

REVELSTOKE CREDIT UNION
Financial Statements
Year Ended December 31, 2020

REVELSTOKE CREDIT UNION

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Year Ended December 31, 2020

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Revelstoke Credit Union have been prepared in accordance with International Financial Reporting Standards (IFRS). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of Revelstoke Credit Union's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board meets periodically with management and the members' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Board of Directors approves the financial statements. The Board also considers, approval by the members, the engagement or re-appointment of the external auditors.

The financial statements have been audited on behalf of the members by Adams Wooley, Chartered Professional Accountants, in accordance with Canadian auditing standards.



Mr. Alan Chell, Chairman



Mrs. Roberta Bobicki, CEO

Revelstoke, BC
February 24, 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of Revelstoke Credit Union

Opinion

We have audited the financial statements of Revelstoke Credit Union (the Credit Union), which comprise the statement of financial position as at December 31, 2020, and the statements of income, retained earnings, comprehensive income and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian 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 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:

(continues)

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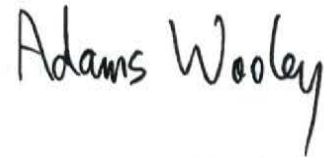
* Denotes Professional Corporation

Independent Auditor's Report to the Members of Revelstoke Credit Union *(continued)*

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

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.

Cranbrook, BC
January 23, 2021





Adams Wooley
Chartered Professional Accountants

REVELSTOKE CREDIT UNION
Statement of Financial Position
December 31, 2020

	2020	2019
ASSETS		
CASH AND TERM DEPOSITS <i>(Note 5)</i>	\$ 56,255,041	\$ 28,974,423
INVESTMENTS <i>(Note 6)</i>	2,754,924	3,340,491
MEMBERS' LOANS <i>(Notes 7 and 8)</i>	182,195,855	172,533,459
PROPERTY AND EQUIPMENT <i>(Notes 9 and 10)</i>	3,286,446	3,474,586
INTANGIBLE ASSETS <i>(Note 11)</i>	119,896	119,896
OTHER <i>(Note 12)</i>	112,988	107,159
	\$ 244,725,150	\$ 208,550,014
LIABILITIES AND MEMBERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 678,619	\$ 354,774
MEMBERS' DEPOSITS <i>(Note 13)</i>	226,776,155	191,992,894
LEASE LIABILITY <i>(Note 9)</i>	47,030	98,299
DEFERRED INCOME TAXES <i>(Note 14)</i>	546,504	404,653
	228,048,308	192,850,620
MEMBERS' EQUITY		
SHARE CAPITAL <i>(Note 15)</i>	381,333	405,128
ACCUMULATED OTHER COMPREHENSIVE INCOME <i>(Note 16)</i>	469,466	89,608
RETAINED EARNINGS	15,826,043	15,204,658
	16,676,842	15,699,394
	\$ 244,725,150	\$ 208,550,014

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

See notes to financial statements

REVELSTOKE CREDIT UNION**Statement of Income****Year Ended December 31, 2020**

	2020	2019
INTEREST INCOME		
Interest from Loans	\$ 6,237,134	\$ 6,209,432
Interest from Investments	452,028	559,813
	<u>6,689,162</u>	<u>6,769,245</u>
INTEREST AND LOAN RELATED EXPENSES	<u>2,749,687</u>	<u>2,765,434</u>
FINANCIAL MARGIN	<u>3,939,475</u>	<u>4,003,811</u>
FEES		
Service Fees and Commissions	1,152,519	972,072
Dividend income	-	500,000
Losses on Loans	(16,358)	(20,514)
Processing and Handling Fees	(139,428)	(147,411)
	<u>996,733</u>	<u>1,304,147</u>
OPERATING EXPENSES	<u>3,927,453</u>	<u>4,034,197</u>
INCOME FROM OPERATIONS	<u>1,008,755</u>	<u>1,273,761</u>
REWARDS TO MEMBERS AND COMMUNITY GIVING		
Rewards to members <i>(Note 15)</i>	153,785	158,370
Community giving and donations <i>(Note 17)</i>	117,724	163,161
	<u>271,509</u>	<u>321,531</u>
INCOME BEFORE INCOME TAXES	<u>737,246</u>	<u>952,230</u>
INCOME TAXES		
Current <i>(Note 18)</i>	114,505	76,270
Deferred	1,356	16,912
	<u>115,861</u>	<u>93,182</u>
NET INCOME	<u>\$ 621,385</u>	<u>\$ 859,048</u>

See notes to financial statements

REVELSTOKE CREDIT UNION

Operating expenses

Year Ended December 31, 2020

	2020	2019
Administrative		
Staff Salaries	\$ 2,052,684	\$ 2,000,479
Staff Benefits	496,500	514,477
Data Processing and Information Technology	223,592	220,122
Director and Committee Costs	35,180	49,094
Postage	31,870	33,214
Telephone	29,812	29,684
Staff Travel and Training	20,924	24,690
Insurance - Bonding	20,615	18,644
Stationery and Supplies	17,243	33,611
	<u>2,928,420</u>	<u>2,924,015</u>
Building and Occupancy		
Amortization - Property	97,335	97,334
Property Taxes	76,832	79,828
Janitor	55,972	54,784
Utilities	32,410	34,364
Repairs and Maintenance - Property	24,764	30,980
Insurance - Property	17,181	15,417
	<u>304,494</u>	<u>312,707</u>
Other		
Computer Software, License, and Subscription	177,199	178,051
Audit	98,972	104,576
Stabilization and Inspection Assessments	77,721	131,610
Promotion, Advertising and Donations	76,228	110,044
Consulting	59,586	57,374
Amortization of Right-of-Use Assets <i>(Note 9)</i>	51,270	51,270
Amortization - Furniture and Equipment	39,534	49,785
Dues	28,560	36,784
Repair and Maintenance - Equipment	25,060	27,439
Crisis Management	19,734	-
Miscellaneous	17,470	13,876
Loan Administration	16,185	14,146
Legal	6,026	18,434
Interest on Leasing Arrangements <i>(Note 9)</i>	328	393
Annual Meeting	666	3,693
	<u>694,539</u>	<u>797,475</u>
	<u>\$ 3,927,453</u>	<u>\$ 4,034,197</u>

See notes to financial statements

REVELSTOKE CREDIT UNION
Statement of Comprehensive Income
Year Ended December 31, 2020

	2020	2019
NET INCOME	\$ 621,385	\$ 859,048
CHANGES IN COMPREHENSIVE INCOME (net of deferred income tax)		
Unrealized gain on available-for-sale liquidity assets <i>(Note 16)</i>	271,878	-
Unrealized gain (loss) on interest rate swaps <i>(Note 16)</i>	107,980	63,912
Unrealized loss on financial assets adjusted to fair value <i>(Note 16)</i>	-	(216,250)
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,001,243	\$ 706,710

See notes to financial statements

REVELSTOKE CREDIT UNION
Statement of Retained Earnings
Year Ended December 31, 2020

	2020	2019
RETAINED EARNINGS - BEGINNING OF YEAR		
As previously reported	15,254,658	14,375,401
Prior period adjustments <i>(Note 17)</i>	<u>(50,000)</u>	<u>(29,791)</u>
As restated	15,204,658	14,345,610
NET INCOME	<u>621,385</u>	859,048
RETAINED EARNINGS - END OF YEAR	<u>\$ 15,826,043</u>	<u>\$ 15,204,658</u>

See notes to financial statements

REVELSTOKE CREDIT UNION

Statement of Cash Flow

Year Ended December 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Net income	\$ 621,385	\$ 859,048
Items not affecting cash:		
Amortization of property, plant and equipment	148,605	148,605
Amortization - furniture and equipment	39,534	49,785
Deferred income taxes	1,356	16,912
Unrealized gain (loss) on interest rate swaps <i>(Note 16)</i>	137,239	87,551
Unrealized (loss) on investment in subsidiary <i>(Note 16)</i>	-	(250,000)
Unrealized gain on available-for-sale liquidity assets	372,436	-
Deferred tax on swaps sold prior to maturity	10,678	-
	<u>1,331,233</u>	<u>911,901</u>
Changes in non-cash working capital:		
Other	(5,829)	16,590
Accounts payable and accrued liabilities	323,845	(368,120)
	<u>318,016</u>	<u>(351,530)</u>
Cash flow from operating activities	<u>1,649,249</u>	<u>560,371</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(70,751)
Acquisition of right-of-use assets	-	(149,571)
Investments	585,567	(146,380)
Members' loans	(9,662,396)	(14,814,370)
Cash flow used by investing activities	<u>(9,076,829)</u>	<u>(15,181,072)</u>
FINANCING ACTIVITIES		
Members' deposits	34,783,261	20,355,181
Share capital	(23,795)	(80,925)
Proceeds from lease liability <i>(Note 9)</i>	-	149,571
Repayment of lease liability <i>(Note 9)</i>	(51,268)	(51,270)
Cash flow from financing activities	<u>34,708,198</u>	<u>20,372,557</u>
INCREASE IN CASH FLOW	27,280,618	5,751,856
Cash - beginning of year	<u>28,974,423</u>	<u>23,222,567</u>
CASH - END OF YEAR	\$ 56,255,041	\$ 28,974,423
CASH CONSISTS OF:		
Cash and term deposits	\$ 15,398,975	\$ 6,713,875
Deposits - special and term	40,724,436	22,116,000
Accrued interest	131,630	144,548
	<u>\$ 56,255,041</u>	<u>\$ 28,974,423</u>

See notes to financial statements

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

1. NATURE OF OPERATIONS

Revelstoke Credit Union (the "Credit Union") is incorporated under the Credit Union Act (the "Act") of British Columbia and is a member of Central 1 Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and Internet banking. The Credit Union head office is located at 110 2nd Street W, Revelstoke, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on February 24, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 4*.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash and cash equivalents are carried at amortized cost, which is equivalent to fair value.

Investments - Central 1 deposits

These deposit instruments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. If investments are available for sale, they are reported at fair value.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity instruments

These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair market value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in equity.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is recognized in equity.

Hedges

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps totaling \$5,000,000 (2019 - \$10,000,000). These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

If a hedge relationship fails an effectiveness test, hedge accounting ceases from the last date on which the hedge was demonstrated to be effective, which will usually be the beginning of the period in which the hedge fails the effectiveness test. If the hedged item is an available-for-sale asset, future changes in fair value, other than impairment and currency differences on monetary items, are recognized in equity. If the hedged item is a loan or receivable, future changes in fair value, other than impairment, are not recognized unless the item is sold.

If the Credit Union closes out its hedge position early, the cumulative gains and (losses) recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and (losses) on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

As permitted by IFRS 9, the Credit Union has elected to continue to apply the hedge accounting requirements of IAS 39.

Members loans

All members loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision of impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loan securitization

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

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized and was written up as provided in *Note 10*. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Parking Lot	20 years
Furniture and Equipment	1 to 10 years

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

Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life, unless it is deemed to have an indefinite life, and tested for impairment annually.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

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

Impairment changes are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

Member deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Pension plan

The Credit Union participates in a defined contribution pension plan administered by Credential Asset Management. The Credit Union accounts for the plan by recognizing contributions as an expense in the year to which they relate.

Accounts payable and other payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Patronage distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use

Measurement and recognition of leases as a lessee

At lease commencement date, the Credit Union recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate, which has been deemed to be the prime rate, since the Credit Union does not currently borrow.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, there is an option to include right-of-use assets in property and equipment and lease liabilities in trade and other payables, but they have been included in separate line items instead.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union as a lessor

The Credit Union's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Credit Union classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at the date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and (losses) arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and (losses) on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

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. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Examples of significant estimates include:

- providing for amortization of property and equipment;
 - the estimated useful lives of assets;
 - the allowance for losses on loans;
 - the recoverability of long-term investments;
 - the recoverability of intangible assets;
 - the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
 - certain actuarial and economic assumptions used in determining present value of future lease obligations.
 - IFRS 16 requires entities to make certain judgements and estimations, and those that are significant should be disclosed here or within the asset and liability notes within the financial statements. Critical judgements are often required when an entity is, for example:
 - determining whether or not a contract contains a lease
 - establishing whether or not it is reasonably certain that an extension option will be exercised
 - considering whether or not it is reasonably certain that a termination option will not be exercised
 - determining whether or not variable leased payments are truly variable, or in-substance fixed
 - for lessors, determining whether the lease should be classified as an operating or finance lease.
 - Examples of key sources of estimation and uncertainty include:
 - calculating the appropriate discount rate to use
 - estimating the lease term
 - estimating variable lease payments dependant on an index or rate.
-

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

3. IFRSs NOT YET EFFECTIVE

Following is a listing of amendments, revisions and new International Financial Reporting Standards (IFRSs) issued and the effective date. Unless otherwise indicated, earlier application is permitted. The Credit Union is currently evaluating the impact of adopting the changes, which it intends to do when required.

IFRS 17 - Insurance contracts (annual periods beginning on or after January 1, 2021)

Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IAS 16 - Property, Plant and Equipment (annual periods beginning on or after January 1, 2022)

The amendments prohibit an entity from deducting from the cost of property, plant and equipment the proceeds from selling items produced before the asset is available for use. Instead, an entity will recognize such sales proceeds and related cost in profit or loss.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (annual periods beginning on or after January 1, 2022)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experiences may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in other comprehensive income, or current income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

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

Fair value of financial instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in *Note 6*.

Member loan loss provision

In determining whether an impairment loss should be recorded in the statement of income the Credit Union makes its judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining a collective loan loss provision, management used estimates based on the understanding of possible risks in the economy and objective evidence of impairment. The Credit Union has employed a collective loan loss provision in 2020 of \$207,265 (2019 - \$177,000).

Income taxes

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

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1. The average yield in the accounts at December 31, 2020 is 0.75% (2019 - 1.90%).

	<u>2020</u>	<u>2019</u>
Liquidity reserve deposits	\$ 17,724,436	\$ 15,116,000
Term deposits	23,000,000	7,000,000
Discount deposits - Canadian	14,997,940	4,572,013
Discount deposits - US	353,978	2,152,923
Accrued interest	131,630	144,548
	<hr/>	<hr/>
Total Central 1 deposits	56,207,984	28,985,484
Other cash and deposit accounts	47,057	(11,060)
	<hr/>	<hr/>
	\$ 56,255,041	\$ 28,974,423

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 8% of total assets at December 31, each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves mature over periods of up to 5 years and bear interest at rates ranging from 0.200% to 2.736%. At maturity, these deposits are reinvested at market rates for various terms.

(a) Initial measurement

Liquidity deposits are initially measured at fair value plus transaction costs that are directly attributable to their acquisition.

(b) Classification and subsequent measurement

Liquidity deposits are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity deposits are subsequently reduced by a loss allowance, if any. Because the liquidity deposits are available for sale at the end of 2020, they are revalued to fair value.

(c) Credit risk

The Credit Union holds cash held on deposit with Central 1. Liquidity deposits have been determined to have low credit risk and therefore the loss allowances for liquidity deposits is measured at an amount equal to 12-month ECL.

(d) Fair value measurement

The carrying amounts of liquidity deposits and cash held on deposit with Central approximate fair value due to having similar characteristics as cash and equivalents.

Discount deposits at Central 1 are due within one year.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

6. INVESTMENTS

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

	2020	2019
<u>Equity instruments</u>		
Central 1 Credit Union - Class A Shares	\$ 69,510	\$ 67,636
Central 1 Credit Union - Class E Shares	50	50
Central 1 Credit Union - Class F Shares	738,595	800,183
Central 1 Credit Union - Accrued dividends	22,158	48,011
CUPP Services Ltd. - Shares	59,577	59,577
Stabilization Central Credit Union - Shares	161	161
RCU Insurance Services Ltd. - Shares	1,864,873	1,864,873
RCU Insurance Services Ltd. - Advances	-	500,000
	\$ 2,754,924	\$ 3,340,491

a) Recognition and initial measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value. Any change in fair value between trade date and settlement date is recognized in net income.

b) Classification and subsequent measurement

The Credit Union classifies its equity instruments as FVOCI. The equity instruments are subsequently measured at fair value with changes in fair value recognized in OCI. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

c) Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment. On derecognition, any cumulative gain or loss recognized in OCI is not recognized in profit or loss.

d) Fair value measurement

The carrying amounts of investments approximate fair value. The table above provides information on the investments by type of security and issuer.

The Credit Union is a member of a national financial services entity named Central 1 Credit Union. The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the direction of the Board of Directors of Central 1. The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Class A and F Central 1 shares are subject to an annual rebalancing mechanism 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 transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are redeemable at \$100 per share. The Credit Union accounts for the remaining 5,031 Class E shares at cost, as redemption of the shares at the shares' stated redemption value is uncertain.

The Board of Directors of Central 1 approved the redemption of all Class F shares at par value effective January 1, 2021. The redemption was completed on January 8, 2021 and the redemption price of \$738,595 was paid to the Credit Union on that date.

The CUPP Services shares are participating preference shares. There is no separately quoted market value for these shares. However, as these are preferred shares, fair value is determined to be carrying value.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

7. MEMBERS' LOANS

	<u>2020</u>	<u>2019</u>
Residential Mortgages	\$ 131,750,951	\$ 120,811,296
Commercial Mortgages and Loans	35,375,210	35,404,922
Personal Loans	13,679,785	13,460,494
Commercial Revolving Credits	1,256,538	2,691,682
Accrued Interest	341,808	365,200
Subtotal	182,404,292	172,733,594
Deduct: Allowance for Impaired Loans (Note 8)	(208,437)	(200,135)
	<u>\$ 182,195,855</u>	<u>\$ 172,533,459</u>

Terms and conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 10%. 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 rate offered on fixed rate loans being advanced at December 31, 2020 ranges from 1.99% to 4.79%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by promissory notes and personal property or investments, and others are secured by promissory notes only.

Commercial loans consist of term loans, operating lines of credit 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.

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	<u>2020 Yield</u>	<u>2019 Yield</u>
Variable rate	4.09%	5.71%
Fixed rate due less than one year	3.28%	3.49%
Fixed rate due between one and five years	3.17%	3.48%

(a) Recognition and initial measurement

The Credit Union initially recognizes member loans on the date on which they are originated. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

7. MEMBERS' LOANS *(continued)*

(b) Classification and subsequent measurement

Member loans are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan losses.

(c) Derecognition and contract modifications

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans.

On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, then the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

If the terms of a member loan are modified but not substantially, then the member loan is not derecognized. If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on member loans.

(d) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's member loans.

i) Credit risk management

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
 - Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
 - Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
-

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

7. MEMBERS' LOANS *(continued)*

- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Maintaining the Credit Union's watch list for loans whose credit risk has increased since origination with appropriate follow-up and risk mitigation techniques;
- Developing and maintaining the Credit Union's internal credit risk grading system; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

The Credit Union allocates a credit risk grade at initial recognition based on available information about the borrower. Under this system, the credit risk grades are defined as follows:

- 1 – undoubted - assigned to undoubted member loans with virtually no risk
- 2 – low - assigned to member loans that have minimal risk of any loss
- 3 – moderate – assigned to member loans that have normal risk of any loss
- 4 – cautionary – assigned to member loans that are higher risk and that should be placed on a watch list for increased monitoring
- 5 – unsatisfactory – assigned to member loans that are impaired and require immediate action
- 6 – unacceptable - assigned to member loans where there is little or no likelihood of repayment

The Credit Union does not have any member loans that originate in a credit risk grade of 4. Member loans are subject to ongoing monitoring, which may result in the member loan being moved to a different credit risk grade. The monitoring typically involves the use of information obtained during periodic review of customer files, for example, audited financial statements, data from credit reference agencies, actual and expected significant changes in the regulatory and technological environment of the borrower or in its business activities, payment record including overdue status and existing and forecast changes in business, financial and economic conditions.

The Credit Union monitors personal loans primarily by delinquency status.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of the provision for credit losses on member loans and allowance for loan losses monthly.

A sizeable portfolio of the loan book is secured by residential property in Revelstoke, BC. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LTV) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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.

ii) Amounts arising from ECL

The Credit Union recognizes allowance for loan losses for ECL on member loans.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

7. MEMBERS' LOANS (continued)

The Credit Union measures allowance for loan losses at each reporting period date according to a three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition.	Following a significant increase in credit risk (SICR) relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into stage 1. A commercial or agricultural loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers. For personal loans, migration back to stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied and the member has 6 months of principal and interest payments made with no delinquency.	The Credit Union determines a SICR has occurred when: <ul style="list-style-type: none">• the loan moves to the Credit Union's watch list;• the member migrates to a credit risk grade of 4; or• a contractual payment is more than 30 days past due. Additionally, the Credit Union incorporates forward looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: <ul style="list-style-type: none">• a breach of contract such as a default or delinquency in interest or principal payments;• significant financial difficulty of the borrower;• the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise;• payment on a loan is overdue 90 days or more; or• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

7. MEMBERS' LOANS *(continued)*

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
ECL methodology	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss)	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss)	
Collective or individual assessment	Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.		Each credit-impaired member loan is individually assessed.
Application of ECL methodology	Expected credit loss on a group of member loans is measured on the basis of a loss rate approach. The Credit Union develops loss rates for member loans in stage 1 and loss rates for member loans stage 2, based on historical default and loss experiences for those types of member loans, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, letters of credit).		The probability of default on credit-impaired member loans is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward looking information	Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.		

(e) Fair value measurement

The fair value of member loans at December 31, 2020 was \$184,799,000 (December 31, 2019 - \$172,262,000).

The estimated fair value of the variable rate loans is assumed to be equal to the book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Credit quality of loans

It is not practical to value all collateral as at the year end date due to the variety of assets and conditions.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

7. MEMBERS' LOANS (continued)

	2020			2019	
	12-month Expected Credit Loss	Lifetime Expected Credit Loss (not credit- impaired)	Lifetime Expected Credit Loss (credit- impaired)	Total	Total
Residential Mortgages and Personal Loans					
Current	\$ 145,430,736	\$ -	\$ -	\$ 145,430,736	\$ 134,258,470
> 30 days past due	-	-	-	-	5,185
> 90 days past due	-	-	-	-	8,135
Otherwise defaulted	-	-	-	-	-
	145,430,736	-	-	145,430,736	134,271,790
Allowance for loan losses	-	-	-	-	(8,135)
Carrying amount	\$ 145,430,736	\$ -	\$ -	\$ 145,430,736	\$ 134,263,655
Commercial Loans					
1 - undoubted	\$ 308,323	\$ -	\$ -	\$ 308,323	\$ 305,434
2 - low	1,445,308	-	-	1,445,308	2,077,165
3 - moderate	34,513,322	-	-	34,513,322	35,411,302
4 - cautionary	-	364,795	-	364,795	302,703
5 - unsatisfactory	-	-	-	-	-
6 - unacceptable	-	-	-	-	-
	36,266,953	364,795	-	36,631,748	38,096,604
Allowance for loan losses	(208,437)	-	-	(208,437)	(192,000)
Carrying amount	\$ 36,058,516	\$ 364,795	\$ -	\$ 36,423,311	\$ 37,904,604
Balance at December 31	\$ 181,489,252	\$ 364,795	\$ -	\$ 181,854,047	\$ 172,168,259

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

The significant majority of member loans are with members located in and around Revelstoke, British Columbia. Where a member's loan is not in the Revelstoke area, an exception to policy is made.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

8. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision at December 31, 2020 is comprised of a specific provision of \$NIL (2019 - \$23,135) and a collective provision of \$208,437 (2019 - \$177,000).

Movement in individual specific provision and collective provision for impairment:

	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 200,135	\$ 180,100
Recoveries of loans previously written off	(10,318)	-
Provision charged to net income	18,620	20,035
Balance at December 31 (<i>Note 7</i>)	<u>\$ 208,437</u>	<u>\$ 200,135</u>

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding at December 31.

	<u>2020</u>	<u>2019</u>
Period of delinquency		
Less than 30 days	\$ 867,112	\$ 216,187
30 to 90 days	-	5,185
Over 90 days	-	310,838
Total loans in arrears	867,112	532,210
Total loans not in arrears	180,815,372	171,836,184
Total loans (excluding accrued interest)	<u>\$ 181,682,484</u>	<u>\$ 172,368,394</u>

Key assumptions in determining the allowance for impaired loans collective provision

The Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Management to reduce any differences between loss estimates and actual loss experience.

The Credit Union determined that a collective (non-specific) impaired loan provision should be applied to 2020 in the amount of \$208,437 (2019 - \$177,000).

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

The Credit Union has a lease for computer equipment and service. With the exception of short-term leases and leases of low-value underlying assets, the total lease asset is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Credit Union sales) are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property and equipment (see *Note 10*).

The table below describes the nature of the Credit Union's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term (months)	Average remaining lease term (years)	Number of leases with			
				Extension options	Options to purchase	Variable payments linked to an index	Termination options
Computer equipment	Multiple	11	3	1	-	-	1

Right-of-use assets

Additional information on the right-of-use assets by class of assets is as follows:

	Asset	Carrying amount	Additions	Amortization	Impairment
Computer equipment	\$ 149,571	\$ 47,031	\$ -	\$ 102,540	\$ -

The right-of-use assets are included in a separate line on the statement of financial position.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	December 31, 2020	December 31, 2019
Current	\$ 47,031	\$ 51,270
Non-current	-	47,031
	<u>\$ 47,031</u>	<u>\$ 98,301</u>

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

9. **RIGHT-OF-USE ASSETS AND LEASE LIABILITY** *(continued)*

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities is as follows:

	Within 1						
	year	1-2 years	2-3 years	3-4 years	4-5 years	Total	
December 31, 2020							
Lease payments	\$ 47,357	\$ -	\$ -	\$ -	\$ -	\$ 47,357	
Finance charges	(326)	-	-	-	-	(326)	
Net present values	\$ 47,031	\$ -	\$ -	\$ -	\$ -	\$ 47,031	
December 31, 2019							
Lease payments	\$ 51,662	\$ 47,357	\$ -	\$ -	\$ -	\$ 99,019	
Finance charges	(392)	(326)	-	-	-	(718)	
Net present values	\$ 51,270	\$ 47,031	\$ -	\$ -	\$ -	\$ 98,301	

Lease payments not recognised as a liability

The Credit Union has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred. Low-value lease payments during the year totaled \$2,491.

Sale and leaseback transactions

There have been no sale and leaseback transactions in the current year.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

10. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Land	\$ 570,136	\$ -	\$ 570,136	\$ 570,136
Buildings	4,268,645	1,673,065	2,595,580	2,691,438
Furniture and Equipment	1,502,515	1,441,837	60,678	82,774
Parking Lot	38,457	29,590	8,867	10,345
Computer Equipment	399,621	395,467	4,154	21,592
Computer Equipment - Right-of-Use Asset	149,571	102,540	47,031	98,301
	<u>\$ 6,928,945</u>	<u>\$ 3,642,499</u>	<u>\$ 3,286,446</u>	<u>\$ 3,474,586</u>

The carrying value of the land owned by the credit union was increased from the historical cost of \$52,241 to fair value of \$317,923 as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 16, as determined by an appraisal prepared by Corrie Appraisals Ltd. on January 29, 2010. The credit union owns the land on which the building and parking lot are located in Revelstoke, BC. No impairment in the fair value has accrued in 2020.

The following assets included above are held under lease Note 9.:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Computer Equipment - Right-of-Use Asset	\$ 149,571	\$ 102,540	\$ 47,031	\$ 98,301

11. INTANGIBLE ASSETS

	2020	2019
Software license	<u>\$ 119,896</u>	<u>\$ 119,896</u>

The software license relates to Lodestar Business Intelligence. The license has an indefinite life, as long as the monthly maintenance fees are paid. The Credit Union's intention is to continue using this software for an indefinite period. Amortization has not been taken, in accordance with IAS 38. A test for impairment is required annually to determine whether events and circumstances continue to support an indefinite useful life assessment. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change to an accounting estimate in accordance with IAS 8.

12. OTHER

	2020	2019
Prepaid expenses and accounts receivable	<u>\$ 112,988</u>	<u>\$ 107,159</u>

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

13. MEMBERS' DEPOSITS

	2020	2019
Chequing	\$ 72,567,380	\$ 47,610,289
Plan 24	32,190,900	26,449,443
Term deposits	76,160,141	75,776,588
Registered savings plans	11,690,379	11,092,489
Registered retirement income funds	6,038,193	5,327,610
Registered education savings plans	1,947,298	1,867,099
Tax free savings account	24,387,658	22,082,182
Registered disability savings plans	316,007	265,299
BC TESG savings plans	226,689	196,462
	225,524,645	190,667,461
Accrued Interest Payable	1,251,510	1,325,433
	\$ 226,776,155	\$ 191,992,894

Terms and conditions

Chequing deposits are due on demand. A portion of the accounts pay interest at a negotiated rate.

Maximizer deposits are due on demand and bear interest at tiered rates. Interest is paid on the accounts monthly.

Plan 24 deposits bear interest at 0.25%. Interest is calculated daily and paid monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits issued on December 31, 2020 range from 0.50% to 1.10%.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above and may also pay interest semi-annually. The interest rates on fixed rate RRSPs range from 0.25% to 1.10%. Variable rate RRSPs bear interest at 0.25% at December 31, 2020.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amount vary according to individual needs and statutory requirements. The interest rates on fixed rate RRIFs range from 0.25% to 1.10%. Variable rate RRIFs bear interest at 0.25% at December 31, 2020.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits is an amount of \$296,842 denominated in US dollars (2019 - \$2,079,393).

Average yield to maturity

Members' deposits bear interest at both variable and fixed rates with an average yield of 1.75% (2019 - 2.22%).

a) Recognition and initial measurement

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

b) Classification and subsequent measurement

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

13. MEMBERS' DEPOSITS *(continued)*

Member deposits are classified and subsequently measured at amortized cost, using the effective interest rate method.

c) Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

Individual or related groups of member deposits which exceed 5% of member deposits:

	2020	2019
Chequing	\$ 72,567,380	\$ 47,610,289
Demand	32,190,900	26,449,443
Term	76,160,141	75,776,588
Registered savings plans	11,690,379	11,092,489
Tax free savings accounts	24,387,658	22,082,182
	<u>\$ 216,996,458</u>	<u>\$ 183,010,991</u>

The significant majority of member deposits are with members located in and around Revelstoke, British Columbia.

d) Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The credit union has set a minimum liquidity ratio of 8%, which is the statutory minimum liquidity.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

13. MEMBERS' DEPOSITS *(continued)*

As at December 31, 2020, the position of the Credit Union is as follows:

	Maximum exposure
Qualifying liquid assets on hand	
Cash	\$ 15,398,976
Liquidity reserve deposits	17,352,000
Discount deposits and term deposits	23,000,000
	55,750,976
Total liquidity requirement (8% of total assets)	19,578,012
Excess liquidity requirement	\$ 36,172,964

The maturities of liabilities are shown in *Note 13* under Terms and Conditions. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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.

e) Fair value measurement

The fair value of members deposits and non-equity shares at December 31, 2020 was \$226,885,000 (December 31, 2019 - \$192,084,000)

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

14. DEFERRED INCOME TAXES

Deferred income taxes are calculated on timing differences between amounts claimed as expenses or revenues on the financial statements and the corporation income tax return. Such differences may include claims for amortization of property, plant and equipment being different from rates of capital cost allowance allowed under the Income Tax Act and amounts that have been amortized over an expected useful life that are allowable for full write off in the year of acquisition under the Income Tax Act.

The adoption of IFRS allowed the Credit Union to increase the carrying value of its land and investment in RCU Insurance Services Ltd. to fair value. The change in fair value of interest rate swaps reflected in the Statement of Other Comprehensive Income are shown net of deferred income taxes, with an offset to deferred income tax liability or asset. In addition, a fair value change of the liquidity assets in 2020 produced a significant deferred tax liability for the year, as provided in *Note 16*.

The deferred income taxes reflected on the Statement of Financial Position include both of the above components as follows:

	<u>2020</u>	<u>2019</u>
Arising from timing differences, accounted for in operations	\$ 131,230	\$ 129,874
Arising from fair values, accounted for in retained earnings and accumulated other comprehensive income	<u>415,273</u>	<u>274,779</u>
	<u>\$ 546,503</u>	<u>\$ 404,653</u>

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

15. MEMBERS' SHARES

Revelstoke Credit Union has established three classes of shares:

"A" Equity Membership

"B" Non-Voting Equity Shares

"D" Non Equity Shares

Rights, restrictions and privileges attached to the various classes are set out in Credit Union Rules 2.1 to 2.16.

As at December 31, the three classes of shares consisted of the following issued and fully paid shares:

	<u>2020</u>	<u>2019</u>
"A" Equity Membership	\$ 102,322	\$ 104,501
"B" Non-Voting Equity Shares	279,011	300,627
	<u>\$ 381,333</u>	<u>\$ 405,128</u>

Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transactions costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Membership shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold \$5 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in "A" and "B" shares are not insured by Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (*Note 22*), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as equity.

Distributions to members

	<u>2020</u>	<u>2019</u>
Patronage distributions	\$ 150,525	\$ 150,560
Dividends on members' shares	3,260	7,810
	<u>\$ 153,785</u>	<u>\$ 158,370</u>

REVELSTOKE CREDIT UNION**Notes to Financial Statements****Year Ended December 31, 2020****16. ACCUMULATED OTHER COMPREHENSIVE INCOME**

As described in *Note 2* the Credit Union invests in both Equity Instruments and Hedges (in the form of Interest Rate Swaps). IFRS requires the values of these investments to be reported at Fair Value, less the applicable amount of income tax that would be payable if the Fair Value was realized, which is recorded as Deferred Income Taxes. By their nature, the Fair Value of these investments fluctuates with market conditions. In addition, the method of reporting the Fair Value of the Hedges depends on whether the Hedge is considered to be effective or ineffective.

Adjustments to Comprehensive Income and Deferred Income Taxes arising from the treatment of both Equity Instruments and Hedges are set out below:

	<u>2020</u>	<u>2019</u>
Opening balance	\$ 89,608	\$ 241,946
Changes in other comprehensive income		
Amortization of swaps sold prior to maturity	39,550	-
Revaluation of swaps to fair value	108,366	87,552
Deferred tax on swaps	(39,936)	(23,640)
	<u>107,980</u>	<u>63,912</u>
Unrealized gain on available for sale liquidity assets	372,436	-
Deferred tax on available for sale liquidity assets	(100,558)	-
	<u>271,878</u>	<u>-</u>
Unrealized loss on shares of subsidiary adjusted to fair value	-	(250,000)
Deferred tax on revaluation of shares of subsidiary	-	33,750
	<u>-</u>	<u>(216,250)</u>
Ending balance, accumulated other comprehensive income	<u>\$ 469,466</u>	<u>\$ 89,608</u>

These changes are recorded in the Statement of Comprehensive Income and in the Deferred Income Tax account as at December 31, 2020 and the comparative figures for 2019.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

17. PRIOR PERIOD ADJUSTMENTS

Comparative figures were restated to reflect the following:

In 2020, a payment of \$50,000 was disbursed from the 2019 Community Giving program. Management had not accrued this amount in the 2019 year, so is reflected as an adjustment to the 2019 Donations Expense and Accounts Payable.

In 2019, an income tax reassessment for a net amount of \$29,791 was paid for the 2015 to 2018 years, and is reflected as an adjustment to Retained Earnings.

	<u>2020</u>	<u>2019</u>
2019 Community Giving program expense paid in 2020	\$ 50,000	\$ -
2018 income tax recovery	-	(46,724)
2017 income tax reassessment	-	28,224
2016 income tax reassessment	-	12,666
2015 income tax reassessment	-	35,625
	<u>\$ 50,000</u>	<u>\$ 29,791</u>

18. INCOME TAXES

The Credit Union incurs tax at the general corporate rate of 27.0% for taxable income that exceeds the \$500,000 Business Limit. The Business Limit is reduced by a formula when the Taxable Capital of the associated companies exceeds \$10,000,000 in the previous year, and is completely eliminated when the Taxable Capital of the associated companies exceeds \$15,000,000.

The Taxable Capital of the associated companies at December 31, 2020 was \$16,040,869 (2019: \$14,708,480).

The Credit Union is eligible for preferred tax treatment based on the cumulative amount of income that was taxed at the small business corporate income tax rate in previous years.

	<u>2020</u>	<u>2019</u>
Income before income taxes	\$ 737,246	\$ 952,230
Increase (decrease) resulting from:		
Non-taxable dividends	-	(500,000)
Capital cost allowance in excess of amortization of property, plant and equipment	(6,196)	(42,625)
Non-deductible expenses	1,965	6,585
Adjustment to reserve for allowance for losses on loans	830	2,006
2019 expense deducted in 2020 for tax purposes (<i>Note 17</i>)	(50,000)	50,000
Taxable income	<u>\$ 683,845</u>	<u>\$ 468,196</u>
Income taxes	<u>\$ 114,505</u>	<u>\$ 76,270</u>
Income tax rate	<u>16.74 %</u>	<u>16.29 %</u>

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

19. PENSION PLAN

The Credit Union makes contributions to a defined contribution Pension Plan, on behalf of its staff and its wholly owned subsidiary RCU Insurance Services Ltd. The plan is a money purchase plan administered by Credential Asset Management.

The amount contributed to the plan for 2020 was \$138,158 (2019 - \$141,311). The contributions were made for current service and have been recognized in income. There are currently 35 individuals in the pension plan.

20. RELATED PARTY TRANSACTIONS

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

	<u>2020</u>	<u>2019</u>
Compensation		
Salaries and other short-term benefits	\$ 547,757	\$ 525,905
Total pension and other post-employment benefits	47,008	45,104
Other long term benefits	3,957	4,983
	<u>\$ 598,722</u>	<u>\$ 575,992</u>
Loans to key management personnel and directors		
Aggregate value of loans advanced	\$ 2,535,860	\$ 1,713,162
Interest received on loans advanced	53,722	51,520
Total value of lines of credit advanced	501,584	400,570
Unused value of lines of credit	712,916	558,930
	<u>\$ 3,804,082</u>	<u>\$ 2,724,182</u>
Deposits from key management personnel and directors	<u>\$ 938,114</u>	<u>\$ 777,923</u>

Loans to key management personnel and directors

The Credit Union's policy for lending to key management personnel and directors is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit; however, as part of its remuneration and benefit package the Credit Union offers all staff members a reduction from current interest rates subject to specific maximum amounts as approved by the Board of Directors.

Deposits from key management personnel and directors

The Credit Union's policy for receiving deposits from key management personnel and directors is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit; however, as part of its remuneration and benefit package, the Credit Union offers all staff members a 1.0% bonus above certain current interest rates to a maximum of \$200,000, as approved by the Board of Directors.

REVELSTOKE CREDIT UNION
Notes to Financial Statements
Year Ended December 31, 2020

21. FINANCIAL INSTRUMENT CLASSIFICATION

The following table represents the carrying amount by classification.

	<u>2020</u>	<u>2019</u>
Cash and term deposits	\$ 56,255,041	\$ 28,974,423
Investments	2,754,924	3,340,491
Members' loans	182,195,855	172,533,459
Other	112,988	107,159
	<u>241,318,808</u>	<u>204,955,532</u>
Members' deposits	<u>(226,776,155)</u>	<u>(191,992,894)</u>
	<u>\$ 14,542,653</u>	<u>\$ 12,962,638</u>

An analysis of instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

All of the investments are classified under level 2. See *Note 6* for investments.

There were no transfers between level 1 and level 2 for the years ended December 31, 2020 and 2019.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

22. FINANCIAL INSTRUMENT RISK MANAGEMENT

General objectives, policies and processes

The Board of Directors has overall responsibility for determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing the operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor or credit obligations.

Risk measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

Objectives, policies and procedures

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits include Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans monthly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is NIL (2019 - NIL).

A sizeable portfolio of the loan book is secured by residential property in Revelstoke, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific market conditions and the related behaviour of its members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 8%.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Credit Union is required to measure its capital adequacy based on the British Columbia Financial Services Authority ("BCFSA") regulations. Based on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weighting factor. The regulatory ratio is computed and must meet a minimum capital to risk-weighted ratio of 8%. The Credit Union manages its capital based on the statutory requirements applied to its assets on a monthly basis and reported to the Board. There have been no significant changes from the previous year in the exposure to risk, or policies, procedures and the methods used to measure the risk and/or capital adequacy.

As at the year end date, the position of the Credit Union is as follows:

	<u>2020</u>	<u>2019</u>
• Risk weighted assets	\$81,398,796	\$76,026,643
• Capital adequacy ratio	22.02%	21.99%
• Risk weighted asset ratio	33.32%	36.49%

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

REVELSTOKE CREDIT UNION

Notes to Financial Statements

Year Ended December 31, 2020

22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer price rates.

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset / liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the regulatory bodies in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of British Columbia as required by Credit Union regulations. For the year-ended 2020, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity.

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Variable rate	\$ 37,724,947	2.59	\$ 4,382,349	0.76	\$ 33,342,598
Interest sensitive					
0 - 3 months	39,134,880	1.18	23,825,155	1.87	15,309,725
4 - 12 months	33,058,350	3.03	71,093,617	1.49	(38,035,267)
1 - 2 years	32,825,663	3.12	15,488,288	2.69	17,337,375
2 - 5 years	94,719,579	3.07	6,702,691	2.30	88,016,888
Non-interest sensitive	7,261,731	0.22	123,233,050	0.36	(115,971,319)
	<u>\$ 244,725,150</u>	<u>2.61</u>	<u>\$ 244,725,150</u>	<u>1.04</u>	<u>\$ -</u>

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of the Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rate of 1% could result in a decrease to the fair value of equity of \$3,183,000 (2019 - \$2,769,000) while a decrease in interest rates of 1% could result in an increase to the fair value of equity of \$1,029,000 (2019 - \$2,233,000), when including the swaps.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

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.

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 levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. Foreign currency changes are monitored by the Credit Union for effectiveness of its foreign exchange mitigation activities and holdings are adjusted from time to time.

Risk measurement

The Credit Union's position is reviewed daily and measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs. 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.

23. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling \$1,500,000 (2019 - \$1,500,000). Included in this total is an authorized Line of Credit of \$1,000,000 and a Capital Markets line in the amount of \$500,000. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Member loans

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2020	2019
Consumer		
Unadvanced loans	\$ 2,695,851	\$ 1,714,095
Unused lines of credit	11,945,482	10,810,322
Commercial		
Unused lines of credit	\$ 9,462,452	\$ 8,513,079
Letters of credit	1,109,526	1,326,730

Contractual obligations

The Credit Union has an agreement with Fiserv, which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. A renewal of the contract was negotiated for a term of 7 years commencing May 11, 2018.

Capital

The Credit Union has no material commitments for capital expenditures.