Sunova Credit Union Limited
Consolidated Financial Statements
For the year ended December 31, 2020

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For the year ended December 31, 2020

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Management's Responsibility

To the Members of Sunova 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 statements. This responsibility includes selecting appropriate accounting policies and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

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

The Board of Directors and Audit Committee are composed 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 statements and financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

"signed"	*"signed"*
Chief Executive Officer	Chief Financial Officer

Independent Auditor's Report

MNP LLP

To the Members of Sunova Credit Union Limited:

Opinion

We have audited the consolidated financial statements of Sunova Credit Union Limited and its subsidiaries (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.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor’s report.

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Credit Union’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Winnipeg, Manitoba

MNP LLP

March 26, 2021

Chartered Professional Accountants

MNP LLP

Sunova Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2020

	2020	*2019*
Assets		
Funds on hand and on deposit	**342,982,177**	42,067,669
Investments and accrued interest *(Note 5)*	**41,724,555**	267,320,429
Members' loans receivable and accrued interest *(Note 6)*	**1,880,538,034**	1,783,243,056
Other assets *(Note 7)*	**8,017,494**	5,163,219
Investment properties *(Note 8)*	**11,466,200**	11,316,100
Property and equipment *(Note 9)*	**33,043,571**	33,989,638
Intangible assets *(Note 10)*	**4,502,951**	2,221,982
Goodwill *(Note 11)*	**13,901,607**	10,832,983
	2,336,176,589	2,156,155,076
Liabilities		
Members' savings and deposits *(Note 13)*	**2,129,038,795**	1,932,690,767
Accounts payable and accrued liabilities	**9,252,297**	7,315,885
Income taxes payable	**209,546**	356,834
Securitization liabilities *(Note 14)*	**50,703,903**	80,407,788
Lease liabilities *(Note 15)*	**773,584**	429,475
Deferred tax liabilities *(Note 12)*	**3,143,000**	2,814,000
	2,193,121,125	2,024,014,749
Members' equity		
Members' shares *(Note 16)*	**38,918,273**	38,173,440
Retained surplus	**93,685,308**	83,515,004
Contributed surplus	**10,451,883**	10,451,883
	143,055,464	132,140,327
	2,336,176,589	2,156,155,076

Approved on behalf of the Board

"signed" **Director**

"signed" **Director**

The accompanying notes are an integral part of these financial statements

Sunova Credit Union Limited
Consolidated Statement of Income and Comprehensive Income
For the year ended December 31, 2020

	2020	*2019*
Interest income		
Interest on member loans	**64,723,842**	69,762,595
Investment income *(Note 5)*	**5,739,516**	6,437,353
	70,463,358	76,199,948
Cost of funds		
Interest paid to members	**35,432,429**	42,352,598
Interest on loans payable	**1,441,645**	1,938,340
	36,874,074	44,290,938
Financial margin	**33,589,284**	31,909,010
Other income *(Note 25)*	**17,164,146**	13,767,939
Provision for doubtful loans *(Note 6)*	**(1,528,094)**	(1,259,204)
Net gain (loss) on fair value adjustment of investment properties *(Note 8)*	**53,939**	(688,900)
Financial margin and other income after provision for doubtful loans	**49,279,275**	43,728,845
Operating expenses		
Administration	**7,323,872**	6,682,605
Member security	**1,754,182**	1,710,005
Occupancy	**5,017,484**	4,748,945
Organizational	**901,801**	889,544
Personnel	**21,589,548**	19,863,675
	36,586,887	33,894,774
Income before income taxes	**12,692,388**	9,834,071
Provision for income taxes		
Current *(Note 12)*	**1,870,129**	1,809,909
Deferred *(Note 12)*	**(455,200)**	(168,000)
	1,414,929	1,641,909
Income and comprehensive income for the year	**11,277,459**	8,192,162

The accompanying notes are an integral part of these financial statements

MNP LLP

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2020

	Members' shares	*Contributed surplus*	*Retained surplus*	*Total equity*
Balance December 31, 2018	**35,005,257**	**10,451,883**	**76,775,367**	**122,232,507**
Income and comprehensive income	**-**	**-**	**8,192,162**	**8,192,162**
Issuance of common shares, net of redemptions	**2,091,815**	**-**	**-**	**2,091,815**
Issuance of surplus shares, net of redemptions	**1,076,368**	**-**	**-**	**1,076,368**
Provision for issue of surplus shares, net of tax savings of $310,000	**-**	**-**	**(1,452,525)**	**(1,452,525)**
Balance December 31, 2019	**38,173,440**	**10,451,883**	**83,515,004**	**132,140,327**
Income and comprehensive income	**-**	**-**	**11,277,459**	**11,277,459**
Issuance of common shares, net of redemptions	**(17,334)**	**-**	**-**	**(17,334)**
Issuance of surplus shares, net of redemptions	**762,167**	**-**	**-**	**762,167**
Provision for issue of surplus shares, net of tax savings of $273,000	**-**	**-**	**(1,107,155)**	**(1,107,155)**
Balance December 31, 2020	**38,918,273**	**10,451,883**	**93,685,308**	**143,055,464**

The accompanying notes are an integral part of these financial statements

	2020	2019
Operating activities		
Interest received from members' loans	**64,697,608**	69,656,091
Interest received from investments	**5,931,414**	6,193,862
Net operating expenses	**(17,501,521)**	(16,713,867)
Interest paid on deposits	**(37,148,433)**	(40,780,473)
Interest paid on borrowed money	**(1,441,645)**	(1,938,340)
Income taxes paid	**(1,471,147)**	(1,880,735)
	13,066,276	14,536,538
Financing activities		
Repayments of loan payable	**-**	(10,000,000)
Net change in members' savings and deposits	**198,064,032**	134,578,835
Net proceeds from securitization of mortgages	**(29,703,885)**	(18,615,246)
Proceeds from issuance of member shares	**5,135,174**	8,640,322
Redemption of member shares	**(6,043,766)**	(7,234,664)
Repayments of lease liabilities	**(97,327)**	(49,671)
	167,354,228	107,319,576
Investing activities		
Net change in members' loans receivable	**(98,796,838)**	(12,574,613)
Net purchase (disposal) of investments	**225,403,976**	(107,995,077)
Purchases of property, equipment and intangible assets	**(744,276)**	(1,117,259)
Proceeds from disposal of property and equipment	**6,366**	1,143,130
Purchase price adjustment related to goodwill	**29,267**	-
Investment properties additions	**(96,161)**	-
Acquisition of a business *(Note 4)*	**(5,308,330)**	(1,910,910)
	120,494,004	(122,454,729)
Increase (decrease) in cash resources	**300,914,508**	(598,615)
Funds on hand and on deposit, beginning of year	**42,067,669**	42,666,284
Funds on hand and on deposit, end of year	**342,982,177**	42,067,669

1. Reporting entity

Sunova Credit Union Limited (the “Credit Union”) was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (“the Act”) and operates fourteen Credit Union branches in the City of Winnipeg and surrounding municipalities and a virtual division under the trade name Hubert Financial. The address of the Credit Union's registered office is 233 Main Street, Selkirk, Manitoba, Canada.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2020 comprise the Credit Union and its wholly owned subsidiaries Sunova Financial Services Inc., which holds various investments in associates in insurance brokerages and agencies including 3722709 Manitoba Ltd. and Le Bon Ami Inc., and Sunova Property Holdings Ltd., which holds real estate investment property. Together, these entities are referred to as the Credit Union.

The Credit Union operates as one segment principally in retail, commercial and investment banking services in Manitoba. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of customers and the nature of the regulatory environment.

The Credit Union conducts its principal operations through its branches, offering products and services including deposit business, individual lending and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all members. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers.

Statement of compliance

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

The Credit Union presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the year end date (current) and more than twelve months after the year end date (non-current). The Credit Union classified its expenses by the nature of the expenses method.

These financial statements for the year ended December 31, 2020 were approved by the Board of Directors on March 26, 2021.

2. Basis of preparation

Basis of measurement

The financial statements have been prepared on the historic cost basis except for the revaluation of certain financial instruments designated as FVTPL.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency. This is the currency of the primary economic environment in which the Credit Union operates.

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

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

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

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of investment property

An external appraiser estimates the fair value of investment properties annually. The fair value of an investment property is based on the nature, location and condition of the specific asset. The fair value is calculated by determining three different estimates of value for each property. The three estimates are the cost approach (replacement value), income approach (estimated rental value) and the direct comparison approach (comparable property value). The three estimates of value are then rendered into one final estimate of value through a reconciliation process where each estimate of value is considered in light of the accuracy, importance, and relevancy of the data on which it is based. The resulting valuation is the final estimate of value. The fair value of investment property does not reflect future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from this expenditure. Changes in assumptions about these factors could affect the carrying value of investment property.

Valuation of goodwill

The estimate of the recoverable amount required for the impairment test is based upon a discounted cash flow analysis. Determining the recoverability of goodwill requires an estimation of the recoverable amount of the asset or CGU. Key assumptions and sources of uncertainty include the determination of future cash flows expected to arise from the asset or CGU and a suitable discount rate in order to calculate present value.

Key assumptions in determining the allowance for expected credit losses

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

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

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

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

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

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

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios
- Vacancy rates

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

Impact of the COVID-19 pandemic

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

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

Financial instruments not traded on active markets

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

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

Impairment of non-financial assets

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

Income 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. Management believes that they have adequately provided for the probable outcome of these matters; however, actual results may differ.

Classification of financial assets

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

Impairment of financial assets

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets and determining whether there has been a significant increase in credit risk since initial recognition in accordance with IFRS 9 *Financial Instruments*. For more information, refer to Note 21.

3. Summary of significant accounting policies

The principle 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method.

The consideration for each acquisition is measured at the aggregated of the fair values, at the date of exchange, of assets transferred, liabilities assumed, and equity instruments issued by the Credit Union in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value (the date in which the Credit Union acquired control of the acquiree). Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognized in income. Changes in the fair value of contingent consideration classified as equity are not recognized.

The acquired identifiable assets, and liabilities are recognized at their acquisition date fair values if they meet the definitions of assets and liabilities in the preparation and presentation of financial statements at acquisition date and they were exchanged as part of the business combination rather than as the result of separate transactions.

Funds on hand and on deposit

Funds on hand and on deposit consists of cash on hand and demand deposits.

3. Summary of significant accounting policies *(Continued from previous page)*

Loan syndication

As part of its normal operating activities, the Credit Union syndicates loans receivable. When a loan is syndicated, all of the risks and rewards associated with ownership of the loan are transferred to the purchaser and no guarantees, provision for recourse or over-collateralizations are made by the Credit Union. As a result, the portion of the underlying assets and liabilities associated with syndicated loans that have been derecognized at the time of sale are not reported in the Credit Union's statement of financial position, and any gains or losses on sale are recognized in the statement of income and comprehensive income.

Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment losses, with the exception of land which is not depreciated. 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.

All assets having limited useful lives are depreciated using the straight line method over their estimated useful lives.

The useful life applicable for each class of asset during the current and comparative period are as follows:

	Rate
Buildings	2-5 %
Furniture and equipment	20 %
Computer equipment	33.3 %
Security equipment	5 %
Computer software	50 %
Automobiles	30 %

The useful lives of items of property and equipment are reviewed periodically 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 income.

Investment properties

Investment properties are investment interests in land and buildings held to earn rental income or for capital appreciation, or both. Investment properties are comprised of office buildings and retail space leased out under operating lease agreements. Where distinguishing between investment property and owner-occupied property is difficult the following criteria are applied to classification:

- If the property is more than 80% held to earn rental income or capital appreciation, it is classified as investment properties. The Credit Union determines the percentage of the portions using the size of the property measured in square metres.

Rental income and operating expenses from investment properties are presented within other income and occupancy expenses respectively.

An owned investment property is initially recognized at cost, including transaction costs. Cost comprises its purchase price and any directly attributable expenditures. Subsequent to initial recognition, investment property is stated at fair value which reflects market conditions at each reporting date, with any gain or loss arising from a change in fair value recognized in income in the period.

Fair value of investment properties is determined by an independent external valuator holding recognized and relevant professional qualifications and recent experience in the location and category of investment property being valued every year.

Subsequent expenditures are charged to the investment property only when it is probable that future economic benefits of the expenditure will flow to the Credit Union and the cost can be measured reliably.

3. Summary of significant accounting policies *(Continued from previous page)*

The Credit Union only enters as lessor into lease agreements that are classified as operating leases. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in investment properties. Lease incentives are recognized as a reduction of rental income on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they meet the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

All research costs are recognized in income as they are incurred.

Specified intangible assets are recognized separately from goodwill. Such intangible assets are recorded at cost and amortized as follows, based upon management’s best estimate of the useful life of the asset.

Customer list and licenses	straight-line	12 years
Banking system software	straight-line	10 years

Intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Review of useful lives, amortization period and method

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

Intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. The amortization period and amortization method for an intangible asset with a finite useful life reflects the pattern in which the assets' future economic benefits are expected to be consumed. Where the pattern cannot be reliably determined, the straight-line method is used. The amortization period and method is reviewed at least at each financial year end.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Credit Union’s interests in the net fair value of the identifiable net assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition.

For the purposes of assessing impairment, goodwill is allocated to cash-generating unit or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents, subject to an operating segment ceiling test, the lowest level within the Credit Union that goodwill is monitored for internal reporting purposes. The impairment of non-financial assets note describes how goodwill is tested for impairment.

3. Summary of significant accounting policies *(Continued from previous page)*

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value.

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 income.

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 income

Members' savings and deposits

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

Accounts payable

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

Securitization liabilities

The Credit Union has entered into asset transfer agreements with other third parties which include the securitization of residential mortgages. These transfers do not qualify for derecognition principally because the Credit Union retains significant exposure to prepayment and other risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability at an amount equivalent to the securitization proceeds, inclusive of any premiums or discounts and net of eligible transaction costs. The securitization liabilities are subsequently measured at amortized cost using the effective interest rate method.

Provisions

A provision is recognized, if, as a result of a past event, the Credit Union has a legal or constructive obligation that can be estimated reliably and it is probable that a future outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks of the obligation. Where there are a number of obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted accordingly to reflect the current best estimate.

Contingent liabilities and contingent assets

All contingent liabilities are continually reviewed to determine whether an outflow of economic benefits has become probable. Where a contingent liability becomes probable that an outflow of future economic benefits will be required, a provision is recognized in the period in which the change in probability occurs. If at the end of the reporting period it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed.

3. Summary of significant accounting policies *(Continued from previous page)*

Members' shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognized on the statement of income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest penalties received as a result of loan prepayments by members are recognized as income in the year in which the prepayment is made.

Fees and commissions are recognized on an accrual basis when the service has been provided.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Other revenue is recognized as services are provided to members.

Income taxes

Current tax and deferred tax are recognized in income 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 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.

3. Summary of significant accounting policies *(Continued from previous page)*

Leases

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

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

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

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

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

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

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. Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Translation gains and losses are included in other income.

Financial instruments

Financial assets

Recognition and initial measurement

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

3. Summary of significant accounting policies *(Continued from previous page)*

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest rate method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of members' loans receivable.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest rate method and gains or losses arising from impairment and foreign exchange are recognized in income. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to income. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of funds on hand, interest rate swaps, terms deposits and shares in Credit Union Central of Manitoba.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through income in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in income. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

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

Contractual cash flow assessment

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

Reclassifications

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

3. Summary of significant accounting policies *(Continued from previous page)*

Impairment

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

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

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

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the financial assets.

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

Refer to Note 21 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

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

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

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

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

3. Summary of significant accounting policies *(Continued from previous page)*

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

Where a derecognized financial asset is a part of a larger financial asset, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized on the basis of their relative fair values.

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

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

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities measured at amortized cost include members' savings and deposits, accounts payable and accrued liabilities and securitization liabilities.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Interest

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

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

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

3. Summary of significant accounting policies *(Continued from previous page)*

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

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

Standards issued but not yet effective

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

IAS 16 Property, Plant, and Equipment

In May 2020, the International Accounting Standards Board (IASB) issued amendments to update IAS 16 Property, Plant, and Equipment. The Accounting Standards Board (AcSB) completed its endorsement process and incorporated the amendments into Part I of the CPA Canada Handbook - Accounting in September 2020.

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

The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

4. Business combinations

Business acquisitions are accounted for using the acquisition method. The results of the acquired businesses are included in the consolidated financial statements as from the respective dates of acquisition.

On January 31, 2020 the Credit Union entered into a share purchase agreement of an insurance agency located in Winnipeg, Manitoba. The purchase price of the underlying shares was $2,090,427, which included transaction costs.

The results of operations of the acquired company are included in the audited consolidated financial statements beginning on the date of acquisition.

The fair value of net assets acquired, based on management's best estimates, are as follows:

Acquired assets and assumed liabilities

Cash	232,358
Other current assets	99,546
Property and equipment	2,483
Customer list	887,378
Goodwill recognized on acquisition	1,270,926
Loan from previous shareholders	(17,603)
Current liabilities	(99,656)
Deferred tax liabilities	(285,005)
Total	**2,090,427**

4. Business combinations *(Continued from previous page)*

On September 1, 2020 the Credit Union entered into an share purchase agreement of an insurance agency located in Winnipeg, Manitoba. The purchase price of the underlying shares was $3,450,261 which included transaction costs.

The results of operations of the acquired company are included in the audited consolidated financial statements beginning on the date of acquisition.

The fair value of net assets acquired, based on management's best estimates, are as follows:

Acquired assets and assumed liabilities

Other current assets	308,922
Property and equipment	40,155
Customer list	1,848,866
Goodwill recognized on acquisition	1,826,965
Current liabilities	(75,453)
Deferred tax liabilities	(499,194)
Total	**3,450,261**

On October 31, 2019 the Credit Union entered into an asset purchase agreement of an insurance agency located in Winnipeg, Manitoba. The purchase price of the underlying assets was $1,910,910, which included transaction costs.

The results of operations of the acquired company are included in the audited consolidated financial statements beginning on the date of acquisition.

The fair value of net assets acquired, based on management's best estimates, are as follows:

Acquired assets and assumed liabilities

Property and equipment	53,500
Customer list	1,038,140
Goodwill recognized on acquisition	819,270
Total	**1,910,910**

5. Investments and accrued interest

	2020	2019
Measured at FVTPL		
CUCM shares	**20,540,035**	14,906,255
Concentra trust shares	**1,145**	1,145
Accrued dividends	**254,664**	191,879
	20,795,844	15,099,279
Measured at FVTPL		
CUCM term deposits	**17,803,800**	248,306,600
Accrued interest	**1,330**	251,112
	17,805,130	248,557,712
Measured at amortized cost		
Municipal debentures	**3,120,735**	3,655,691
Accrued interest	**2,846**	7,747
	3,123,581	3,663,438
Total	**41,724,555**	267,320,429

Term deposits consist of 30 to 90 day term deposits earning interest between 0.12% and 0.16% (2019 - 1.65% to 1.98%). The term deposits mature within one year (2019 - within one year).

Municipal debentures consist of 12 (2019 - 13) debentures earning interest between 3.50% and 6.00% (2019 - 3.50% to 6.00%). The maturity dates range from one to 12 years (2019 - one to 13 years).

The shares in Credit Union Central of Manitoba (CUCM) are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of CUCM. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of CUCM. Class 1 and 2 CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Included in investment income is a fair value loss of $nil (2019 - loss of $12,512) related to the Credit Union's interest rate swaps. The Credit Union enters into interest rate swaps under policies and procedures which ensure they are utilized for reducing the Credit Union's exposure to fluctuating interest rates. All interest rate swaps are purchased on behalf of the Credit Union by Credit Union Central of Manitoba. As at December 31, 2020, the notional principal of swaps was $nil (2019 - $nil).

Pursuant to Regulations, Credit Union Central of Manitoba requires that the Credit Union maintain 8% (2019 - 8%) of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Deposit Guarantee Corporation of Manitoba, requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2020 the Credit Union has a liquidity ratio of 16.95% and therefore has met the liquidity requirement.

6. Members' loans receivable and accrued interest

Member loans can have either a variable or fixed rate of interest, and they mature within seven years.

Variable rate loans are based on a "prime rate" formula, and as at December 31, 2020 range from prime less 2.45% to prime plus 21.00% (2019 - prime less 3.70% to prime plus 22.25%). The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2020 was 2.45% (2019 - 3.95%).

The interest rates on fixed rate loans outstanding as at December 31, 2020 range from 0.00% to 21.99% (2019 - 1.49% to 21.00%). The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Commercial loans consist of loans and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Personal loans consist of loans that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments, and other promises to pay.

Residential mortgages are secured by residential property and are repayable under multiple payment frequency options with either blended payments of principal and interest or interest only.

Principal and allowance by loan type:

					2020
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Commercial loans	374,178,997	2,276,418	291,933	1,060,634	**375,102,848**
Personal loans	158,419,328	389,562	355,833	387,523	**158,065,534**
Residential mortgages	1,347,173,084	2,079,504	10,588	1,872,348	**1,347,369,652**
	1,879,771,409	4,745,484	658,354	3,320,505	**1,880,538,034**

					2019
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Commercial loans	310,630,325	2,005,271	161,908	377,760	312,095,928
Personal loans	167,322,716	570,712	338,349	602,198	166,952,881
Residential mortgages	1,302,359,464	3,792,064	50,977	1,906,304	1,304,194,247
	1,780,312,505	6,368,047	551,234	2,886,262	1,783,243,056

6. Members' loans receivable and accrued interest *(Continued from previous page)*

The allowance for impaired loans changed as follows:

	2020	2019
Balance, beginning of year	**3,437,496**	3,029,218
Provision for loan losses	**1,528,094**	1,259,204
	4,965,590	4,288,422
Less: accounts written off	**986,731**	850,926
Balance, end of year	**3,978,859**	3,437,496

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are less than 90 days past due and fully secured and collection efforts are reasonably expected to result in repayment.

	1-30 days	**31-60 days**	**61 days and greater**	**2020**
Commercial loans	1,815,240	399,480	-	**2,214,720**
Personal loans	523,454	64,656	28,239	**616,349**
Residential mortgages	17,084,211	1,650,115	768,026	**19,502,352**
Total	19,422,905	2,114,251	796,265	**22,333,421**

	1-30 days	**31-60 days**	**61 days and greater**	2019
Commercial loans	5,592,225	709,344	48,285	6,349,854
Personal loans	814,053	108,223	110,572	1,032,848
Residential mortgages	27,612,132	1,403,200	1,586,341	30,601,673
Total	34,018,410	2,220,767	1,745,198	37,984,375

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

7. Other assets

	2020	2019
Accounts receivable	**3,281,930**	1,602,285
Prepaid expenses and deposits	**2,400,639**	2,194,229
Property held for resale	**2,334,925**	1,366,705
	8,017,494	5,163,219

8. Investment properties

Investment properties include land and buildings, held to earn rental income.

Changes to the carrying amount of investment property from the beginning to the end of the financial year are as follows:

	2020	*2019*
At fair value		
Carrying amount, January 1	**11,316,100**	12,005,000
Additions – developments/subsequent expenditures	**96,161**	-
Net gain (loss) on fair value adjustments	**53,939**	(688,900)
Carrying amount, December 31	**11,466,200**	11,316,100

Investment properties were valued by an external independent valuation professional who is deemed to be a qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The carrying value of investment properties valued by the external appraiser as at December 31, 2020 agrees to the valuations reported by the external appraiser.

The Credit Union utilizes capitalization rates within the ranges provided by market experts. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next, or should another rate within the provided ranges be considered by the Credit Union to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions.

As noted above, investment properties are valued using the capitalized net operating income method and the discounted cash flow method. The valuation process is classified as Level 3 on the fair value hierarchy.

The most significant inputs or variables to the valuation process, all of which are unobservable, are normalized income and the capitalization rate. An increase in normalized income or a decrease in the capitalization rate will result in an increase in the estimated fair value of the investment property. The fair value estimate is sensitive to each of the inputs; however, changes in the capitalization rate have the greatest impact on the fair value estimate.

The key valuation assumptions for investment properties as at December 31, 2020 and 2019 are as follows:

	Maximum	Minimum	Weighted average
Capitalization rate — 2020	7.00%	6.00%	6.19%
Capitalization rate — 2019	7.00%	5.75%	6.06%

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data.

During the December 31, 2020, $1,043,845 of rental income from investment property was recognized in other income (2019 – $1,023,899). $396,392 of direct operating expense relating to investment property was recognized in occupancy expenses (2019 – $405,907).

9. Property and equipment

	Land	Buildings	Furniture and equipment	Computer equipment	Security equipment	Computer software	Automobiles	*Total*
Cost								
Balance at January 1, 2019	4,350,140	33,611,196	9,725,048	3,284,441	2,215,283	1,076,143	540,464	54,802,715
Additions	-	155,304	444,675	180,535	9,610	190,171	136,964	1,117,259
Disposals	(598,000)	(575,223)	(41,044)	(157,494)	-	(5,907)	-	(1,377,668)
Acquisitions through business combinations *(Note 4)*	-	-	53,500	-	-	-	-	53,500
Right-of-use assets	-	460,034	-	-	-	-	-	460,034
Balance at December 31, 2019	3,752,140	33,651,311	10,182,179	3,307,482	2,224,893	1,260,407	677,428	55,055,840
Additions	-	9,569	75,380	285,747	38,239	335,341	-	744,276
Disposals	-	-	(2,992)	-	-	-	(43,733)	(46,725)
Acquisitions through business combinations *(Note 4)*	-	-	39,888	2,750	-	-	-	42,638
Right-of-use assets	-	436,693	-	-	-	-	-	436,693
Balance at December 31, 2020	3,752,140	34,097,573	10,294,455	3,595,979	2,263,132	1,595,748	633,695	56,232,722
Depreciation and impairment losses								
Balance at January 1, 2019	-	5,805,162	8,257,674	2,803,178	1,126,266	903,566	276,927	19,172,773
Additions	-	838,850	602,241	290,308	101,186	187,293	127,616	2,147,494
Disposals	-	(55,735)	(36,036)	(157,494)	-	(4,800)	-	(254,065)
Balance at December 31, 2019	-	6,588,277	8,823,879	2,935,992	1,227,452	1,086,059	404,543	21,066,202
Additions	-	862,173	585,020	255,946	101,754	220,324	141,465	2,166,682
Disposals	-	-	-	-	-	-	(43,733)	(43,733)
Balance at December 31, 2020	-	7,450,450	9,408,899	3,191,938	1,329,206	1,306,383	502,275	23,189,151
Net book value								
At December 31, 2019	3,752,140	27,063,034	1,358,300	371,490	997,441	174,348	272,885	33,989,638
At December 31, 2020	**3,752,140**	**26,647,123**	**885,556**	**404,041**	**933,926**	**289,365**	**131,420**	**33,043,571**

The gross amount of fully depreciated items still in use is $11,157,744 (2019 - $9,816,282). Included in buildings are right-of-use assets with a cost of $896,727 (2019 - $460,034) and accumulated amortization of $144,022 (2019 - $48,509).

10. Intangible assets

	Customer list and licenses	Banking system software	Total
Cost			
Balance at January 1, 2019	**1,447,872**	**1,857,619**	**3,305,491**
Acquisition through business acquisition *(Note 4)*	**1,038,140**	**-**	**1,038,140**
Balance at December 31, 2019	**2,486,012**	**1,857,619**	**4,343,631**
Acquisition through business acquisition *(Note 4)*	**2,736,244**	**-**	**2,736,244**
Balance at December 31, 2020	**5,222,256**	**1,857,619**	**7,079,875**
Amortization and impairment losses			
Balance January 1, 2019	**191,669**	**1,628,755**	**1,820,424**
Amortization for the year	**132,545**	**168,680**	**301,225**
Balance at December 31, 2019	**324,214**	**1,797,435**	**2,121,649**
Amortization for the year	**435,115**	**20,160**	**455,275**
Balance at December 31, 2020	**759,329**	**1,817,595**	**2,576,924**
Carrying amounts			
At December 31, 2019	2,161,798	60,184	2,221,982
At December 31, 2020	**4,462,927**	**40,024**	**4,502,951**

11. Goodwill

The summary of movement in goodwill is presented below:

	2020	*2019*
Balance at beginning of year	**10,832,983**	10,013,713
Acquired through business acquisition (Note 4)	**3,097,891**	819,270
Prior year purchase price adjustment	**(29,267)**	-
Balance at end of year	**13,901,607**	10,832,983

Goodwill is not amortized, but is evaluated for impairment annually or more frequently when an event or circumstances occur that indicate that goodwill might be impaired. Testing for impairment is accomplished by determining if carrying value of the goodwill exceeds its recoverable amount at the measurement date. The recoverable amount of the CGU is determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value-in-use calculations are those regarding industry growth rates, expected changes in revenue and direct costs during the year. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

The Credit Union performed an impairment test as at December 31, 2020 and it was determined that the fair value exceeded the carrying value and no provision for impairment was required.

12. Income tax

The tax effect of temporary differences which give rise to the deferred taxes is from differences between accounts deducted for accounting and income tax purposes for the below items:

	2020	2019
Deferred tax liability		
Property and equipment and investment properties	**(2,998,000)**	(2,813,000)
Intangibles	**(1,436,000)**	(817,000)
	(4,434,000)	(3,630,000)
Deferred tax asset		
Allowance for impaired loans	**1,074,000**	681,000
Members' loans and savings and deposits	**-**	135,000
Income timing differences	**217,000**	-
	1,291,000	816,000
Net deferred tax liability	**(3,143,000)**	(2,814,000)

	2020	2019
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**217,000**	135,000
Deferred tax assets to be recovered after more than 12 months	**1,074,000**	681,000
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**(4,434,000)**	(3,630,000)
Net deferred tax liability	**(3,143,000)**	(2,814,000)

Reconciliation between effective tax rate and actual tax rate

	2020	2019
Federal base rate	**38.00 %**	38.00 %
Federal abatement	**(10.00)%**	(10.00)%
General rate reduction	**(13.00)%**	(13.00)%
Provincial tax rate	**4.80 %**	2.40 %
Dividend tax refund	**(12.18)%**	- %
Changes in deferred tax rates	**1.91 %**	- %
Other	**1.62 %**	(0.70)%
Income taxes as reported	**11.15 %**	16.70 %

13. Members' savings and deposits

	2020	2019
Chequing and savings	**1,154,400,233**	954,818,988
Term deposits	**481,161,804**	510,273,047
Registered savings plans	**485,155,224**	457,561,194
Accrued interest	**8,321,534**	10,037,538
Total	**2,129,038,795**	1,932,690,767

	2020	2019
Balance, beginning of year	**1,932,690,767**	1,796,539,807
Net cash increase in members' savings and deposits	**198,064,032**	134,578,835
Non-cash change in accrued interest	**(1,716,004)**	1,572,125
Balance, end of year	**2,129,038,795**	1,932,690,767

Member deposits are subject to the following terms:

- Chequing and savings products are due on demand and bear interest at rates up to 3.70% (2019 - 3.95%).
- Term deposits are subject to fixed rates of interest ranging from 0.90% to 6.75% (2019 - 0.90% to 6.75%), with interest payments due monthly, annually or on maturity.
- Registered savings plans are subject to fixed and variable rates of interest from 0.00% to 4.30% (2019 - 0.00% to 4.30%), with interest payments due monthly, annually or on maturity.

Total deposits include $23,108,881 (2019 - $22,557,084) denominated in United States dollars.

14. Securitization liabilities

The Credit Union periodically may securitize mortgages through the transfer of mortgage loans to third parties, and is an approved issuer in the National Housing Act Mortgage-backed Securities Program. As at December 31, 2020, the aggregate value of securitized mortgages outstanding amounted to $50,703,903 (2019 - $80,407,788). There were no credit losses incurred on the mortgages transferred in 2020. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under the program, the Credit Union has an obligation to forward principal and interest amounts from the original loan to Canada Mortgage and Housing Corporation monthly whether or not it receives payments from mortgagers. The Credit Union has retained substantially all of the risks and rewards associated with the transferred assets. These assets are recognized within members' loans and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in securitization liabilities on the consolidated statement of financial position.

	2020	2019
Securitization	**50,703,903**	80,407,788

15. Lease liabilities

Leases as lessee

The Credit Union leases buildings. The lease terms span up to 5 years and include options to renew for an additional 5 years after the end of the committed contract terms.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property and equipment in the statement of financial position. Refer to Note 9 for information pertaining to right-of-use assets arising from lease arrangements in which the entity is a lessee.

Lease liabilities

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

	2020	*2019*
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**136,857**	60,200
One to five years	**489,152**	240,801
More than five years	**234,590**	171,355
Total undiscounted lease liabilities at December 31	**860,599**	472,356
Lease liabilities at December 31	**773,584**	429,475
Current	**121,587**	51,284
Non-current	**651,997**	378,191

Amounts recognized in income

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

	2020	*2019*
Interest expense on lease liabilities	**15,762**	9,217

Amounts recognized in the statement of cash flows

The Credit Union has recognized the following amounts in the statement of cash flows:

	2020	*2019*
Total cash outflow for leases	**97,327**	49,671

16. Members' shares

Authorized:

Unlimited number of Common shares, at an issue price of $5
Unlimited number of Surplus shares, at an issue price of $1

Issued:

	2020	2019
Share capital		
5,017,608 Common shares (2019 - 5,021,074)	**25,088,037**	25,105,371
13,830,236 Surplus shares (2019 - 13,068,069)	**13,830,236**	13,068,069
Total	**38,918,273**	38,173,440

During the year, the Credit Union issued 469,513 (2019 - 973,918) and redeemed 472,979 (2019 - 555,555) common shares, and also issued 4,441,038 (2019 - 7,059,200) and redeemed 3,678,871 (2019 - 5,982,832) surplus 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. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. Since shares are redeemable only at the discretion of the Credit Union Board of Directors, they are classified as equity.

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 the Credit Union disclose the conditions concerning surplus shares. These shares are redeemable at the discretion of the Board of Directors and as such are recorded as equity.

17. Dividends payable

The Board of Directors declared a share dividend of 4.03% (2019 - 4.83%) on Common and Surplus shares as at December 31, 2020 in the amount of $1,491,762 (2019 - $1,762,525). The dividends are to be paid by issuance of Surplus shares in May 2021.

18. Capital management

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

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 and 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 assets; and
- 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. 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.

The Regulations to the Act require that the Credit Union establish and maintain a level of capital as follows:

	2020	*2019*
Members' equity not less than 5% of assets	**5.79 %**	5.77 %
Retained surplus not less than 3% of assets	**4.12 %**	3.99 %
Members' equity not less than 8% of the risk weighted value of assets	**14.34 %**	15.65 %

During the year ended December 31, 2020, the Credit Union has complied with the capital requirements. There have been no changes to what the Credit Union considers capital during the year.

The Credit Union manages its capital as calculated below:

	2020	*2019*
Members' shares	**38,918,273**	38,173,440
Retained surplus	**93,685,308**	83,515,004
Contributed surplus	**10,451,883**	10,451,883
Capital	**143,055,464**	132,140,327

19. Staff savings plan

The Credit Union has an internal staff savings plan for qualifying employees. The Credit Union matches employee contributions at a rate between 5% and 10% of the employee's salary.

The expense and payments for the year ended December 31, 2020 are $849,443 (2019 - $746,553) and are recorded as personnel expenses. As an internal staff savings plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

20. Fair value measurements

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices are available in active markets for identical assets or liabilities.
- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include interest rate swaps. Members' loans receivable, investments and members' savings and deposits are disclosed at fair value based on a level 2 classification.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between fair value hierarchy levels.

Assets and liabilities measured at fair value

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

in 000's	***Fair Value***	***Level 1***	***Level 2***	***2020 Level 3***
Financial assets				
Funds on hand and on deposit	**342,982**	**342,982**	**-**	**-**
Credit Union Central of Manitoba term deposits	**17,805**	**17,805**	**-**	**-**
Shares in Credit Union Central of Manitoba	**20,796**	**-**	**20,796**	**-**
Total financial assets	**381,583**	**360,787**	**20,796**	**-**

in 000's	*Fair Value*	*Level 1*	*Level 2*	*2019 Level 3*
Financial assets				
Funds on hand and on deposit	42,067	42,067	-	-
Credit Union Central of Manitoba term deposits	248,558	248,558	-	-
Shares in Credit Union Central of Manitoba	15,099	-	15,099	-
Total financial assets	305,724	290,625	15,099	-

20. Fair value measurements *(Continued from previous page)*

Non-recurring fair value measurements

The Credit Union's non-recurring fair value measurements have been categorized into the fair value hierarchy as follows:

in 000's	***Fair Value***	***Level 1***	***Level 2***	***2020 Level 3***
Financial assets				
Members' loans receivable	**1,997,259**	**-**	**1,997,259**	**-**
Municipal debentures	**3,122**	**-**	**3,122**	**-**
Total financial assets	**2,000,381**	**-**	**2,000,381**	**-**
Financial liabilities				
Members' savings and deposits	**2,148,763**	**-**	**2,148,763**	**-**
Accounts payable and accrued liabilities	**9,252**	**-**	**9,252**	**-**
Securitization liabilities	**50,665**	**-**	**50,665**	**-**
Total financial liabilities	**2,208,680**	**-**	**2,208,680**	**-**

in 000's	*Fair Value*	*Level 1*	*Level 2*	*2019 Level 3*
Financial assets				
Members' loans receivable	1,884,817	-	1,884,817	-
Municipal debentures	3,651	-	3,651	-
Total financial assets	1,888,468	-	1,888,468	-
Financial liabilities				
Members' savings and deposits	1,959,388	-	1,959,388	-
Accounts payable and accrued liabilities	7,316	-	7,316	-
Securitization liabilities	80,330	-	80,330	-
Total financial liabilities	2,047,034	-	2,047,034	-

The most significant assumption in the above fair value determinations relates to the discount rates utilized. If the discount rates would increase by 100 basis points then the fair value of assets would decrease by approximately $40,232 and the fair value of liabilities would decrease by approximately $8,343. A corresponding decrease of 100 basis points would result in the fair value of assets increasing by approximately $121 and the fair value of liabilities would increase by approximately $579.

21. Financial instruments

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, liquidity risk and foreign currency risk.

Accordingly, the Credit Union 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.

The Board of Directors are involved in financial instrument risk management oversight.

There have been no significant changes from the previous year in the Credit Union’s risks to which it is exposed or its general policies and procedures for managing risk.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members’ loans receivable.

Risk management process

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

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

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

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk. Overall monitoring and processes will change as deemed necessary in response to the on-going economic impact of COVID-19. This has and will included changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support the members and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by COVID-19, will be adjusted as necessary as we progress through the pandemic.

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

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

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

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

The Credit Union considers members' loans receivables to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices.

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

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

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans receivables on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

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

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

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

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid.

Significant Increase in Credit Risk - COVID 19 Impact

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

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

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The gross carrying amount members' loans receivable and exposure amount of loan commitments and financial guarantee contracts represents the maximum exposure to credit risk for that class of financial asset.

		2020		
	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Members' loans receivable	**1,778,039,351**	**101,748,794**	**4,728,748**	**1,884,516,893**
Loan commitments	**237,313,753**	**-**	**-**	**237,313,753**
Total gross carrying amount	**2,015,353,104**	**101,748,794**	**4,728,748**	**2,121,830,646**
Less: loss allowance	**1,755,708**	**1,564,797**	**658,354**	**3,978,859**
Total carrying amount	**2,013,597,396**	**100,183,997**	**4,070,394**	**2,117,851,787**

		2019		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Members' loans receivable	1,705,547,459	74,765,046	6,368,047	1,786,680,552
Loans commitments	195,417,929	-	-	195,417,929
Total gross carrying amount	1,900,965,388	74,765,046	6,368,047	1,982,098,481
Less: loss allowance	2,347,192	539,070	551,234	3,437,496
Total carrying amount	1,898,618,196	74,225,976	5,816,813	1,978,660,985

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being 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 Selkirk, Manitoba and surrounding areas.

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

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Members' loans receivable				
Balance at January 1, 2019	**1,833,838**	**700,223**	**495,157**	**3,029,218**
Net remeasurement of loss allowance	**513,354**	**(161,153)**	**56,077**	**408,278**
Balance at December 31, 2019	**2,347,192**	**539,070**	**551,234**	**3,437,496**
Net remeasurement of loss allowance	**(591,485)**	**1,025,727**	**107,120**	**541,362**
Balance at December 31, 2020	**1,755,707**	**1,564,797**	**658,354**	**3,978,858**

Market risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member needs. The resulting impact from COVID-19 to the Credit union's margin has been and will continue to be monitored consistently.

Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board of Directors.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk. See Note 23 to additional information on the asset liability matching policy.

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

The following table illustrates the contractual repricing and maturity of all financial instruments:

in '000s	**On demand**	**Within one year**	**One to five years**	**Greater than 5 years**	**Non-Interest Sensitive**	**Total 2020**	*Total 2019*
Assets							
Cash	332,278	-	-	-	10,704	342,982	42,067
Investments and accrued interest	-	38,901	1,540	1,025	259	41,725	267,320
Members' loans receivable and accrued interest	119,326	438,181	1,243,549	79,482	-	1,880,538	1,783,243
	451,604	**477,082**	**1,245,089**	**80,507**	**10,963**	**2,265,245**	2,092,630
Liabilities							
Member deposits and accrued interest	638,769	500,461	226,327	1,899	761,583	2,129,039	1,932,691
Accounts payables and accrued liabilities	-	416	-	-	9,473	9,889	7,745
Securitization liabilities	-	18,857	31,847	-	-	50,704	80,408
	638,769	**519,734**	**258,174**	**1,899**	**771,056**	**2,189,632**	2,020,844

The following provides the potential before tax impact on an immediate and sustained 1% increase or decrease in interest rates on the Credit Union's net interest income for a one year period. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's risk measurement initiatives.

Before tax impact of:

1% increase in rates $2,383,000 decrease in financial margin

1% decrease in rates $4,160,000 increase in financial margin

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union may utilize interest rate swaps to assist in managing this rate gap.

Foreign currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange rates when adverse changes in foreign currency exchange rates occur.

The Credit Union’s foreign exchange risk is related to deposits and loans denominated in United States dollars. Foreign currency holdings are monitored by management and holdings are adjusted when offside of the investment policy.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on the mismatch of assets and liabilities denominated in United States dollars.

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

Objectives, policies and procedures

The Credit Union limits its mismatch of deposits and loans held to 10% of this portfolio.

For the years-ended 2020 and 2019, the Credit Union's exposure to foreign exchange risk complies with the policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and procedures

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:
• Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
• Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity, while meeting its obligations.

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

22. Related party transactions

Key management compensation of the Credit Union

Key Management Personnel ('KMP') of the Credit Union are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director.

	2020	*2019*
Salaries and other short-term employee benefits	**2,769,254**	2,626,501

Transactions with Key Management Personnel

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.

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

Directors, committee members, management and staff

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

Loans to Directors (and their spouses) that received beneficial interest rates as at December 31, 2020 amounted to $nil (2019 - $nil) for a total benefit of approximately $nil (2019 - $nil).

Loans to Directors and staff as at year end amounted to 1.72% (2019 - 1.83%) of total assets of the Credit Union.

Directors' fees and expenses

	2020	*2019*
Directors fees and committee remuneration	**150,905**	150,535
Meeting, training and conference costs	**33,856**	73,565

Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which acts as a depository for surplus funds received from and loans made to credit unions. The Credit Union Central of Manitoba also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Interest and dividends earned on investments during the year ended December 31, 2020 amounted to $5,068,355 (2019 - $5,784,869).

Interest and charges paid on borrowings during the year ended December 31, 2020 amounted to $nil (2019 - $nil).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended December 31, 2020 amounted to $1,693,066 (2019 - $1,624,081).

Interest earned on the current account during the year amounted to $519,322 (2019 - $481,668).

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit insurance corporation which guarantees the deposits of all members of Manitoba credit unions. The payments made to the DGCM during the year represent the net statutory annual assessment in the amount of $1,592,467 (2019 - $1,559,275).

23. Asset liability matching

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match re-pricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between members' loans and investments and members' savings and deposits for those particular maturity dates. Certain items on the statement of financial position, such as non interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non interest rate sensitive on the schedule.

23. Asset liability matching *(Continued from previous page)*

Amounts with variable interest rates, or due on demand, are classified as variable.

A significant amount of members' loans receivable and members' savings and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

	Assets	Liabilities and equity	2020 Differential	2019 Differential
Interest sensitive				
Variable	665,735,991	1,102,756,150	(437,020,159)	(551,662,249)
Less than 12 months	341,578,367	554,119,861	(212,541,494)	45,499,341
1 to 2 years	301,789,172	147,628,967	154,160,205	231,433,833
2 to 3 years	285,999,110	62,587,627	223,411,483	165,618,588
3 to 4 years	140,787,265	40,682,739	100,104,526	231,862,469
4 to 5 years	470,600,707	18,911,717	451,688,990	104,984,691
Over 5 years	28,739,326	1,898,720	26,840,606	9,967,832
Non interest rate sensitive	100,946,651	407,590,808	(306,644,157)	(237,704,505)
	2,336,176,589	2,336,176,589	-	-

24. Commitments and guarantees

Loans

The Credit Union has authorized $306,499,517 (2019 - $284,167,484) in line of credit loans, of which $215,970,245 (2019 - $176,248,838) has not been advanced as of year end. In addition, $21,343,508 (2019 - $19,169,092) in members' loans have been authorized but have not been advanced as of the year end.

Leases

The Credit Union is committed to receive the following minimum payments for premises under which it is the lessor:

Not later than one year	747,000
Later than one year but not later than five years	2,042,000
Later than 5 years	1,335,000

Director and officer indemnification

The Credit Union indemnifies 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. The Credit Union has acquired and maintains liability insurance for its directors and officers.

25. Other income

Other income consists of:

	2020	2019
Services charges, fees, and commissions	**9,755,569**	8,255,430
Insurance commissions	**5,721,034**	3,831,364
Rental revenue	**1,687,543**	1,681,145
	17,164,146	13,767,939

26. Canada Emergency Benefit Account loans

The Credit Union participated in the Canada Emergency Business Account (CEBA) program by facilitating loans with eligible small businesses during the year. These loans qualify for derecognition as the risk and rewards were transferred to the Government of Canada, therefore these loans are not recognized in the consolidated statement of financial position. As at December 31, 2020 loans issued under the CEBA program were approximately $19 million.

27. Significant event

The novel Coronavirus or COVID-19 was declared a pandemic by the World Health Organization on March 12, 2020.

At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Credit Union as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

28. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.