)	—	—	(68,729)
Change in model inputs	(12,562)	(23)	296,346	283,761
Amounts written off	—	—	(40,673)	(40,673)
Loss allowance as at December 31, 2019	196,460	339	360,603	557,402

Loss allowance **Commercial**	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$	$	$	$
Loss allowance as at January 1, 2019	415,300	23,092	78,304	516,696
Additions to stage	15,921	(16,988)	—	(1,067)
Newly recognized financial assets	45,929	—	—	45,929
Derecognized financial assets	(94,665)	—	(32,247)	(126,912)
Change in model inputs	26,046	6,701	43,297	76,044
Amounts written off	—	—	(29,593)	(29,593)
Loss allowance as at December 31, 2019	408,531	12,805	59,761	481,097

As at December 31, 2020, under IFRS 9, credit quality of member loans receivable is summarized in the below tables. The gross carrying amount of financial assets below also represents the Credit Union’s maximum exposure to credit risk on these assets.

				2020
Loans to members	**ECL Staging**			
Personal	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Credit grading				
Standard monitoring	**173,240,944**	**—**	**—**	**173,240,944**
Greater than 30 days past due, but not in default	**—**	**191,626**	**—**	**191,626**
Increase in credit risk	**(667,770)**	**(95,942)**	**763,712**	**—**
Default	**—**	**—**	**235,652**	**235,652**
Gross carrying amount	**172,573,174**	**95,684**	**999,364**	**173,668,222**
Loss allowance	**(149,655)**	**(900)**	**(397,742)**	**(548,297)**
Net carrying amount	**172,423,519**	**94,784**	**601,622**	**173,119,925**

8. Allowance for credit losses (continued)

Loans to members	ECL Staging			2020
Residential Mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Credit grading				
Standard monitoring	**522,495,808**	**—**	**—**	**522,495,808**
Greater than 30 days past due, but not in default	**—**	**1,475,061**	**—**	**1,475,061**
Increase in credit risk	**(3,292,189)**	**(130,272)**	**3,422,461**	**—**
Default	**—**	**—**	**498,620**	**498,620**
Gross carrying amount	**519,203,619**	**1,344,789**	**3,921,081**	**524,469,489**
Loss allowance	**(262,286)**	**(2,534)**	**(454,635)**	**(719,455)**
Net carrying amount	**518,941,333**	**1,342,255**	**3,466,446**	**523,750,034**

Loans to members	ECL Staging			2020
Commercial	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Credit grading				
Standard monitoring	**508,779,013**	**—**	**—**	**508,779,013**
Greater than 30 days past due, but not in default	**—**	**27,777,335**	**—**	**27,777,335**
Increase in credit risk	**(51,773,419)**	**(21,708,724)**	**73,482,143**	**—**
Default	**—**	**—**	**14,250,173**	**14,250,173**
Gross carrying amount	**457,005,594**	**6,068,611**	**87,732,316**	**550,806,521**
Loss allowance	**(1,338,299)**	**(98,761)**	**(3,920,622)**	**(5,357,682)**
Net carrying amount	**455,667,295**	**5,969,850**	**83,811,694**	**545,448,839**

As at December 31, 2019, under IFRS 9, credit quality of member loans receivable is summarized in the below tables. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

Loans to members	ECL Staging			Year ended 2019
Personal	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Credit grading				
Standard monitoring	144,154,820	—	—	144,154,820
Greater than 30 days past due, but not in default	—	1,001,699	—	1,001,699
Increase in credit risk	(1,046,732)	(61,197)	1,107,929	—
Default	—	—	886,769	886,769
Gross carrying amount	143,108,088	940,502	1,994,698	146,043,288
Loss allowance	(106,175)	(1,723)	(469,901)	(577,799)
Net carrying amount	143,001,913	938,779	1,524,797	145,465,489

8. Allowance for credit losses (continued)

				Year ended 2019
Loans to members	ECL Staging			
Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Credit grading				
Standard monitoring	431,908,157	—	—	431,908,157
Greater than 30 days past due, but not in default	—	1,659,285	—	1,659,285
Increase in credit risk	(2,477,027)	(1,123,133)	3,600,160	—
Default	—	—	1,537,794	1,537,794
Gross carrying amount	429,431,130	536,152	5,137,954	435,105,236
Loss allowance	(196,460)	(339)	(360,603)	(557,402)
Net carrying amount	429,234,670	535,813	4,777,351	434,547,834

				Year ended 2019
Loans to members	ECL Staging			
Commercial	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Credit grading				
Standard monitoring	543,714,946	—	—	543,714,946
Greater than 30 days past due, but not in default	—	3,762,994	—	3,762,994
Increase in credit risk	(26,910)	(132,487)	159,397	—
Default	—	—	613,022	613,022
Gross carrying amount	543,688,036	3,630,507	772,419	548,090,962
Loss allowance	(408,531)	(12,805)	(59,761)	(481,097)
Net carrying amount	543,279,505	3,617,702	712,658	547,609,865

9. Property held for sale

In prior year, management decided to dispose of the property which formerly operated as the Credit Union’s Princess Avenue Branch in Brandon, Manitoba. The property comprises a commercial building with over 6,000 square feet of main floor space in Brandon’s downtown district. As a part of the consolidation of branch operations this Princess Avenue Branch was determined to be surplus to ongoing operations and it was decided that the property should be sold, and the property was reclassified as an asset held for sale.

The sale was originally anticipated to close within one year however due to disruptions to the real estate market during the COVID-19 pandemic, no sale has occurred to date however the Credit Union remains committed to the sale and is actively marketing the property.

No gain or loss was recognized on the property held for sale during either 2020 or 2019.

10. Property and equipment

	Land $	Building $	Automobiles $	Computer equipment $	Furniture and Fixture $	Leasehold improvement $	Security Equipment $	Projects in Progress $	Total $
Cost									
Balance at December 31, 2018	2,036,681	28,952,947	175,125	9,763,945	4,058,495	2,514,007	849,440	944,226	49,294,866
Additions	–	12,405	–	1,147,356	71,585	–	49,277	–	1,280,623
Disposal	–	–	(168,063)	(819)	–	–	–	(944,226)	(1,113,108)
Transfer to property held for sale	(70,472)	(2,175,277)	–	–	–	–	–	–	(2,245,749)
Balance at December 2019	1,966,209	26,790,075	7,062	10,910,482	4,130,080	2,514,007	898,717	–	47,216,632
Additions	–	–	–	389,209	4,099	–	42,346	–	435,654
Disposal	–	–	–	(4,455,282)	–	–	–	–	(4,455,282)
Transfer to property held for sale	–	–	–	–	–	–	–	–	–
Balance at December 2020	**1,966,209**	**26,790,075**	**7,062**	**6,844,409**	**4,134,179**	**2,514,007**	**941,063**	**–**	**43,197,004**
Amortization									
Balance at December 31, 2018	–	10,648,337	175,125	7,241,902	3,830,518	932,059	795,469	–	23,623,410
Additions	–	698,744	–	955,583	82,434	112,305	24,951	–	1,874,017
Disposal	–	–	(168,063)	–	–	–	–	–	(168,063)
Transfer to property held for sale	–	(1,325,923)	–	–	–	–	–	–	(1,325,923)
Balance at December 2019	–	10,021,158	7,062	8,197,485	3,912,952	1,044,364	820,420	–	24,003,441
Additions	–	695,495	–	1,014,566	72,628	112,305	31,645	–	1,926,639
Disposal	–	–	–	(4,427,840)	–	–	–	–	(4,427,840)
Transfer to property held for sale	–	–	–	–	–	–	–	–	–
Balance at December 2020	**–**	**10,716,653**	**7,062**	**4,784,211**	**3,985,580**	**1,156,669**	**852,065**	**–**	**21,502,240**
Net book value									
At December 31, 2019	1,966,209	16,768,917	–	2,712,997	217,128	1,469,643	78,297	–	23,213,191
At December 31, 2020	**1,966,209**	**16,073,422**	**–**	**2,060,198**	**148,599**	**1,357,338**	**88,998**	**–**	**21,694,764**

11. Goodwill

	2020	2019
	$	$
Goodwill, cost	**2,431,627**	2,431,627
Accumulated impairment losses	**(1,563,317)**	(1,563,317)
	868,310	868,310

12. Line of credit

The Credit Union has an approved borrowing limit of 10% of member deposits. Borrowings are payable to Credit Union Central of Manitoba at an interest rate tied to the bankers' acceptances. At December 31, 2020 the balance was $nil ($nil in 2019).

13. Member deposits

	2020	2019
	$	$
Chequing	**559,426,561**	439,112,730
Registered plans	**186,493,007**	186,657,070
Savings	**139,348**	148,460
Plan 24	**133,660,606**	111,672,105
Agri-invest	**33,717,672**	33,676,911
Tax free savings	**127,891,909**	114,007,739
Term deposits	**373,901,142**	375,886,388
Accrued interest	**8,127,019**	8,807,407
	1,423,357,264	1,269,968,810

Member deposits are subject to the following terms:

Chequing, plan 24, savings products and Agri-invest are due on demand and bear interest at rates up to 1.50% (2.45% in 2019)

Term deposits are subject to fixed and variable rates of interest ranging from 0.05% to 2.10%, (0.05% to 4.45% in 2019) with interest payments due monthly, annually or on maturity.

Registered plans and tax-free savings are subject to fixed and variable rates of interest ranging from 1.25% to 1.70% (1.70% to 4.15% in 2019) with interest payments due monthly, annually or on maturity.

14. Income tax

The tax effects of temporary differences which give rise to the deferred tax liability reported in the consolidated statement of financial position is from differences between accounts deducted for accounting and income tax purposes for property and equipment and the allowance for credit losses and goodwill.

Net deferred income tax balances are comprised of the following:

14. Income tax (continued)

	2020 $	2019 $
Deferred tax asset		
Allowance for impaired loans	**541,116**	138,560
Deferred tax liability		
Property and equipment	**(588,784)**	(637,659)
Goodwill and intangible assets	**(128,862)**	(120,868)
Net deferred tax liability	**(176,530)**	(619,967)

The total provision for income taxes in the statement of income is at a rate differing from the federal base rate for the following reasons:

	2020 %	2019 %
Federal base statutory rate	**38.00**	38.00
Federal abatement	**(10.00)**	(10.00)
Reduction for Manitoba Credit Unions	**(7.20)**	(9.50)
Manitoba Credit Union profits tax	**—**	1.00
Impact of elimination of Manitoba rate reduction for Credit Unions on temporary differences	**5.79**	3.40
Adjustment for prior years	**4.13**	—
Other	**1.10**	0.70
Income tax as reported	**31.82**	23.60

15. Securitized borrowings

The Credit Union participates in the Canada Mortgage Housing Corporation ("CMHC") sponsored National Housing Act Mortgage-Backed Securities ("NHA MBS") program where the Credit Union assigns all legal risks, interest and title in insured residential mortgages to CMHC in exchange for NHA MBS certificates. As the Credit union continues to be exposed to substantially all of the risks and rewards of ownership of the original mortgages, the Credit Union has determined that the assignment of the mortgages does not constitute a transfer.

At December 31, 2020, the carrying value of the residential mortgage loans, including accrued interest is $20,426,128 (2019 - $nil). Due to retention of substantially all the risks and rewards of ownership of these assets, the Credit Union continues to recognize them within the loans on the consolidated statement of financial position, and the transfers are accounted for as secured financing transactions. The associated liability of $20,381,288 (2019 - $nil), secured by these assets is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

16. Member shares

Authorized

Common shares: Authorized common share capital consists of an unlimited number of common shares with an issue price of $5 per share and redeemable in the amount of consideration received for the share.

16. Member shares (continued)

Surplus shares: Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price per share of $1 and redeemable at $1 per share.

Preference shares: Authorized Class A non-cumulative preference share capital consists of 1,000,000 preference shares with an issue price per share of $10 with an aggregate consideration which shall not exceed $10,000,000 and redeemable in the amount of consideration received for the share. Dividends are payable at the discretion of the Board of Directors.

Preference shares: Authorized Class B non-cumulative preference share capital consists of 2,000,000 preference shares with an issue price per share of $10 with an aggregate consideration which shall not exceed $20,000,000 and redeemable in the amount of consideration received for the share. Dividends are payable at the discretion of the Board of Directors.

Issued

	2020	2019
	$	$
32,452 Common shares (31,990 in 2019)	**162,260**	159,950
6,185,702 Surplus shares (6,495,132 in 2019)	**6,185,702**	6,495,132
622,425 Preference shares - Class A (627,568 in 2019)	**6,384,750**	6,275,679
596,511 Preference shares - Class B (479,366 in 2019)	**5,804,609**	4,793,663
	18,537,321	17,724,424

During the year, the Credit Union issued 2,205 (2,068 in 2019) and redeemed 1,743 (3,158 in 2019) common shares, issued nil (nil in 2019) and redeemed 309,432 (435,960 in 2019) surplus shares, issued 25,103 (28,180 in 2019) and redeemed 14,196 (67,195 in 2019) Class A preference shares, and issued 101,496 (406,710 in 2019) and redeemed 401 (36 in 2019) Class B preference shares.

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of shares held.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The articles of incorporation for Westoba Credit Union Limited disclose the conditions concerning Surplus shares.

17. Dividends on preference shares

During the year, the Board of Directors declared a dividend on preference shares in the amount of $350,537 ($509,190 in 2019). This amount is presented net of tax savings of $59,591 (2019 - $66,416) as a reduction of retained earnings.

18. Other income

	2020 $	2019 $
Loan fees	**636,149**	607,785
Member fees	**1,793,699**	2,135,128
Member service charges	**2,091,955**	1,903,766
Commissions and rental	**1,534,184**	1,730,683
Foreign exchange	**139,662**	339,776
Government grant (CEWS)	**1,350,000**	—
	7,545,649	6,717,138

19. Related party transactions

Directors and key management personnel

Key management personnel ("KMP") consists of the Chief Executive Officer, Chief Experience Officer, Chief Risk and Finance Officer, Director of Corporate Affairs, Director of Experience, Senior Director of Information Solutions, Director of Operational Excellence, Director of Credit Risk & Collections and Senior Manager of Member Experience.

Due to restructuring in the year the positions of Chief Operating Officer, Chief Innovation and Culture Officer, Director of Business Solutions, Director of Marketing and Communications, Director of Financial Planning Solutions, Director of Operation Support, Director of Operations Sale, Director of Project Management Office & Continuous Improvement, Director of Human Resources Organizational Support & Privacy were combined or otherwise eliminated.

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP.

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

Aggregate compensation of KMP during the year consisted of:

	2020 $	2019 $
Salary and short term benefits	**1,756,296**	1,709,561

The total value of loans outstanding to KMP at year end amount to:

	2020 $	2019 $
Aggregate of loans	**2,957,840**	1,320,802
The total value of revolving credit facilities	**147,812**	49,189
	3,105,652	1,369,991

19. Related party transactions (continued)

During the year the aggregate value of loans disbursed to KMP amounted to:

	2020 $	2019 $
Lines of credit	**77,204**	1,465
Residential mortgages	**1,150,478**	372,017
Loans	**132,875**	—
	1,360,557	373,482

During the year the interest earned on loans and interest paid on deposits for KMP amounted to:

	2020 $	2019 $
Interest and other revenue earned on loans	**60,796**	35,084
Interest paid on deposits	**27,721**	7,649

The total value of member deposits from KMP as at year end amounted to:

	2020 $	2019 $
Chequing and demand deposits	**1,436,587**	699,181
Term deposits	**183,307**	173,307
Registered plans	**98,987**	121,233
	1,718,881	993,721

Transactions with Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems paid to Directors amounted to $172,940 ($173,950 in 2019) and meeting, training and conference costs amounted to $15,443 ($56,027 in 2019) for the year ended.

Loans to Directors and staff as at year end amounted to 1.43% (1.40% in 2019) of total assets of the Credit Union.

20. Director and officer indemnification

The Credit Union indemnified its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law.

21. Capital management

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union and Caisses Populaires Act of Manitoba (the "Act").

The Act prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by The Act have been based on the Basel II framework, consistent with the financial industry in general. The Act also requires a risk-weighted asset calculation for credit and operational risk.

21. Capital management (continued)

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by the Act. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%.

Capital Disclosures requires the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The Credit Union's objectives when managing capital are:

- To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses;
- To comply at all times with the capital requirements set out in the Act.

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of total assets;
- Total capital as a percent of risk-weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk-weighting using definitions and formulas set out in the Act and by the Deposit Guarantee Corporation of Manitoba. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Credit Union management ensures compliance with capital adequacy through the following:

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Deposit Guarantee Corporation of Manitoba on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

- Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements;
- Develop a planned growth strategy that is coordinated with capital growth;
- Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

21. Capital management (continued)

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the Act regulatory standards to the Credit Union's board policy for the year:

	Regulatory standards %	Board minimum limits %
Total eligible capital to risk weighted assets	**11.00**	**11.00**

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2020 $	2019 $
Eligible capital		
Retained earnings	**73,502,886**	74,642,221
Member shares	**18,537,321**	17,724,424
Total eligible capital	**92,040,207**	92,366,645

	2020 %	2019 %
Equity not less than 5% of assets, as calculated in accordance with the Act	**5.96**	6.74
Retained earnings not less than 3% of assets	**4.76**	5.45
Capital not less than 8% of risk-weighted value of assets	**11.03**	11.10

22. Financial instrument and risk management

Risk management policy

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk is maintained at acceptable levels;
- Diversify risk in transactions, member relationships and loan portfolios;
- Price according to risk taken; and
- Using consistent credit risk exposure tools.

Various Board of Director committees are involved in financial instrument risk management oversight, including the Audit and Risk Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members' loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the consolidated statement of financial position. See Note 7 and 8 for further information.

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

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

22. Financial instrument and risk management (continued)

Credit risk management (continued)

The primary credit risk management policies and procedures include the following:

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

Credit commitments

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

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

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

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

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

22. Financial instrument and risk management (continued)

Credit commitments (continued)

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

	2020 $	2019 $
Unadvanced lines of credit	**140,012,220**	134,198,105
Guarantees and standby letters of credit	**3,792,416**	2,811,344
Commitments to extend credit	**38,939,901**	17,167,539

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its derivatives and its investments recognized as available for sale. The Credit Union does not hedge its fair value risk.

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. The Credit Union incurs interest rate risk on all interest-bearing financial instruments.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re-pricing date or maturity date. Management's expectations of future events or the impact of repayments that may occur prior to maturity are not factored into the interest rate re-pricing information provided.

	Assets $	Average yield %	Liabilities & Equities $	Average costs %	2020 Differential $	2019 Differential $
Interest rate sensitive						
Variable to 3 months	**418,016,161**	**2.76**	**602,732,746**	**1.77**	**(184,716,585)**	(146,920,610)
3 months to 1 year	**69,665,141**	**3.80**	**223,438,937**	**2.04**	**(153,773,796)**	(10,937,608)
1 to 5 years	**676,295,229**	**3.55**	**275,446,976**	**2.62**	**400,848,253**	346,234,175
Over 5 years	**269,170,053**	**3.46**	**1,647,239**	**2.86**	**267,522,814**	90,463,918
Non-interest sensitive	**111,200,209**	**—**	**441,080,895**	**—**	**(329,880,686)**	(278,418,782)
	1,544,346,793		**1,544,346,793**		**—**	421,093

The above table excludes the interest rate swaps discussed in Note 6. The Credit Union is exposed to interest rate sensitivities as changes in interest rates impact the amount of interest that will be received on the floating leg of the interest rate swap.

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by $1,511,365 ($842,980 in 2019). A 1.0% decrease in the interest rate would decrease the financial margin by $755,447 ($2,065,311 in 2019).

22. Financial instrument and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 21 for further information about the Credit Union's regulatory requirement.

The following table details the contractual maturities of financial instruments:

	Less than 1 year $	1 to 2 years $	After 2 years %	2020 Total $	2019 Total $
Financial liabilities					
Member deposits	**1,166,644,336**	**99,181,329**	**157,531,599**	**1,423,357,264**	1,269,968,810
Securitized borrowings	**—**	**—**	**20,381,288**	**20,381,288**	—
Accounts payable and accrued liabilities	**4,354,653**	**—**	**—**	**4,354,653**	7,028,538
Non-financial liabilities					
Lease liability	**183,676**	**192,416**	**626,043**	**1,002,135**	1,085,753
	1,171,182,665	**99,373,745**	**178,538,930**	**1,449,095,339**	1,278,083,101

Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates. Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, accounts receivable and accounts payable are assumed to equal their carrying values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

22. Financial instrument and risk management (continued)

Methods and assumptions

The following methods and assumptions were used to estimate fair values of financial instruments:

a) the stated value for cash and cash equivalents, accounts receivable, prepaid expenses and deposits and accounts payable approximate their fair value due to their short-term nature.

b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.

c) variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.

d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

Estimated fair values of financial instruments are summarized as follows:

			2020			2019
	Fair value	**Carrying value**	**Fair value differential**	Fair value	Carrying value	Fair value differential
	$	**$**	**$**	$	$	$
Financial assets						
Cash and cash equivalents	**68,366,597**	**68,366,597**	**—**	47,663,934	47,663,934	—
Investments	**203,956,194**	**203,572,535**	**383,659**	165,906,068	165,993,929	(87,861)
Member loans receivable	**1,250,419,537**	**1,242,318,799**	**8,100,739**	1,124,076,784	1,127,623,188	(3,546,404)
Accounts receivable	**2,837,320**	**2,837,320**	**—**	1,657,507	1,657,507	—
Derivatives	**34,201**	**34,201**	**—**	348,858	348,858	—
	1,525,613,850	**1,517,129,452**	**8,484,398**	1,339,653,151	1,343,287,416	(3,634,265)
Financial liabilities						
Member deposits	**1,423,700,214**	**1,423,357,264**	**342,950**	1,268,439,660	1,269,968,810	(1,529,150)
Securitized borrowings	**20,381,288**	**20,381,288**	**—**	—	—	—
Accounts payable and accrued liabilities	**4,354,653**	**4,354,653**	**—**	7,028,538	7,028,538	—
Derivatives	**3,135,021**	**3,135,021**	**—**	769,951	769,951	—
	1,451,571,176	**1,451,228,226**	**342,950**	1,276,238,149	1,277,767,299	(1,529,150)

22. Financial instrument and risk management (continued)

Fair value of financial instruments (continued)

Fair value measurements

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

Level 1 – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly. Debt investments, member loans receivable and member deposits are disclosed at fair value based on a level 2 classification. Derivatives and equity investments are measured at fair value based on a level 2 classification.

Level 3 – Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions. There are no assets measured at fair value classified at level 3.

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

23. Pension plan

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these consolidated financial statements. The Credit Union matches employee contributions at rates ranging from 4% to 8% of the employee salary. The expense and payments for the year ended December 31, 2020 were $650,933 ($629,089 in 2019). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.