Northern Savings Credit Union
Consolidated Financial Statements
For the Year Ended December 31, 2020

Contents

Tel: 250 545 2136
Fax: 250 545 3364
www.bdo.ca

BDO Canada LLP
2706 – 30th Avenue
Suite 202
Vernon BC V1T 2B6 Canada

Independent Auditor's Report

To the Members of Northern Savings Credit Union

Opinion

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

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

Basis for Opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing Northern Savings 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 Northern Savings Credit Union or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northern Savings 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 Northern Savings Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Northern Savings Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with Northern Savings Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

BDO Canada LLP

Chartered Professional Accountants

Vernon, British Columbia
February 25, 2021

Northern Savings Credit Union
Consolidated Statement of Financial Position

December 31	2020	2019
Assets		
Cash and cash equivalents (Note 5)	**$ 75,152,831**	$ 15,641,792
Investments (Note 6)	**172,093,684**	123,214,687
Loans to members (Note 7, 8)	**444,344,745**	476,474,958
Property and equipment (Note 9)	**12,581,868**	12,774,008
Intangible assets and goodwill (Note 10)	**1,715,892**	1,400,965
Other assets (Note 11)	**4,163,446**	3,310,592
Deferred income tax asset (Note 15)	**48,205**	235,462
	$ 710,100,671	$ 633,052,464
Liabilities		
Member deposits (Note 12)	**$655,817,536**	$ 577,829,137
Secured and other borrowings (Note 13)	**-**	5,117,355
Accounts payable and accrued liabilities	**2,680,258**	2,479,075
	658,497,794	585,425,567
Members' equity		
Contributed surplus	**1,009,446**	1,009,446
Retained earnings	**50,593,431**	46,617,451
	51,602,877	47,626,897
	$ 710,100,671	$ 633,052,464

Signed on behalf of the Board of Directors' by:

Jamie Malthus, Board Chair

Rodney Cox, Audit & Operational Risk Committee Chair

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

Northern Savings Credit Union
Consolidated Statement of Comprehensive Income

For the year ended December 31	2020	2019
Interest revenue		
Interest on member loans	**$ 18,096,094**	$ 19,475,108
Other interest revenue	**2,802,538**	2,592,648
	20,898,632	22,067,756
Interest and loan related expenses		
Interest on member deposits	**5,520,711**	6,239,963
Other interest expense	**11,439**	135,718
Impairment losses on member loans (Note 8)	**200,000**	199,121
	5,732,150	6,574,802
Financial margin	**15,166,482**	15,492,954
Other income (Note 17)	**9,529,658**	9,137,422
Total operating income	**24,696,140**	24,630,376
Operating expenses (Note 18)	**18,945,727**	18,641,486
Income from operations	**5,750,413**	5,988,890
Distributions to members (Note 16)	**11,285**	50,490
Income before income taxes	**5,739,128**	5,938,400
Provision for income taxes (Note 15)		
Current income taxes	**1,577,545**	812,775
Deferred income taxes	**185,603**	162,003
	1,763,148	974,778
Comprehensive income for the year	**$ 3,975,980**	$ 4,963,622

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

Northern Savings Credit Union
Consolidated Statement of Changes in Members' Equity

For the year ended December 31

	Contributed Surplus	Retained Earnings	Total
Balance at December 31, 2018	$ 1,009,446	$ 41,653,829	$ 42,663,275
Comprehensive income for the year	-	4,963,622	4,963,622
Balance on December 31, 2019	1,009,446	46,617,451	47,626,897
Comprehensive income for the year	-	3,975,980	3,975,980
Balance on December 31, 2020	**$ 1,009,446**	**$ 50,593,431**	**$ 51,602,877**

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

Northern Savings Credit Union
Consolidated Statement of Cash Flows

For the year ended December 31	2020	2019
Cash provided by (used in):		
Operating activities		
Net income	$ 3,975,980	$ 4,963,622
Amortization	782,880	754,012
Loss on disposal of property and equipment	-	24,425
Impairment losses on member loans	200,000	199,121
Provision for income taxes	1,763,148	974,778
Adjustments for		
Interest revenue	(20,898,632)	(22,067,756)
Interest expense	5,532,150	6,372,349
	(8,644,474)	(8,779,449)
Changes in member activities		
Changes in loans	31,899,245	32,375,760
Change in deposits	81,639,939	14,561,014
Change in other assets	(231,202)	294,407
Change in other payables and other liabilities	(868,346)	(1,430,003)
Interest received	20,929,267	22,067,756
Interest paid	(9,183,689)	(6,372,349)
Other items	(1,455,122)	(429,601)
	114,085,618	52,287,535
Investing activities		
Purchase of investments	(48,574,216)	(39,135,690)
Proceeds from disposal of investments	-	694,779
Purchase of property and equipment	(377,312)	(774,314)
Purchase of intangible assets	(505,696)	(66,097)
Proceed from disposal of property and equipment	-	181,534
	(49,457,224)	(39,099,788)
Financing activities		
Repayment of secured borrowings	(5,117,355)	(9,060,550)
Net increase in cash and cash equivalents	59,511,039	4,127,197
Cash and cash equivalents at beginning of year	15,641,792	11,514,595
Cash and cash equivalents at end of year	$ 75,152,831	$ 15,641,792

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

1. Nature of Operations

Reporting Entity
Northern Savings Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union 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 mobile banking. The Credit Union head office is located at 138 Third Ave West, Prince Rupert, British Columbia.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 25, 2021.

2. Summary of Significant Accounting Policies

Basis of Presentation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL") and derivative financial instruments measured at fair value, where fair value could be reasonably determined.

The Credit Union’s functional and presentation currency is the Canadian dollar.

Principles of Consolidation
The consolidated financial statements include the accounts of the Credit Union and those of its wholly-owned subsidiaries Northern Savings Insurance Services Ltd., Northern Savings Financial Services Ltd., CU Technical & Admin Services Corp. Ltd., and 1146351 BC Ltd. All significant intercompany transactions and accounts have been eliminated.

The preparation of consolidated 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.

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents
Cash and cash equivalents are non-derivative assets and include cash on hand, unrestricted balances held with Central 1, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are held at amortized cost on the consolidated statement of financial position.

Investments
Term 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, which approximates fair value.

Equity Instruments
These instruments, other than Class E Central 1 shares and other investments, are classified as fair value through profit and loss ("FVTPL") and initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Any changes in fair value are recognized in the consolidated statement of income. Class E Central 1 shares and other investments cannot be reliably measured at fair value, so they are recorded at cost. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

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 through profit and loss.

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

Other Deposits
Other deposit instruments held at other financial institutions are also initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Loans to Members
All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recorded at amortized cost.

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

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

2. Summary of Significant Accounting Policies (continued)

Loans to Members (continued)
The Credit Union derecognizes loans when the contractual rights to the cash flows from the loans expire, or the Credit Union transfers the 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 loan are modified, then the Credit Union evaluates whether the cash flows of the modified loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired and are unrecognised and a new loan recognized at fair value.

If the terms of a loan are modified but not substantially, then the loan is not unrecognised. If the loan is not unrecognised, then the Credit Union recalculate the gross carrying amount of the 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 loans to members.

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

Buildings	2.5% declining balance
Building components	10 - 20 years straight line
Computer hardware	3 - 5 years straight line
Furniture and fixtures	5 - 10 years straight line

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains or losses arising on the disposal of the property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income within "other income" or "other expenses".

Intangible Assets
Intangible assets represent finite-lived and indefinite-lived intangible assets. Finite-lived intangible assets consists of software which is amortized over their estimated useful lives of 5-10 years. Amortization is included in net income. Finite-lived intangible assets are tested for impairment by management whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Indefinite-lived intangible assets consist of insurance licenses and are tested by management annually for impairment and between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the intangible assets below their carrying value.

Goodwill
Goodwill represents the excess of the cost of a business combination over the Credit Union's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

2. Summary of Significant Accounting Policies (continued)

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

Income Taxes
Income tax expense comprises of current and deferred tax. Current tax and deferred tax are 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 or 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.

2. Summary of Significant Accounting Policies (continued)

Pension Plan and Employee Benefits
The Credit Union participates in a multi-employer defined contribution pension plan and recognizes contributions as an expense in the year to which they relate.

The Credit Union provides a defined contribution pension plan to its employees. Under this plan, employees each receive a specified flat rate as the employer's contribution. The Credit Union has no further payment obligations once these contributions have been made. The contributions are recognized as salaries and benefits expenses in the period during which services are rendered by the employees.

Short-term employee benefits, including holiday entitlement, are included in 'other liabilities' and are measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

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

Provisions
Provisions are recognized for liabilities of uncertain timing or amounts 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.

Members' Shares
Class A membership shares are classified as liabilities based on their terms as they are redeemable at the option of the member, either on demand or on withdrawal from membership. Class B voluntary shares are classified as liabilities as they are redeemable at the request of the members to a maximum amount of 10% of such shares in any one year, subject to minimum capital requirements.

Distributions to Members
Patronage distributions are recognized in net income in the year that they are declared by the Board of Directors.

Revenue Recognition
Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income 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.

2. **Summary of Significant Accounting Policies (continued)**

Revenue Recognition (continued)
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. The accounting treatment for loan and deposit fees varies depending on the transaction. Fees that are considered to be adjustments to yield are recognized using the effective interest method. The effective interest rate method capitalizes fees and transaction costs on the consolidated statement of financial position and amortizes them to interest income or expense over the expected life of the related loan or deposit. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the average term of the loan using the effective interest method. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan and deposit fees that are recognized using the effective interest method are included with the respective loan and deposit balances on the consolidated statement of financial position.

Foreign Currency Translation
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 that 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.

Securitization
The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which include Securitization of residential mortgages into special purpose entities which issue bonds to third party investors at specific interest rates.

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

Monies raised from Securitization transactions whereby the Credit Union did not transfer substantially all of the risks and rewards of ownership of the mortgages in the Securitization are accounted for as a secured borrowing.

Right-of-Use Assets and Lease Liabilities
At inception of a contract, the Credit Union assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

2. Summary of Significant Accounting Policies (continued)

Right-of-Use Assets and Lease Liabilities (continued)
Nature of Leasing Activities (in the Capacity as Lessee)
The Credit Union has leases of office equipment.

Leases of office equipment comprise only fixed payments over the lease terms. The leases are typically for fixed periods of 5 years. The Credit Union's obligation under lease are secured by the lessor's title to the leased assets.

Recognition and Initial Measurement
The Credit Union recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally the Credit Union uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, and therefore the Credit Union does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Subsequent Measurement
Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Credit Union's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2020 did not materially affect the Credit Union's financial statements.

There are no IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

4. Critical Accounting Estimates and Judgments

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 outbreak of the COVID-19 pandemic has cast further uncertainty on the assumptions use by management in making judgments and estimates. The impact that COVID-19 has, including government responses to the pandemic remains uncertain and difficult to predict; this has resulted in a higher level of uncertainty than usual. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into the measurement of the expected credit loss ("ECL");
- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding, and
- The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows;
- The determination of lease term for some lease contracts in which the Credit Union is a lessee that include renewal options and termination options, and the determination whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract.
- The determination of whether the loan receivables due from qualifying borrowers under the CEBA program meet the derecognition criteria for financial assets in IFRS 9.

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

4. Critical Accounting Estimates and Judgments (Continued)

Judgments

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Credit Union makes 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 the collective loan loss provision management uses estimates based on the expected losses over the expected life of customer loans arising from default events occurring in the next 12 months or in the life time of the instrument. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8 and 21.

Estimates

The effect of a change in an accounting estimate is recognized, prospectively, by including it in comprehensive 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. Further details on assumptions used are provided in Note 20.

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies, related to income taxes for all years open to audit, based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities (Note 15).

5. Cash and cash equivalents

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2020, is 1.48% (2019 - 1.99%).

	2020	2019
Cash and current accounts	$ 20,088,634	$ 8,567,745
Term deposit and accrued interest:		
Callable or maturing in three months or less	55,064,197	7,074,047
	$ 75,152,831	$ 15,641,792

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
Term deposits callable or maturing in more than three months:		
Central 1	$ 134,975,499	$ 118,127,145
Concentra	32,000,000	-
Equity investments		
Central 1 Credit Union	2,746,739	2,819,717
Co-operators Group Ltd.	24,500	24,500
Other shares and investments	2,346,946	1,951,546
Other debt securities	-	291,779
Total investments	$ 172,093,684	$ 123,214,687

Included in Central 1 Credit Union and Other shares and investments is an amount of $2,751,907 denominated in US dollars ($3,503,728 - Canadian dollars).

The Central 1 deposits accrue interest at 0.03% to 3.04% (2019 - 0.99% to 3.17%) and mature between March 31, 2021 and February 28, 2025. The Credit Union must maintain liquidity deposits with Central 1 Credit Union at 8% of total deposits and debt liabilities at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities or upon withdrawal of membership from Central 1. The liquidity deposits are due within five years. At maturity, these deposits are reinvested at market rates for various terms.

Concentra deposits accrue interest at 0.5% and 1.14% and mature between June 21, 2021 and October 16, 2023.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or 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 of Central 1.

6. Investments (continued)

211,500 Class A 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 that transactions occur at par value on a regular and recurring basis. Class A shares are valued at $1 per share.

16,592 Class E Central 1 shares are issued with a par value of $ 0.01, however, are redeemable at $100.00 at the option of Central 1. There is no separately quoted market value for these shares and the fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. As a result, they are recorded at cost.

2,535,073 Class 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 that transactions occur at par value on a regular and recurring basis. Class F shares are valued at $1 per share.

The Credit Union does not intend to dispose of any other 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.

There is no separately quoted market value for the Credit Union's other investments, including a $2 million mortgage partnership interest, and their fair values could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined. Therefore, they are recorded at cost.

7. Loans to Members

	2020	2019
Residential mortgages	**$ 302,667,177**	$ 330,115,761
Personal loans and lines of credit	**19,386,070**	23,848,822
Commercial mortgages	**119,372,250**	118,647,633
Commercial loans and lines of credit	**4,686,514**	5,428,720
	446,112,011	478,040,936
Accrued interest receivable	**901,037**	931,671
Allowance for impaired loans (Note 8)	**(2,668,303)**	(2,497,649)
Loans to members	**$ 444,344,745**	$ 476,474,958

Terms and Conditions

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

7. Loans to Members (continued)

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 5.45% (2019 - prime plus 9.00%). The rate is determined by the type of security offered and the member's 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 1.79% to 6.29% (2019 - 3.54% to 6.70%). The rate offered to a particular 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 either blended payments of principal and interest or 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 wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to sole proprietors, 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:

	Principal	**2020 Yield**	Principal	2019 Yield
Variable rate	**$ 75,622,011**	**4.70 %**	$ 68,153,936	5.90 %
Fixed rate due less than one year	**144,978,000**	**3.50**	150,690,000	3.65
Fixed rate due between one and five years	**225,512,000**	**3.38**	259,197,000	3.67
	$ 446,112,011	**3.64 %**	$ 478,040,936	3.98 %

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.

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 ("SPPI") 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.

7. Loans to Members (continued)

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 differences between the carrying amounts at the date of derecognition and the consideration received is recognized in profit or loss.

During the year, the Credit Union agreed to administer the Canadian Emergency Business Account ("CEBA") program on behalf the Government of Canada. The Credit Union will provide lending to businesses who qualify for CEBA ("qualifying borrower"). The Credit Union shall ensure that the applicant is eligible for support under CEBA and act in its regular standard of care as required for comparable transactions. In exchange for the services, the Government will pay the financial institution an administration fee. Per the terms of the agreement, it is determined that the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore the loans administered under the CEBA program are not recognized on the Statement of Financial Position.

If the terms of a member loan are modified, 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.

Credit Quality of Loans
Valuations of collateral are updated periodically depending on the nature of the collateral. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2020	2019
Mortgages insured	**$ 128,200,240**	$ 145,753,698
Mortgages secured by property	**301,982,532**	312,981,257
Other secured loans	**8,420,143**	9,349,649
Unsecured loans	**7,509,096**	9,956,332
	$ 446,112,011	$ 478,040,936

7. Loans to Members (continued)

Fair Value

The fair value of member loans at December 31, 2020 was $ 449,748,000 (2019 - $ 475,631,000).

The estimated fair value of the variable rate loans is assumed to be equal to 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.

Concentration of Risk

The Credit Union sets policies and limits to help manage its exposure and concentration of risk. Policies and limits have been set for single member or connected members, commercial business and any unsecured loans.

The Credit Union is within all its policies and limits at December 31, 2020. The majority of member loans are with members located in and around the Prince Rupert, Terrace, Haida Gwaii and coastal areas of British Columbia

8. Allowance for Impaired Loans

	12 Month ECL (Stage 1)	Lifetime ECL-Not Impaired (Stage 2)	Lifetime ECL-Credit Impaired (Stage 3)	2020 Total	2019 Total
Residential mortgages					
Balance January 1	$ 500,658	$ 387,454	$ 42,318	**$ 930,430**	$ 1,093,073
Provision for credit losses	53,749	17,559	-	**71,308**	-
Loans & leases written off	-	(73,218)	-	**(73,218)**	-
Recoveries of loans	-	38,526	-	**38,526**	-
Other movements	242,196	(244,975)	7,138	**4,359**	-
Balance at December 31	$ 796,603	$ 125,346	$ 49,456	**$ 971,405**	$ 930,430
Commercial loans					
Balance January 1	$ 146,971	$ 911,467	$ 508,781	**$ 1,567,219**	$ 1,920,586
Provision for credit losses	-	128,692	-	**128,692**	-
Other movements	283,819	206,388	(489,220)	**987**	-
Balance at December 31	$ 430,790	$ 1,246,547	$ 19,561	**$ 1,696,898**	$ 1,567,219
Total allowance for loan losses, December 31	$ 1,227,393	$ 1,371,893	$ 69,017	**$ 2,668,303**	$ 2,497,649

9. Property and Equipment

	Land	Buildings	Furniture, Fixtures & Equipment	Total
Cost				
Balance at January 1, 2019	$ 1,607,666	$ 15,409,195	$ 7,716,419	$ 24,733,280
Additions	15,218	467,741	291,355	774,314
Disposals	-	-	(5,781,626)	(5,781,626)
Balance at December 31, 2019	$ 1,622,884	$ 15,876,936	$ 2,226,148	$ 19,725,968
Additions	4,603	5,886	366,824	377,313
Balance at December 31, 2020	**$ 1,627,487**	**$ 15,882,822**	**$ 2,592,972**	**$ 20,103,281**
Accumulated depreciation				
Balance on January 1, 2019	$ -	$ 5,109,854	$ 6,872,182	$ 11,982,036
Depreciation expense	-	363,547	182,044	545,591
Disposals	-	-	(5,575,667)	(5,575,667)
Balance at December 31, 2019	$ -	$ 5,473,401	$ 1,478,559	$ 6,951,960
Depreciation expense	-	371,352	198,101	569,453
Balance at December 31, 2020	**$ -**	**$ 5,844,753**	**$ 1,676,660**	**$ 7,521,413**
Net book value				
December 31, 2019	$ 1,622,884	$ 10,403,535	$ 747,589	$ 12,774,008
December 31, 2020	**$ 1,627,487**	**$ 10,038,069**	**$ 916,312**	**$ 12,581,868**

10. Intangible Assets and Goodwill

	Licenses	Goodwill	Software	Total
Gross carrying amount:				
Non-depreciable intangible assets				
Balance at January 1, 2019	$ 739,736	$ 134,224	$ -	$ 873,960
Additions	66,097	-	-	66,097
Balance at December 31, 2019	$ 805,833	$ 134,224	$ -	$ 940,057
Additions	-	-	-	-
Balance at December 31, 2020	**$ 805,833**	**$ 134,224**	**$ -**	**$ 940,057**
Gross carrying amount:				
Depreciable intangible assets				
Balance at January 1, 2019	$ -	$ -	$ 1,503,491	$ 1,503,491
Additions	-	-	-	-
Balance at December 31, 2019	$ -	$ -	$ 1,503,491	$ 1,503,491
Additions	103,171	-	402,525	505,696
Balance at December 31, 2020	**$ 103,171**	**$ -**	**$ 1,906,016**	**$ 2,009,187**
Amortization:				
Depreciable intangible assets				
Balance at January 1, 2019	$ -	$ -	$ 834,162	$ 834,162
Amortization	-	-	208,421	208,421
Balance at December 31, 2019	$ -	$ -	$ 1,042,583	$ 1,042,583
Amortization	48,535	-	142,234	190,769
Balance at December 31, 2020	**$ 48,535**	**$ -**	**$ 1,184,817**	**$ 1,233,352**
Carrying amount				
December 31, 2019	$ 805,833	$ 134,224	$ 460,908	$ 1,400,965
December 31, 2020	**$ 860,469**	**$ 134,224**	**$ 721,199**	**$ 1,715,892**

11. Other Assets

	2020	2019
Receivables and prepaid expenses	$ **2,389,284**	$ 2,171,883
Property held for sale	**1,138,709**	1,138,709
Income taxes receivable	**635,453**	-
	$ **4,163,446**	$ 3,310,592

Property held for sale consists of foreclosed property and land for sale, measured at the lower of carrying value and fair value less costs to sell.

12. Member Deposits

	2020	2019
Demand	$ **330,420,293**	$ 258,900,285
Term	**201,400,960**	192,651,632
Registered savings plans	**66,410,091**	67,424,409
Tax-free-savings accounts	**54,755,628**	53,733,711
Member shares (Note 16)	**1,252,065**	3,046,060
Accrued interest and dividends	**1,578,499**	2,073,040
	$ **655,817,536**	$ 577,829,137

Included in registered plans are education savings plans, retirement savings plans and retirement income funds.

Terms and Conditions

Chequing and savings deposits are due on demand and bear interest at a variable rate up to 0.05% at December 31, 2020 (2019 - 0.70%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2020 range from 0.05% to 1.10% (2019 - 0.25% to 1.85%).

The registered retirement savings plans (RRSP) can have a fixed or variable rate. The fixed rate has terms and rates similar to the term deposit accounts described above. The variable rate bears interest at rates up to 1.10% at December 31, 2020 (2019 - 0.70%).

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

Included in member deposits is an amount of $ 3,282,554 denominated in US dollars ($ 4,179,348 - Canadian dollars) (2019 - $ 2,818,075 in US dollars; $ 3,656,219 in Canadian dollars).

12. Member Deposits (continued)

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	Principal (000's)	2020 Yield	Principal (000's)	2019 Yield
Variable rate	$ **135,237**	**0.26** %	$ 118,307	0.91 %
Fixed rate due less than one year	**92,328**	**1.65**	133,537	1.76
Fixed rate due between one and ten years	**195,142**	**1.29**	142,531	1.95
Non-interest sensitive	**233,111**	**0.02**	183,454	0.24
	$ **655,818**	**0.67** %	$ 577,829	1.10 %

13. Secured and Other Borrowings

During 2013 and 2014, the Credit Union securitized and sold the rights to the cash flows arising from a portfolio of loans. The Credit Union has determined that the substantial risks and reward of ownership has not transferred and, accordingly, continues to record the loans in the consolidated financial statements and also recognizes a related secured borrowing obligation. The carrying value of such loans at December 31, 2020 is nil (2019 - $5,117,355)

In relation to these Securitization transactions, the Credit Union is required to provide security and, as such, debt securities of nil (2019 - $291,779) are pledged.

In addition, the Credit Union has credit facilities available with Central 1 in the amount of $13,779,401 (2019 - $13,779,401). At December 31, 2020, the Credit Union had nil borrowings outstanding with Central 1 (2019 - nil).

14. Employee Future Benefits:

BC Credit Union Employee's Pension Plan

The BC Credit Union Employee's Pension Plan is a contributory, multiemployer, multidivisional pension plan governed by 12-member Board of Trustees, which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. Northern Savings Credit Union is one of several employers participating in the 1.75% Division of the Plan. At December 31, 2018, this division covered about 3,400 active employees and approximately 1000 retired plan members, and has assets of approximately $736.6M.

14. Employee Future Benefits (continued)

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation, which was conducted as at December 31, 2018, indicated a going concern actuarial excess in the 1.75 Division of $31.6M and a solvency deficiency of $99.5M. As this is a multi-employer plan, the assets and liabilities are pooled and assets are not tracked separately by participating employer. Although the actuaries may be able to determine a breakdown of the current liabilities based on each employer's individual demographic profile and allocate a proportionate share of the assets based on the solvency ratio of the entire Plan, the Plan does not track accumulated contributions and investment earnings for each employer.

Northern Savings Credit Union Pension Plan

The Credit Union participates in a defined contribution pension plan. Employees are eligible to enrol in the pension plan after one year of fulltime employment. Employee contributions are based on a percentage of salary and matched by the Credit Union.

The Credit Union's contribution to the two plans during the year was $516,199 (2019 - $452,081).

15. Income Taxes

The total provision for income taxes on the consolidated statement of income is at a rate less than the combined federal and provincial rates for the following reasons:

	2020	2019
Net income before taxes	**$ 5,739,128**	$ 5,938,400
Statutory tax rate	**27 %**	27 %
Expected income tax expense	**1,549,565**	1,603,368
Reconciling items:		
Impact of permanent differences	**96,280**	(129,858)
Impact of credit union deduction	**(552,628)**	(417,146)
Other	**669,931**	(81,581)
Total income tax expense	**$ 1,763,148**	$ 974,783

The components of deferred income tax balances are as follows:

	2020	2019
Property & equipment	**$ (445,596)**	$ (280,585)
Non-capital loss carryforwards	**23,287**	53,113
Allowance for credit losses	**453,612**	419,566
Other	**16,902**	43,368
Net deferred income tax asset	**$ 48,205**	$ 235,462

15. Income Taxes (continued)

The Credit Union and its wholly-owned subsidiaries have approximately $200,000 (2019 - $200,000) of non-capital losses for income tax purposes available at December 31, 2020 to reduce taxable income in the future, which expire beginning 2029.

16. 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.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments.

	2020	2019
Members' shares issued:		
Class A membership shares	**$ 1,252,065**	$ 1,140,606
Class B voluntary shares	**-**	1,905,454
	$ 1,252,065	$ 3,046,060

Class A Membership Shares
As a condition of membership, which is required to use the services of the Credit Union, each member is required to own at least $ 1 of membership equity shares. This $1 membership is redeemable at par only upon withdrawal of membership. Dividends are at the discretion of the Board of Directors. The Credit Union is authorized to issue an unlimited number of non-transferable Class A shares. With certain exceptions, members are required to own twenty-five membership shares.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia. All membership shares are available for redemption and are classified as a liability.

Class B Voluntary Shares
Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors or upon the application of the member owning such shares on such terms and conditions as the directors may from time to time determine. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity. During the year, no differences were noted. The Credit Union is authorized to issue a maximum of $20,000,000 of Class B shares at a price of $1 per share, up to 25,000 shares per member.

Annual withdrawals are limited to 10% of the outstanding balance of the class and only after obtaining approval by the regulator. The Board of Directors of the Credit Union have the ability to cease withdrawals in a given year in the 10% threshold is met.

Dividends are declared by the Board of Directors and paid out annually. The 2020 amount is $11,285 (2019 - $50,490).

December 31, 2020

17. Other Income

	2020	2019
Account and merchant service fees	$ **1,739,832**	$ 1,802,561
Foreign exchange	**153,480**	217,221
Insurance, commissions and fees	**5,613,042**	5,759,728
Loan administration fees	**728,310**	635,524
Loan penalty income	**361,854**	294,468
Technical support services	**332,759**	427,920
Gain on investment	**600,381**	-
	$ **9,529,658**	$ 9,137,422

18. Operating Expenses

	2020	2019
Advertising and member relations	**315,667**	413,333
Amortization	**782,880**	754,012
Bad debts	**8,578**	7,280
Consulting fees	**109,404**	109,803
Data processing	**1,820,483**	1,829,790
Director expense	**7,351**	17,401
Dues and assessments	**597,183**	656,048
Insurance	**82,601**	102,946
Interest and fees	**697,500**	717,279
Loss on disposal of property and equipment	**-**	24,425
Office	**617,611**	415,218
Other administrative	**469,628**	558,426
Other miscellaneous expenses	**234,927**	248,453
Premises and other services	**959,126**	971,902
Property taxes	**18,678**	21,503
Regulatory costs	**304,102**	841,297
Repairs and maintenance	**10,221**	11,754
Salaries and benefits	**11,791,255**	10,780,755
Training and education	**79,960**	104,060
Travel	**5,830**	7,866
Utilities	**32,742**	47,935
	$ **18,945,727**	$ 18,641,486

19. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, 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.

	2020	2019
Compensation		
Salaries, and other short-term employee benefits	**$ 1,004,263**	$ 777,740
Total pension and other post-employment benefits	**72,464**	47,258
	$ 1,076,727	$ 824,998

	2020	2019
Loans to key management personnel		
Aggregate value of loans advanced	**$ 6,872,653**	$ 6,696,644
Interest received on loans advanced	**266,423**	303,846
Total value of lines of credit advanced	**192,501**	45,256
Interest received on lines of credit advanced	**12,573**	24,974
Unused value of lines of credit	**725,549**	990,694

The Credit Union's policy for lending to key management personnel 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.

	2020	2019
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 5,711,116**	$ 4,437,932
Total interest paid on term and savings deposits	**31,750**	37,058

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit.

20. Fair Value of Financial Instruments

The following table provides an analysis of investments 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;
- 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. There were no transfers into or out of the three levels during the year.

	Level 3
December 31, 2020	
Financial investments at fair value through profit and loss	
Central 1 shares	$ 2,746,739
Other equity investments	2,376,046

	Level 3
December 31, 2019	
Financial investments at fair value through profit and loss	
Central 1 shares	$ 2,819,717
Other equity investments	1,976,046

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

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as derivative financial instruments that use observable market data and require little management judgment and estimation.

20. Fair Value of Financial Instruments (continued)

The following table sets out the assets and liabilities for which fair values are disclosed in the notes. Changes in interest rates are the main cause of changes in the fair value of the Credit Union's financial instruments.

	Book value (000's)	Estimated fair value (000's)	2020 Fair value over (under) book value (000's)	2019 Fair value over (under) book value (000's)
Assets:				
Cash resources	$ 75,153	$ 75,153	$ -	$ -
Investments	172,094	141,005	(31,089)	339
Loans	444,345	449,748	5,403	(844)
Other assets	3,311	3,311	-	-
			(25,686)	(505)
Liabilities:				
Deposits	$ 655,818	$ 656,563	$ 745	$ 137
Secured and other borrowings	-	-	-	21
Payables and accruals	2,277	2,245	(32)	-
			713	158
Fair value difference			$ (24,973)	$ (347)

For the assets and liabilities not measured at fair value in the statement of financial position, but for which fair value is disclosed in the table above, the fair value measurements are determined using Level 2 inputs, with the exception of cash resources, for which fair value measurements are determined using Level 1 inputs.

21. Financial Instrument Risk Management

The Credit Union is exposed to various types of risks as a result of the nature of its business activities. This note describes the Credit Union's objectives, policies and processes for managing the risk arising from financial instruments and the methods used to measure them. Further quantitative information, in respect of these risks, is presented throughout these consolidated financial statements.

General Objectives, Policies and Processes
Senior management is responsible for identifying risks and developing appropriate and prudent risk management policies. The Board of Directors (the "Board"), through various committees, reviews and approves all risk management policies and provides oversight to the risk management framework and processes.

Within the various risks inherent in business activities, those related to financial instruments are: credit risk, market risk and liquidity risk.

21. Financial Instrument Risk Management (continued)

Credit Risk
Credit risk is the risk that a financial loss will be incurred if a counterparty fails to meet its contractual obligations to the Credit Union and fails to make payments of interest and principal when due. This risk can relate to balance sheet assets such as loans, as well as, off-balance-sheet assets such as commitments and letters of credit.

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 credit history, ability to pay, net worth, value of collateral available to secure the loan, as well as, economic conditions.

Objectives, Policies and Processes
The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Board approves and annually reviews lending policies, establishes lending limits for the Credit Union, and delegates lending limits.

Credit risk policies and principles used to manage credit risk exposure include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration;
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits;
- 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;
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears;
- Appointment of personnel engaged in credit granting who are qualified;
- Management of growth within quality objectives; and
- Internal audit procedures and processes in existence for all levels of Credit Union lending activities

The principal collateral and other credit enhancement the Credit Union holds as security for loans include i) insurance, mortgages over residential lots and properties; ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; iii) recourse to the commercial real estate properties being financed; and iv) recourse to liquid assets, guarantees and securities.

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.

21. Financial Instrument Risk Management (continued)

Loan Portfolio Oversight
With respect to credit risk, the Credit and Market Risk Committee receives quarterly reports summarizing new loans, delinquent loans and lines of credit. The Credit and Market Risk Committee also receives an analysis of the provision for credit losses on member loans and allowance for loan losses quarterly.

Maximum exposure to credit risk
The following table presents the maximum exposure to credit risk of the financial instruments, before taking into account any collateral held or other credit enhancements. For Financial assets recognized on the statement of financial position, the exposure of credit risk equals their carrying amount. For loan commitments and other credit-related commitments, that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the credit facilities.

	2020	2019
On balance sheet exposure:		
Loans	**$ 446,112,011**	$ 478,040,936
Cash, term deposits, short term investments and accrued interest	**132,052,001**	134,700,608
Central 1 and other shares	**5,122,242**	4,795,763
	$ 583,286,254	$ 617,537,307
Off balance sheet exposure:		
Loan commitments	**$ 71,311,561**	$ 66,881,281
Letters of credit	**967,320**	777,390
	$ 72,278,881	$ 67,658,671

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being in the Northern Coast of British Columbia

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.

Collateral and other credit enhancements
The Credit Union's lending policy required the assessment of the member's capacity to repay, rather than relying excessively on the underlying collateral security.

21. Financial Instrument Risk Management (continued)

The collateral and other credit enhancements held by the Credit Union as a security for loans include:

i) Insurance
ii) Mortgages over residential lots and properties
iii) Recourse to the commercial real estate properties being financed
iv) Recourse to business assets such as real estate, equipment, inventory and accounts receivable, and
v) Recourse to liquid assets, guarantees and securities

Amounts arising from Expected Credit Loss (ECL)
The Credit Union recognizes allowance for loan losses for ECL on member loans.

The ECL model uses the concept of "staging" in that all financial assets subject to the impairment provisions of IFRS 9 are initially classified as "stage 1", and then move through the stages (which affect the measurement of impairment) based on various triggers linked to credit risk and default. The requirements are summarized below:

Stage	1 - No Significant Increase in Credit Risk ("SICR") 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 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: • the loan moves to the Credit Union's watch list; • the member migrates to a credit risk grade of 2 (medium); 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: • 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 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.

21. Financial Instrument Risk Management (continued)

<table>
<tr><th>Stage</th><th>1 - No Significant Increase in Credit Risk Since Initial Recognition</th><th>2 - Significant Increase in Credit Risk Since Initial Recognition</th><th>3 - Credit-Impaired</th></tr>
<tr><td>ECL methodology</td><td>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)</td><td colspan="2">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)</td></tr>
<tr><td>Collective or individual assessment</td><td colspan="2">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.</td><td>Each credit-impaired member loan is individually assessed.</td></tr>
<tr><td>Application of ECL methodology</td><td colspan="2">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).
For member loans in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information.</td><td>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 in stage 2 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.
For member loans in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.</td></tr>
<tr><td>Key forward-looking information</td><td colspan="3">Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.</td></tr>
</table>

Liquidity Risk

Liquidity risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due.

Risk Measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address the normal day-to-day funding requirements and ensuring regulatory compliance, as well as, measure overall maturity of assets and liabilities, longer term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

21. Financial Instrument Risk Management (continued)

Objectives, Policies and Procedures
The Credit Union's liquidity management framework is monitored by the Asset Liability Committee (ALCO), made up of senior management, and policies are approved by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Legislation requires that the Credit Union maintain liquid assets at Central 1 Credit Union at least equal to 8.00% of the deposit and other debt liabilities. Regulatory liquidity and reporting of available cash resources and utilization rates are reported to the Board monthly. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as, diversified funding sources such as asset sale or secularizations and wholesale borrowings. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2020, the Credit Union's pooled liquidity ratio was 36.6% (2019 - 22.8%).

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 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.
The maturities of liabilities are shown below under market risk. 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.

Market Risk
Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments; all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and to a limited extent, foreign exchange, as discussed below.

Interest Rate Risk
Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products with embedded options such as loan prepayment and deposit redemption impact interest rate risk.

21. Financial Instrument Risk Management (continued)

Risk Measurement
The Credit Union measures its interest rate risk on a quarterly basis. Measures include the sensitivity of net interest income and equity value to changes in rates, duration parameters, as well as, simulation modelling.

Objectives, Policies and Procedures
The ALCO meets regularly to monitor the Credit Union's position as set by the Board policy and ALCO operational guidelines, and decide future strategy. These policies and guidelines define the standards and limits within which risk to net interest income and the value of equity are to be contained. An asset/liability risk report is reviewed by ALCO and the Board on a quarterly basis. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to changes in interest rates at December 31, 2020 is provided below. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. 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. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

					2020
Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / (Liability) Gap
Interest sensitive (000's)					
0 - 3 months	$ 188,335	3.50	$ 159,899	1.65	$ 28,436
4 - 12 months	202,638	3.50	67,666	1.65	134,972
1 - 2 years	155,440	3.38	95,984	1.29	59,456
2 - 3 years	83,659	3.38	97,478	1.29	(13,819)
3 - 4 years	26,034	3.38	1,018	1.29	25,016
> 4 years	27,583	3.38	663	1.29	26,920
Interest sensitive	$ 683,689		$ 422,708		$ 260,981
Non-interest sensitive (000's)	$ 32,997	3.38	$ 293,978	0.02	$ (260,981)
Total	$ 716,686	3.39	$ 716,686	1.05	$ -

21. Financial Instrument Risk Management (continued)

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	2019 Asset / (Liability) Gap
Interest sensitive (000's)					
0 - 3 months	$ 123,097	4.73	$ 162,619	1.12	$ (39,522)
4 - 12 months	191,591	2.90	92,814	1.81	98,777
1 - 2 years	122,738	3.50	71,497	1.95	51,241
2 - 3 years	104,957	3.50	69,667	1.95	35,290
3 - 4 years	47,598	3.50	2,298	1.95	45,300
> 4 years	18,202	3.50	593	1.95	17,609
Interest sensitive	$ 608,183		$ 399,488		$ 208,695
Non-interest sensitive (000's)	$ 24,869	-	$ 233,564	-	$ (208,695)
Total	$ 633,052	3.39	$ 633,052	1.05	$ -

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 a 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 a decrease in interest rates of 1% could result in an decrease to net income of $794,000.

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.

22. Capital Management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union included retained earnings and contributed surplus totaling $52 million (2019 - $48 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. The Credit Union has set an internal limit of 15%.

The Credit Union employs a Capital Management Plan and a Capital Contingency Policy that are reviewed by management and the Board of Directors.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Credit Risk Policy and Investment Risk Policy reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. Apart from the strategic decision to exit the southern lending division, there has been no change in the overall capital requirements strategy employed during the year ended December 31, 2020.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk-weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk-weighting of the Credit Union's assets are analysed by management to determine their effect on the Credit Union's capital adequacy ratio.

23. Commitments

Credit Facilities
The Credit Union has authorized lines of credit with Central 1 totaling $13,799,401 (2019 - $13,799,401). Of this, $829,401 (2019 - $829,401) is held as security for secured letters of credit. This credit facility is secured by a demand debenture and the general assignment of book debts.

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
Unadvanced loans	$32,647,895	$29,937,355
Unused lines of credit	38,663,666	36,943,926
Letters of credit	967,320	777,390
	72,278,881	67,658,671

Contractual Obligations

Funds under administration
Funds under administration by the Credit Union are comprised of CEBA loans and loans that have been syndicated and are administered in the capacity as an agent. These funds are not included in the statement of financial position and the balances as at year end are $9,245,000 (2019 - nil) in CEBA loans and syndicated loans are nil (2019 - $389,554).

24. Uncertainty due to COVID-19

The continued impact of COVID-19 in Canada and on the global economy has increased significantly. This event causes uncertainty regarding financial market conditions, and to the Credit Union's future operating conditions. Some of these considerations are outlined in Note 21 relating to financial instruments and Note 7 relating to loans to members, and may impact other areas as well.

At year end, the Credit Union performed an impairment analysis on their accounts receivable, loans to members, property plant and equipment, as well as intangible assets and goodwill, and determined there were no impairments. Due to uncertainty created by the COVID-19 pandemic, the impairment assumptions used and the future growth rates expected may change. This situation may affect the Credit Union, its major customers, suppliers, and other third party business associates affecting the timing and amounts realized on the Credit Union's assets, as well as its future profitability.

Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time.

25. Subsequent Event

On January 1, 2021 the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized. The deposits held in the mandatory liquidity pool by the Credit Union of $52 million CAD and $2 million in USD were forgiven in exchange for a portfolio of high quality liquid assets invested through Credit Union Trust.

Subsequent to the segregation, Central 1 Class F shares of $2,535,073 were redeemed at par in cash to Credit Union.

The segregation of the mandatory liquidity pool had a $600,381 income statement impact of a gain for the Credit Union (Note 17).