Pincher Creek Credit Union Limited
Financial Statements
For the year ended October 31, 2020

Independent Auditor’s Report

To the Members of Pincher Creek Credit Union Limited:

Opinion

We have audited the financial statements of Pincher Creek Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at October 31, 2020, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and schedule 1 – operating expenses.

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

Basis for Opinion

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

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

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

- 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.

- 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.

Calgary, Alberta

MNP LLP

January 20, 2021

Chartered Professional Accountants

Pincher Creek Credit Union Limited
Statement of Financial Position
As at October 31, 2020

	2020	2019
	$	$
Assets		
Cash and cash equivalents	**15,690,252**	3,429,392
Investments and accrued interest *(Note 6)*	**6,808,049**	9,711,837
Loans to members and accrued interest *(Note 7)*	**51,095,222**	52,022,903
Other assets	**46,149**	45,497
Income taxes receivable	**7,010**	-
Property and equipment *(Note 8)*	**108,905**	113,967
Intangible assets – computer software *(Note 8)*	**65,721**	39,642
Deferred tax asset *(Note 10)*	**18,057**	18,057
	73,839,365	65,381,295
Liabilities		
Accounts payable and accrued liabilities	**254,849**	283,361
Income taxes payable	**-**	6,638
Member deposits and accrued interest *(Note 9)*	**67,494,085**	59,243,308
Provision for undrawn commitments *(Note 7)*	**15,881**	10,465
	67,764,815	59,543,772
Members' equity		
Allocation distributable *(Note 13)*	**140,510**	214,089
Common shares *(Note 14)*	**1,220,929**	1,141,939
Retained earnings	**4,713,111**	4,481,495
	6,074,550	5,837,523
	73,839,365	65,381,295

Approved on behalf of the Board of Directors

[signed]
Stuart Schramm, Director

[signed]
Paul Attrell, Director

The accompanying notes are an integral part of these financial statements

Pincher Creek Credit Union Limited
Statement of Comprehensive Income
For the year ended October 31, 2020

	2020	2019
	$	$
Financial income		
Interest on member loans	**1,963,673**	1,944,680
Interest on investments	**123,279**	227,945
	2,086,952	2,172,625
Financial expense		
Interest on member deposits	**(704,091)**	(614,493)
Financial margin	**1,382,861**	1,558,132
Provision for loan impairment, net of recoveries *(Note 7)*	**(49,944)**	(3,876)
Reduction in the provision for expected credit losses on investments and accrued interest *(Note 6)*	**581**	584
Service charges and other income	**241,552**	255,779
Operating expenses (*Schedule 1)*	**(1,171,651)**	(1,219,223)
Income before taxes and patronage refund	**403,399**	591,396
Patronage refund *(Note 13)*	**(113,039)**	(179,831)
Income before taxes	**290,360**	411,565
Provision for income taxes *(Note 10)*		
Current tax expense	**(35,119)**	(32,706)
Total comprehensive income for the year	**255,241**	378,859

The accompanying notes are an integral part of these financial statements

Pincher Creek Credit Union Limited
Statement of Changes in Members' Equity
For the year ended October 31, 2020

	Allocation distributable $	Member shares $	Retained earnings $	Total $
Balance, October 31, 2018	**201,357**	**1,074,477**	**4,169,861**	**5,445,695**
IFRS 9 transition impact *(Note 7)*	-	-	(37,764)	(37,764)
Total comprehensive income	-	-	378,859	378,859
Distributions to members *(Notes 13 and 14)*	12,732	199,744	(34,258)	178,218
Tax recovery on distributions	-	-	4,797	4,797
Issue of member shares *(Note 14)*	-	6,216	-	6,216
Redemption of member shares *(Note 14)*	-	(138,498)	-	(138,498)
Balance, October 31, 2019	**214,089**	**1,141,939**	**4,481,495**	**5,837,523**
Total comprehensive income	**-**	**-**	**255,241**	**255,241**
Distributions to members *(Notes 13 and 14)*	**(73,579)**	**214,195**	**(27,471)**	**113,145**
Tax recovery on distributions	**-**	**-**	**3,846**	**3,846**
Issue of member shares *(Note 14)*	**-**	**2,714**	**-**	**2,714**
Redemption of member shares *(Note 14)*	**-**	**(137,919)**	**-**	**(137,919)**
Balance, October 31, 2020	**140,510**	**1,220,929**	**4,713,111**	**6,074,550**

The accompanying notes are an integral part of these financial statements

Pincher Creek Credit Union Limited
Statement of Cash Flows
For the year ended October 31, 2020

	2020	2019
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Interest received	**2,093,633**	2,145,401
Service charges and other income received	**241,658**	254,166
Provision for loan impairment, net of recoveries (*Note 7*)	**(49,944)**	(3,876)
Provision for investment impairment, net of recoveries (*Note 6*)	**581**	584
Income taxes paid	**(44,921)**	(60,724)
Change in member deposits, net	**8,187,599**	89,712
Change in loans to members, net	**933,119**	(2,792,483)
Interest paid to members	**(640,913)**	(559,316)
Operating expenses paid	**(1,160,776)**	(1,162,954)
Net cash flows from (used in) operating activities	**9,560,036**	(2,089,490)
Investing activities		
Net change in investments, net	**2,897,085**	2,913,423
Purchase of property, equipment and intangible assets *(Note 8)*	**(61,056)**	(66,284)
Net cash flows from investing activities	**2,836,029**	2,847,139
Financing activities		
Issue of member shares *(Note 14)*	**2,714**	6,216
Redemption of member shares *(Note 14)*	**(137,919)**	(138,498)
Net cash flows used in financing activities	**(135,205)**	(132,282)
Increase in cash and cash equivalents	**12,260,860**	625,367
Cash and cash equivalents, beginning of year	**3,429,392**	2,804,025
Cash and cash equivalents, end of year	**15,690,252**	3,429,392
Cash and cash equivalents are composed of:		
Cash with Credit Union Central of Alberta Limited	**15,156,759**	2,984,265
Cash on hand	**533,493**	445,127
	15,690,252	3,429,392

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

Pincher Creek Credit Union Limited (the “Credit Union") was formed pursuant to the Credit Union Act of the Province of Alberta (the “Act”). The address of the registered office is 750 Kettles Street, Pincher Creek, Alberta, T0K 1W0.

The Credit Union operates through one branch and operates principally in personal and commercial banking serving members in Pincher Creek and the surrounding area.

The Credit Union Deposit Guarantee Corporation, (the “Corporation") a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Act provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.

The financial statements of the Credit Union were authorized for issue in accordance with a resolution of the Board of Directors on January 20, 2021.

COVID-19 Pandemic

The global outbreak of the coronavirus (COVID-19) is continuing to raise social and community challenges globally. Governments worldwide have enacted emergency measures including the implementation of travel bans, temporary business and school closures, self-imposed quarantine periods and physical distancing. Since the beginning of the outbreak, governments and central banks have also put in place relief measures for individuals and businesses to alleviate some of the negative effects that this crisis has had on the economy.

COVID-19 has impacted the Credit Union’s financial results for the year ended October 31, 2020. While the Credit Union has not had significant loan deferrals or significant delinquencies up to October 31, 2020, the Credit Union has experienced reduced profitability due to a decrease in financial margin which is as a result of the reduction in the Credit Union’s prime lending rate.

The outbreak of COVID-19 has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian economy and the Credit Union’s business is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management’s judgments and estimates.

2. Basis of presentation

Statement of compliance

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

Basis of measurement

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency, and were prepared under the historical cost convention except for the certain financial instruments which are measured at fair value.

2. Basis of presentation *(continued)*

Adoption of new accounting pronouncements

The Credit Union adopted the following new and/or revised standards, effective November 1, 2019. As indicated, adoption of the following new and/or revised standards, did not have a material impact on the Credit Union's financial statements:

IFRS 16 *Leases*
The Credit Union has adopted IFRS 16 *Leases* ("IFRS 16") with an effective date of initial application of November 1, 2019. The new standard establishes principles for the recognition, presentation, and measurement of leases for both lessees and lessors. From the perspective of the lessee, the new standard requires the recognition of right-of-use assets and lease liabilities on the statement of financial position for most leases. Lessees will also recognize depreciation expense on lease assets as well as interest expense on lease liabilities in the statement of comprehensive income.

The Credit Union adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initial application is recognized in retained earnings at November 1, 2019, with no restatement of comparative information.

The Credit Union used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- The exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term; and
- The exemption not to recognize low-value items.

The adoption of IFRS 16 had no material impact on the financial statements of the Credit Union.

3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

While management makes its best estimates and assumptions, actual results could differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Taxes

Provision for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Credit Union reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Valuation of financial instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include consideration of liquidity, and other risks affecting the specific instrument.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Credit Union is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

3. Significant accounting judgments, estimates and assumptions *(continued)*

Useful lives of property and equipment and intangible assets

The Credit Union estimates the useful lives of property and equipment, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment, and intangible assets are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment, and intangible assets would increase the recorded expenses and decrease the non-current assets.

Allowance for expected credit losses

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

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

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

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

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Housing price indices

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

Management has also considered material deterioration of macroeconomic conditions precipitated by COVID-19 in its evaluation of forward-looking information that is incorporated in the estimation of 12-month and lifetime expected credit loss allowances. See "credit risk" in note 15 for details.

3. Significant accounting judgments, estimates and assumptions *(continued)*

Fair value of unquoted equity instruments

The Credit Union has assessed that the fair values of its unquoted equity instruments approximate its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

4. Summary of significant accounting policies

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

A) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and current account with Credit Union Central of Alberta Limited (“Central”).

B) Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and Measurement of Financial Instruments

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

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. The Credit Union has classified the following financial assets as at amortized cost: loans to members and accrued interest, and term deposits with Central and accrued interest.

- FVOCI - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. The Credit Union has classified the following financial assets as FVTPL: cash and cash equivalents, shares in Central, and other investments and accrued interest.

4. Summary of significant accounting policies *(continued*)

Impairment of financial assets

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions. For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

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

Derecognition of financial assets

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

Financial liabilities

Recognition and initial measurement

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

Classification and Measurement of Financial Instruments

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains or losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

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

C) Membership shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

4. Summary of significant accounting policies *(continued)*

D) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses if any. Such cost includes the cost of replacing part of the equipment. When significant parts of property and equipment are required to be replaced in intervals, the Credit Union recognizes such parts as individual assets with specific useful lives and depreciation, respectively.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

Building	10 - 14 years
Furniture and equipment	3 - 5 years
Computer equipment	1 - 3 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains or losses on the disposal of property and equipment are recorded in the statement of comprehensive income in the year of disposal.

E) Intangible assets

Intangible assets consist of various computer software which are not integral to the computer hardware owned by the Credit Union. Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment. Computer software is amortized on a straight-line basis between 1 and 12 years. Amortization is charged to the statement of comprehensive income.

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

F) Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its assets that are subject to depreciation and amortization to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

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

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

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

4. Summary of significant accounting policies *(continued*)

G) Revenue recognition

Interest on member loans

Interest income is recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets. The 'amortized cost' of a financial asset is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired). Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from the Credit Union providing financial services to its members. Revenue is recognized as services are rendered. The Credit Union does not have an enforceable right to payment until services are rendered. The amount of revenue recognized on these transactions is based on the price specified in the contract. The Credit Union does not expect to have any contracts where the period between the transfer of the promised goods or services to the member and payment by the member exceeds one year. Consequently, the Credit Union does not adjust any of the transaction prices for the time value of money.

Dividend income is recognized when dividends are declared on shares.

H) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax
Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities:
- are generally recognized for all taxable temporary differences; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:
- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities in a transaction that is not a business combination and that effects neither accounting, nor taxable profit or loss.

4. Summary of significant accounting policies *(continued*)

l) Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Translation gains and losses are included in the statement of comprehensive income.

5. Recent accounting pronouncements

The Credit Union has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that there were none that would have a significant impact on the Credit Union.

6. Investments and accrued interest

	2020	2019
	$	$
FVTPL		
Shares in Central	**673,600**	673,600
Other investments and accrued interest	**130,210**	127,876
	803,810	801,476
At amortized cost		
Term deposits with Central	**6,005,000**	8,905,000
Allowance for expected credit losses on term deposits with Central	**(1,201)**	(1,782)
Accrued interest	**440**	7,143
	6,004,239	8,910,361
	6,808,049	9,711,837

All term deposits mature within one year. As required by the Act, the Credit Union holds investments with Central to maintain its liquidity level.

Expected credit losses

Details of the changes in the expected credit losses for investments measured at amortized cost are as follows:

	2020	2019
	$	$
Balance, beginning of year	**1,782**	-
IFRS 9 transition provision	**-**	2,366
Reduction in the provision for expected credit losses	**(581)**	(584)
Balance, end of year	**1,201**	1,782

7. Loans to members and accrued interest

Principal including accrued interest and loss allowance by loan type

2020	**Principal amount and accrued interest $**	**Loss allowance measured at 12-month ECL $**	**Loss allowance measured at lifetime ECL $**	**Net carrying value $**
Consumer loans	**1,625,962**	**7,609**	**8,738**	**1,609,615**
Residential mortgages	**34,276,351**	**28,406**	**49,426**	**34,198,519**
Commercial and Agricultural loans and mortgages	**15,313,848**	**16,001**	**10,759**	**15,287,088**
	51,216,161	**52,016**	**68,923**	**51,095,222**

2019	Principal amount and accrued interest $	Loss allowance measured at 12-month ECL $	Loss allowance measured at lifetime ECL $	Net carrying value $
Consumer loans	4,143,546	13,707	20,850	4,108,989
Residential mortgages	31,533,625	16,667	10,948	31,506,010
Commercial and Agricultural loans and mortgages	16,432,997	5,096	19,997	16,407,904
	52,110,168	35,470	51,795	52,022,903

Maturity of loans

Loans to members, not including accrued interest, mature as follows:

	2020 $	2019 $
Under 1 year	**18,441,226**	18,714,492
1 to 2 years	**8,658,359**	9,202,662
2 to 3 years	**7,576,310**	8,369,784
3 to 4 years	**8,472,591**	7,567,894
Over 4 years	**7,872,258**	8,059,941
	51,020,744	51,914,773

Loan allowance details

Details of the changes in the allowance for loan impairment are as follows:

	2020 $	2019 $
Balance, beginning of year	**97,730**	67,963
IFRS 9 transition provision	**-**	35,398
Current year change in expected credit losses	**49,944**	3,876
Less: current year accounts written off	**(10,854)**	(9,507)
Balance, end of year	**136,820**	97,730
Presented on Statement of Financial Position as:		
Netted with loans to members and accrued interest	**120,939**	87,265
Provision for undrawn commitments	**15,881**	10,465
Total	**136,820**	97,730

Recoveries for the year totaled $Nil (2019 - $234).

7. Loans to members and accrued interest *(continued)*

The principal collateral and other credit enhancements the Credit Union holds as security for loans include insurance, mortgages over residential/commercial/agricultural lands and properties, recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

IFRS 9 transition impact October 31, 2019

Effective November 1, 2018, the Credit Union adopted IFRS 9 *Financial instruments*. In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures.

The impact, net of tax, of the initial application of the IFRS 9 expected credit loss model resulted into the recognition of additional allowance for expected credit losses of $37,764 ($2,366 related to investments and accrued interest (note 6) and $35,398 related to loans to members and accrued interest as noted above) thereby reducing members' equity by the same amount.

8. Property and equipment, and intangible assets

	Land $	Building $	Furniture and equipment $	Computer equipment $	Total $	Intangible assets – computer software $
Cost:						
Balance at October 31, 2018	54,189	399,374	411,056	107,680	972,299	435,014
Disposals	-	-	(41,500)	(34,847)	(76,347)	(5,468)
Additions	-	17,465	18,124	19,508	55,097	11,187
Balance at October 31, 2019	54,189	416,839	387,680	92,341	951,049	440,733
Additions	-	-	-	15,085	15,085	45,971
Balance at October 31, 2020	54,189	416,839	387,680	107,426	966,134	486,704
Depreciation and amortization:						
Balance at October 31, 2018	-	399,374	400,469	94,905	894,748	368,676
Disposals	-	-	(41,500)	(34,847)	(76,347)	(5,468)
Charge for the year	-	873	5,571	12,237	18,681	37,883
Balance at October 31, 2019	-	400,247	364,540	72,295	837,082	401,091
Charge for the year	-	3,493	5,193	11,461	20,147	19,892
Balance at October 31, 2020	-	403,740	369,733	83,756	857,229	420,983
Net book value:						
At October 31, 2019	54,189	16,592	23,140	20,046	113,967	39,642
At October 31, 2020	**54,189**	**13,099**	**17,947**	**23,670**	**108,905**	**65,721**

9. Member deposits and accrued interest

	2020 $	2019 $
Demand deposits	**34,707,368**	28,929,310
Term deposits	**21,165,466**	19,936,326
RRIF	**3,160,349**	3,008,507
RRSP	**4,376,181**	4,013,910
TFSA	**3,640,487**	2,983,712
Other	**86,092**	76,578
	67,135,943	58,948,343
Accrued interest	**358,142**	294,965
	67,494,085	59,243,308

Concentra Financial ("Concentra") acts as the trustee of the Registered Retirement Savings Plan ("RRSP"), the Registered Retirement Income Fund ("RRIF") and the Tax-Free Savings Account ("TFSA") offered to members. Under an agreement with Concentra, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union. When members terminate these plans, the funds are repaid to them.

Maturity of deposits

Member deposit accounts, not including accrued interest mature as follows:

	2020 $	2019 $
Under 1 year	**49,084,194**	42,517,337
1 to 2 years	**5,051,648**	4,911,274
2 to 3 years	**4,408,610**	3,810,394
3 to 4 years	**5,113,853**	3,543,119
Over 4 years	**3,477,638**	4,166,219
	67,135,943	58,948,343

10. Taxes

Tax expense is comprised of:

	2020 $	2019 $
Current tax expense		
Current period	**35,119**	32,706
Deferred tax recovery		
Origination and reversal of temporary differences	**-**	-
	35,119	32,706

The tax expense for the year can be reconciled to the accounting profit as follows:

	2020 $	2019 $
Income before provision for taxes	**290,360**	411,565
Combined federal and provincial tax rate	**11.00%**	11.17%
Tax expense at statutory rate	**31,940**	45,972
Adjusted for the effect of:		
Permanent differences	**(39,804)**	(16,721)
Other items	**42,983**	3,455
	35,119	32,706

The statutory tax rate decreased from 11.17% in 2019 to 11.00% in 2020 due to a reduction in the federal corporate tax rate. No tax was recognized in other comprehensive income.

Deferred tax assets and liabilities recognized are attributable to the following:

	2020 $	2019 $
Deferred tax assets		
Loan allowance	**14,330**	10,581
Property and equipment and intangible assets	**3,727**	7,476
	18,057	18,057

11. Off-balance sheet financial instruments

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

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties. These guarantees and standby letters of credit carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilised portions of authorizations to extend credit in the form of loans, credit limits (AOD's), bankers' acceptances or letters of credit.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatches, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union did not use interest rate swaps in the current year.

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

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and,
c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, credit limits (AOD's), guarantees or letters of credit.

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

The Credit Union had the following outstanding financial instruments subject to credit risk:

	2020	2019
	$	$
Guarantees, standby letters of credit and direct credit substitutes	**18,000**	18,000
Commitment to extend credit - original term to maturity of greater than one year	**4,500,870**	4,378,778
Commitment to extend credit - original term to maturity of one year or less	**3,681,901**	3,567,482
	8,200,771	7,964,260

12. Credit facilities

The Credit Union has access to a demand revolving operating line of credit with a maximum available credit of $2,000,000 (2019 - $2,000,000), bearing interest at prime minus prime minus 1.0% (2019 - prime minus 1.0%). At year end, the operating line of credit has a balance of $Nil (2019 - $Nil).

Advances on this loan are subject to availability of funds up to 5% of the Credit Union's assets. Any borrowings over 5% of the assets will be priced at prime plus 5%.

The above credit facility is secured by an acknowledged commitment letter, registered security agreement covering accounts and instruments, pledge of all investments, deposits and share accounts at Central and an overdraft agreement for the credit facilities.

13. Allocation distributable

The Board of Directors declared a share dividend of 2.25% (2019 – 3.00%) in the amount of $27,471 (2019 – $34,258) on October 31, 2020. The Board of Directors also declared a patronage refund of 4.75% (2019 – 7.75%) in the amount of $113,039 (2019 - $179,831) on October 31, 2020. The dividends are to be paid by issuance of common shares in fiscal 2021.

14. Common shares

A) Authorized

The common shares are:
a) issuable in unlimited number;
b) issuable as fractional shares with a par value of $1;
c) transferable only in restricted circumstances;
d) non-assessable; and,
e) redeemable at par value at the discretion of the Credit Union, subject to restrictions contained in the Credit Union Act.

A membership in the Credit Union requires the purchase of a minimum of 25 shares. The Corporation does not guarantee common shares, which represent "at-risk" capital.

B) Issued and outstanding

Common shares	**2020**		2019	
	Number of shares	**Amount $**	Number of shares	Amount $
Balance, beginning of year	**1,141,939**	**1,141,939**	1,074,477	1,074,477
Issued as share dividends	**214,195**	**214,195**	199,744	199,744
Issued for cash	**2,714**	**2,714**	6,216	6,216
Shares redeemed	**(137,919)**	**(137,919)**	(138,498)	(138,498)
Balance, end of year	**1,220,929**	**1,220,929**	1,141,939	1,141,939

15. Financial instrument risk management

As part of its operations, the Credit Union carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk composed of interest rate and foreign currency risks. The following is a description of those risks and how the Credit Union manages the exposure to them.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Risk measurement
The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Credit quality performance
Refer to Note 7 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

15. Financial instrument risk management *(continued)*

Credit risk *(continued)*

Objectives, policies and processes
The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and,
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition. The Credit Union considers member loans receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

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

Measurement of expected credit losses
The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, consumer loans and commercial and agricultural loans/mortgages). Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union utilizes complex modelling, which uses current banking system loan data to assess probability of default, exposure at default, loss given default, and present value calculations. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

15. Financial instrument risk management *(continued)*

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

In determining the 12-month and lifetime expected credit losses, management has considered material deterioration of macroeconomic conditions precipitated by COVID-19. The Credit Union has not had significant loan deferrals or significant delinquencies up to October 31, 2020; however, COVID-19 has amplified uncertainties necessitating the Credit Union to include an evaluation of the potential impact COVID-19 may have on any forward-looking information and incorporated it in the estimation of expected credit loss allowances.

Write-offs
Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk – loan to members and accrued interest

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

2020	**12-month ECL $**	**Lifetime ECL (not credit impaired) $**	**Lifetime ECL (credit impaired) $**	**Total $**
Consumer loans – loan principal and accrued interest				
- Low risk	1,450,732	-	-	1,450,732
- Medium risk	-	175,230	-	175,230
- Default	-	-	-	-
Gross carrying amount of consumer loans and interest receivable	**1,450,732**	**175,230**	**-**	**1,625,962**
Less: Allowance for expected credit loss	(7,609)	(8,738)	-	(16,347)
Total carrying amount of consumer loans and interest receivable	**1,443,123**	**166,492**	**-**	**1,609,615**

2020	**12-month ECL $**	**Lifetime ECL (not credit impaired) $**	**Lifetime ECL (credit impaired) $**	**Total $**
Residential mortgages – loan principal and accrued interest				
- Low risk	32,527,726	-	-	32,527,726
- Medium risk	-	1,489,950	-	1,489,950
- Default	-	-	258,675	258,675
Gross carrying amount of residential mortgages and interest receivable	**32,527,726**	**1,489,950**	**258,675**	**34,276,351**
Less: Allowance for expected credit loss	(28,406)	(49,426)	-	(77,832)
Total carrying amount of residential mortgages and interest receivable	**32,499,320**	**1,440,524**	**258,675**	**34,198,519**

15. Financial instrument risk management *(continued)*

2020	**12-month ECL $**	**Lifetime ECL (not credit impaired) $**	**Lifetime ECL (credit impaired) $**	**Total $**
Commercial and agriculture loans and mortgages – loan principal and accrued interest				
- Low risk	15,011,603	-	-	15,011,603
- Medium risk	-	302,245	-	302,245
- Default	-	-	-	-
Gross carrying amount of commercial and agriculture loans and mortgages, and interest receivable	**15,011,603**	**302,245**	**-**	**15,313,848**
Less: Allowance for expected credit loss	(16,001)	(10,759)	-	(26,760)
Total carrying amount of commercial and agriculture loans and mortgages, and interest receivable	**14,995,602**	**291,486**	**-**	**15,287,088**

2019	12-month ECL $	Lifetime ECL (not credit impaired) $	Lifetime ECL (credit impaired) $	Total $
Consumer loans – loan principal and accrued interest				
- Low risk	3,979,762	-	-	3,979,762
- Medium risk	-	163,784	-	163,784
- Default	-	-	-	-
Gross carrying amount of consumer loans and interest receivable	3,979,762	163,784	-	4,143,546
Less: Allowance for expected credit loss	(13,707)	(20,850)	-	(34,557)
Total carrying amount of consumer loans and interest receivable	3,966,055	142,934	-	4,108,989

2019	12-month ECL $	Lifetime ECL (not credit impaired) $	Lifetime ECL (credit impaired) $	Total $
Residential mortgages – loan principal and accrued interest				
- Low risk	29,992,515	-	-	29,992,515
- Medium risk	-	1,410,230	-	1,410,230
- Default	-	-	130,880	130,880
Gross carrying amount of residential mortgages and interest receivable	29,992,515	1,410,23 -	130,880	31,533,625
Less: Allowance for expected credit loss	(16,667)	(10,948)	-	(27,615)
Total carrying amount of residential mortgages and interest receivable	29,975,848	1,399,282	130,880	31,506,010

15. Financial instrument risk management *(continued)*

2019	12-month ECL $	Lifetime ECL (not credit impaired) $	Lifetime ECL (credit impaired) $	Total $
Commercial and agriculture loans and mortgages – loan principal and accrued interest				
- Low risk	16,178,205	-	-	16,178,205
- Medium risk	-	250,660	-	250,660
- Default	-	-	4,132	4,132
Gross carrying amount of commercial and agriculture loans and mortgages, and interest receivable	16,178,205	250,660	4,132	16,432,997
Less: Allowance for expected credit loss	(5,096)	(17,861)	(2,136)	(25,093)
Total carrying amount of commercial and agriculture loans and mortgages, and interest receivable	16,173,109	232,799	1,996	16,407,904

Liquidity risk

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

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

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

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

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

The Act requires the Credit Union to maintain a minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 7.7% at October 31, 2020 (2019 – 7.9%). As at October 31, 2020, the Credit Union is compliant with its liquidity requirements as indicated by the Act.

With the onset of COVID-19, management considered the general activity and trends in its key deposit markets, the expected duration, scope and impact of active monetary and fiscal policy stimulus programs and the anticipated impact of same on its future cashflow requirements in its assessment of the Credit Union's liquidity risk profile. Since the second quarter of fiscal 2020, the Credit Union has maintained elevated liquidity levels as a prudent liquidity practice in response to the persisting economic uncertainty attributable to the impact of COVID-19.

15. Financial instrument risk management *(continued)*

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 two types of risk: interest rate risk and foreign currency risk.

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the statement of comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

Exposure to this risk directly impacts the Credit Union's income from its loan portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member needs.

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

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

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

The following table provides the potential before-tax impact on an immediate and sustained 100 basis point increase or decrease in interest rates on net interest income. 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 risk management initiatives.

	2020 **$**	2019 $
Before tax impact of:		
100 basis point increase in rates	**110,000**	170,000
100 basis point decrease in rates	**(60,000)**	(180,000)

The Credit Union's primary source of income is financial margin, which is the difference between interest earned on investments and loans to members and interest paid on borrowings and to members on their deposits. The objective of managing the financial margin is to manage re-pricing or maturity dates of loans and investments and members' deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates. The differential represents the net mismatch between loans and investments and members' deposits by the earlier of the re-price and maturity dates.

15. Financial instrument risk management *(continued)*

Interest rate re-price

The following table provides the interest rate sensitivity gap which represents the net principal values of interest rate sensitive financial assets and liabilities including accrued interest.

2020	**Floating rate $'000**	**Within one year $'000**	**One to five years $'000**	**Non-rate sensitive $'000**	**Total $'000**
Financial assets					
Cash and cash equivalents	15,248	-	-	442	15,690
Investments and accrued interest	-	6,005	-	803	6,808
(effective yield %)	-	*0.19%*	-	-	*0.17%*
Loans to members and accrued interest	7,566	11,201	32,253	74	51,094
(effective yield %)	*3.66%*	*3.50%*	*3.61%*	-	*3.59%*
	22,814	**17,206**	**32,253**	**1,319**	**73,592**
Financial liabilities					
Member deposits and accrued interest	31,845	13,851	18,052	3,746	67,494
(effective yield %)	*0.28%*	*1.36%*	*2.36%*	-	*1.04%*
Provision for undrawn commitments	16	-	-	-	16
(effective yield %)	*1.95%*	-	-	-	*1.95%*
Accounts payable and accrued liabilities	-	-	-	255	255
	31,861	**13,851**	**18,052**	**4,001**	**67,765**
Net gap, October 31, 2020	**(9,047)**	**3,355**	**14,201**	**(2,682)**	**5,827**

2019	Floating rate $'000	Within one year $'000	One to five years $'000	Non-rate sensitive $'000	Total $'000
Financial assets					
Cash and cash equivalents	3,790	-	-	(361)	3,429
Investments and accrued interest	-	8,912	-	800	9,712
(effective yield %)	-	*1.76%*	-	-	*1.62%*
Loans to members and accrued interest	7,991	11,130	32,787	108	52,016
(effective yield %)	*5.09%*	*3.76%*	*3.78%*	-	*3.97%*
	11,781	20,042	32,787	547	65,157
Financial liabilities					
Member deposits and accrued interest	26,418	13,025	16,430	3,370	59,243
(effective yield %)	*0.41%*	*1.43%*	*2.18%*	-	*1.10%*
Provision for undrawn commitments	-	-	-	10	10
(effective yield %)	-	-	-	-	-
Accounts payable and accrued liabilities	-	-	-	283	283
	26,418	13,025	16,430	3,663	59,536
Net gap, October 31, 2019	(14,637)	7,017	16,357	(3,116)	5,621

15. Financial instrument risk management *(continued)*

(b) Foreign currency risk

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

The following items are denominated in United States currency and translated to Canadian currency at the year-end rate:

	2020 **$**	2019 $
Cash	**542,521**	202,539
Member deposits and accrued interest	**(541,118)**	(202,180)

The Credit Union has an immaterial exposure to fluctuation in the United States Dollar due to the active management of the net exposure of United States Dollars denominated financial position items.

16. Fair value of financial instruments

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

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the assets or liability, either directly or indirectly; and,
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

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

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

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

a) the book value for cash, short-term investments and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments.
b) estimated fair values of term deposits with Central and other investments and accrued interest are calculated using a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.
c) fair value of shares in Central is assumed to approximate the instruments cost as there is no observable market data.
d) for variable interest rate loans that are frequently re-priced, book values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
e) fair value of variable rate and demand deposits approximate their book value. Fair values of other deposits are estimated using discounted cash flow calculations at market rates for similar deposits.
f) the fair value of derivative financial instruments is calculated on market conditions at a specific point in time.

16. Fair value of financial instruments (*continued*)

The Credit Union's assets and liabilities have been categorized into the fair value hierarchy as follows:

	2020 Fair value $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Financial assets				
FVTPL - Mandatory				
Cash and cash equivalents	**15,690**	**15,690**	**-**	**-**
Shares in Central	**674**	**-**	**-**	**674**
Other investments and accrued interest	**130**	**-**	**130**	**-**
Amortized cost				
Term deposits with Central and accrued interest	**6,004**	**-**	**6,004**	**-**
Loans to members and accrued interest	**52,167**	**-**	**52,167**	**-**
Total assets	**74,665**	**15,690**	**58,301**	**674**
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	**255**	**-**	**255**	**-**
Member deposits and accrued interest	**68,036**	**-**	**68,036**	**-**
Total liabilities	**68,291**	**-**	**68,291**	**-**

There were no changes in the hierarchy levels during the year.

	2019 Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial assets				
FVTPL - Mandatory				
Cash and cash equivalents	3,429	3,429	-	-
Shares in Central	674	-	-	674
Other investments and accrued interest	128	-	128	-
Amortized cost				
Term deposits with Central and accrued interest	8,910	-	8,910	-
Loans to members and accrued interest	53,013	-	53,013	-
Total assets	66,154	3,429	62,051	674
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	283	-	283	-
Member deposits and accrued interest	59,230	-	59,230	-
Total liabilities	59,513	-	59,513	-

17. Capital management

The Credit Union's objectives when managing capital are:

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

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

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

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

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

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

- 4% of total assets; or
- 8% of risk weighted assets (“RWA”).

An additional regulatory capital buffer of 2.5% of the total RWA is required for 2020 (2019 – 2.5% of total RWA).

The Credit Union was in compliance with the regulatory requirements as indicated by the Act as follows:

	2020 **$**	2019 $
Capital as a % of total assets	**8.30**	8.99
Capital as a % of RWA	**19.33**	18.05

18. Related party transactions

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its key management personnel, directors and staff at rates from 1.0% to 5.95% per annum. The management staff rates are slightly below member rates. Directors, management and staff had $1,631,749 in loans outstanding as at October 31, 2020 (2019 - $1,630,978). All loans were in good standing at that date and included in “loans to members and accrued interest”.

Directors, management and staff hold $1,074,827 in deposit accounts as at October 31, 2020 (2019 - $875,709). These accounts are maintained under the same terms and conditions as accounts of other members and are included in “member deposits and accrued interest”.

Directors and key management personnel

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise members of management responsible for the day to day financial and operational management of the Credit Union and consist of the General Manager and Operations Manager.

18. Related party transactions *(continued)*

Loans made to directors and KMP are approved under the same lending criteria available to members. There are no loans that are impaired in relation to loan balances with Directors and KMP. There are no benefits or concessional terms and conditions applicable to the family members of Directors and KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of Directors and KMP.

	2020 **$**	2019 $
Aggregate of loans and allowable overdrafts to Directors and KMP	**1,195,932**	1,152,388

	2020 **$**	2019 $
Interest received on loans to Directors and KMP	**48,518**	53,450
Interest paid on deposits from Directors and KMP	**3,150**	8,752

	2020 **$**	2019 $
Aggregate of member deposits to Directors and KMP	**362,985**	358,163
Member shares of Directors and KMP	**12,813**	12,444
	375,798	370,607

Aggregate compensation of Directors and KMP during the year:

	2020 **$**	2019 $
Salary and short-term KMP benefits	**249,850**	227,867
Director remuneration	**13,250**	9,800
Director expenses	**5,768**	6,421
	268,868	244,088

Total amounts paid to Directors range between $2,200 (2019 – $225) and $2,950 (2019 – $2,300) with an average of $2,650 (2019 – $1,400).

Central
The Credit Union is a member of Central, which acts as a depository for surplus funds received from and loans made to credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity. These transactions were made in the normal course of operations and are initially measured at fair value. For the year ended October 31, 2020, the Credit Union incurred $18,005 (2019 – $15,062) in fees and dues to Central.

19. Segmented information

The Credit Union operates principally in personal and commercial banking in Pincher Creek.

Pincher Creek Credit Union Limited
Schedule 1 – Operating Expenses
For the year ended October 31, 2020

	2020 $	2019 $
Personnel		
Benefits	**82,657**	79,602
Other	**2,241**	3,167
Salaries	**490,916**	474,413
Training	**2,098**	2,456
	577,912	559,638
Security		
Bonding	**16,242**	14,766
Deposit guarantee	**31,148**	52,393
Security equipment	**2,612**	2,814
	50,002	69,973
Organizational		
Annual meeting	**3,838**	9,266
Central dues	**18,005**	15,062
Director and committee remuneration	**13,250**	9,800
Director and committee travel	**272**	880
Other organization	**5,496**	6,819
	40,861	41,827
Occupancy		
Amortization and depreciation (*Note 8*)	**3,493**	873
Insurance	**9,791**	9,483
Property taxes	**6,460**	6,585
Repairs and maintenance	**30,044**	30,672
Utilities	**12,440**	13,432
	62,228	61,045
General		
Amortization and depreciation (*Note 8*)	**35,546**	55,691
Cash services charges and other fees	**46,320**	54,994
Information technology processing	**179,673**	171,678
Marketing and advertising	**23,047**	26,404
Other general	**100,000**	110,057
Professional fees	**55,062**	67,917
	440,648	486,740
	1,171,651	1,219,223