ROCKY CREDIT UNION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2020

ROCKY CREDIT UNION

Ownership. Community. Innovation.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The elected Board of Directors of Rocky Credit Union Limited are composed entirely of individuals who are neither management nor employees of the Credit Union. The Board of Directors have the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters, and financial reporting issues. The Board of Directors are also responsible for the appointment of the Credit Union's external auditors.

Metrix Group LLP, an independent firm of Chartered Professional Accountants, is appointed by The Board of Directors to audit the financial statements and to report directly to them. The external auditors have full and free access to and meet periodically and separately with the internal audit staff, other management staff, and the Audit, Finance & Risk Committee of the Board and management to discuss their audit findings.

Rocky Mountain House, Alberta
January 6, 2021

Randall Sugden
Chief Executive Officer

Craig Harman, CPA, CMA
Manager, Finance

METRIX GROUP LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of Rocky Credit Union Limited

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2020, and its financial performance and its cash flows for the year then ended October 31, 2020 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 *Auditors' 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies 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 auditors' 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 or our auditors' 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.

(continues)

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.

Metrix Group LLP

Chartered Professional Accountants

Edmonton, Alberta
January 6, 2021

ROCKY CREDIT UNION LIMITED
Statement of Financial Position
As at October 31, 2020

	2020	2019
ASSETS		
Cash and cash equivalents *(Note 5)*	$ 68,205,433	$ 71,772,608
Investments *(Note 6)*	49,546,120	38,226,156
Derivative assets	-	1
Member loans *(Note 7)*	256,713,704	256,343,306
Income taxes recoverable	172,479	236,814
Deferred income tax asset *(Note 14)*	392,481	281,230
Assets held for sale	711,377	130,763
Property and equipment *(Note 8)*	3,300,638	3,507,989
Intangible assets *(Note 9)*	36,571	29,491
Other assets *(Note 10)*	197,332	226,016
	$379,276,135	$370,754,374
LIABILITIES		
Member deposits *(Note 13)*	$332,129,161	$323,906,279
Derivative liabilities	-	1
Accounts payable and accrued liabilities	580,444	716,860
	332,709,605	324,623,140
MEMBERS' EQUITY		
Dividends and patronage distributable *(Note 15)*	1,396,358	1,501,909
Member shares *(Note 15)*	13,051,801	13,423,658
Retained earnings	32,118,371	31,205,667
	46,566,530	46,131,234
	$379,276,135	$370,754,374

COMMITMENTS *(Note 18)*

ON BEHALF OF THE BOARD:

_______________ Director

R.J. Bryant _______________ Director

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

ROCKY CREDIT UNION LIMITED

Statement of Net Income and Comprehensive Income

For The Year Ended October 31, 2020

	2020	2019
Financial Income		
Interest from member loans	**$ 8,921,977**	$ 9,315,617
Investment income	**1,476,547**	2,159,665
	10,398,524	11,475,282
Financial Expense		
Interest on member deposits	**2,902,218**	3,309,467
Interest on financing	**196**	2,288
	2,902,414	3,311,755
Financial Margin Before Impairment Charges	**7,496,110**	8,163,527
Net Investment Impairment Charges	**766**	17,360
Net Member Loan Impairment Charges *(Note 7)*	**530,388**	235,127
Financial Margin After Impairment Charges	**6,964,956**	7,911,040
Other Income *(Note 11)*	**1,351,070**	1,473,340
Gross Margin	**8,316,026**	9,384,380
Operating Expenses *(Schedule 1)*	**5,679,876**	5,840,264
Income Before Patronage Allocation	**2,636,150**	3,544,116
Patronage Allocation *(Note 15)*	**1,076,178**	1,131,390
Income Before Income Taxes	**1,559,972**	2,412,726
Income Taxes *(Note 14)*		
Current	**516,768**	709,790
Deferred (recovery)	**(111,251)**	(113,230)
	405,517	596,560
Net Income and Comprehensive Income	**$ 1,154,455**	$ 1,816,166

ROCKY CREDIT UNION LIMITED

Statement of Changes in Members' Equity

For The Year Ended October 31, 2020

	Dividends and Patronage Distributable	Member Shares	Retained Earnings	**Total**
Balance, October 31, 2018	**$ 879,056**	**$ 14,542,591**	**$ 29,661,227**	**$ 45,082,874**
Net and comprehensive income	-	-	1,816,166	**1,816,166**
Dividends and patronage paid	(879,056)	315,298	-	**(563,758)**
Dividends declared *(Note 15)*	370,519	-	(370,519)	**-**
Patronage accrued *(Note 15)*	1,131,390	-	-	**1,131,390**
Tax recovery on dividends paid	-	-	98,793	**98,793**
Issuance of member shares *(Note 15)*	-	553,524	-	**553,524**
Redemption of member shares *(Note 15)*	-	(1,987,755)	-	**(1,987,755)**
Balance, October 31, 2019	**$ 1,501,909**	**$ 13,423,658**	**$ 31,205,667**	**$ 46,131,234**
Net and comprehensive income	-	-	1,154,455	**1,154,455**
Dividends and patronage paid	(1,501,909)	321,149	-	**(1,180,760)**
Dividends declared *(Note 15)*	320,180	-	(320,180)	**-**
Patronage accrued *(Note 15)*	1,076,178	-	-	**1,076,178**
Tax recovery on dividends paid	-	-	78,429	**78,429**
Issuance of member shares *(Note 15)*	-	504,547	-	**504,547**
Redemption of member shares *(Note 15)*	-	(1,197,553)	-	**(1,197,553)**
Balance, October 31, 2020	**$ 1,396,358**	**$ 13,051,801**	**$ 32,118,371**	**$ 46,566,530**

ROCKY CREDIT UNION LIMITED

Statement of Cash Flows

For The Year Ended October 31, 2020

	2020	2019
Operating Activities		
Net income	**$ 1,154,455**	$ 1,816,166
Adjustments for:		
Depreciation of property and equipment	**243,137**	241,831
Amortization of intangible assets	**13,363**	12,988
Deferred income taxes	**(111,251)**	(113,230)
Assets held for sale	**(580,614)**	(130,763)
Gain on disposal of property and equipment	**(60)**	-
Provision for loan impairment, net of recoveries	**530,388**	235,127
Net interest income	**(7,496,110)**	(8,163,527)
Interest received	**10,323,216**	11,308,436
Interest paid	**(3,078,038)**	(2,965,799)
Income taxes paid	**(452,433)**	(1,035,831)
Current income tax expense	**516,768**	709,790
	1,062,821	1,915,188
Changes in non-cash working capital:		
Other assets	**28,683**	(119,987)
Accounts payable and accrued liabilities	**(136,416)**	(74,779)
Net change in member deposits	**8,398,507**	2,267,950
Net change in member loans	**(865,603)**	(2,567,783)
Net change in investments	**(11,279,839)**	(16,579,526)
	(2,791,847)	(15,158,937)
Financing Activities		
Issuance of member shares, net	**(371,857)**	(1,118,933)
Dividends and patronage on member shares, net	**(425,731)**	252,334
Income tax savings on dividends	**78,429**	98,793
	(719,159)	(767,806)
Investing Activities		
Purchase of property and equipment	**(35,786)**	(67,096)
Proceeds on disposal of property and equipment	**60**	-
Purchase of intangible assets	**(20,443)**	(28,869)
	(56,169)	(95,965)
Net Increase (Decrease) In Cash and Cash Equivalents	**(3,567,175)**	(16,022,708)
Cash and Cash Equivalents, Beginning of Year	**71,772,608**	87,795,316
Cash and Cash Equivalents, End of Year	**$ 68,205,433**	$ 71,772,608
Cash and Cash Equivalents Represented By:		
Cash	$ 22,911,296	$ 4,259,809
Term deposits	45,294,137	67,512,799
	$ 68,205,433	$ 71,772,608

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

1. INCORPORATION AND GOVERNING LEGISLATION

Rocky Credit Union Limited (the "Credit Union") is incorporated under the *Credit Union Act* of Alberta on January 19, 1944 and operates one branch in Rocky Mountain House, Alberta. The Credit Union's primary line of business include personal and business banking (deposit-taking and lending).

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 Credit Union Act* provides that the Province will ensure that the Corporation carries out this obligation.

The Credit Union's registered office is located at the following address:

Rocky Credit Union Limited
5035 49 St.
Rocky Mountain House AB T4T 1C1

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

These financial statements have been approved and authorized for issue by the Board of Directors (the "Board") on January 6, 2021.

(b) Basis of Measurement

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments.

(c) Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3 and 4.

(d) Functional Currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below.

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, ATM cash, foreign currency and operating accounts with Credit Union Central of Alberta ("Central"), items in transit, and money market term deposits. These items are highly liquid financial assets with maturities of three months or less from the acquisition date and are used by the Credit Union in the management of short-term commitments.

(b) Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

(c) Member Loans

Member loans are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest method less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(d) Financial Instruments

(i) 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 net income and comprehensive income when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial instruments are classified as follows:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments

Classification and subsequent measurement (Continued)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment by-investment basis. All other financial assets are classified as measured at FVTPL.

For financial assets designated as measured at FVTPL, changes in fair value are recognized in the statement of net income and comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the statement of net income and comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the statement of net income and comprehensive income.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

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

Reclassifications

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

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments

Classification and subsequent measurement (Continued)

Impairment

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

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For members' loans receivable and accrued interest 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 applies the simplified approach for other receivables. Using the simplified approach, 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 asset is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments

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.

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

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

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

Modification of financial assets

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

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

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

(ii) 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 net income and comprehensive income.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss. When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in net income and comprehensive income.

All financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities and securitization debt.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in the statement of net income and comprehensive income while distributions to members of instruments classified as members' equity are recognized in members' equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

(e) Assets Held For Sale

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on the loans that are in default. Foreclosed properties are classified as assets held-for-sale and are measured at the lower of the carrying amount and the fair value less costs to sell. Assets held for sale are not depreciated.

The Credit Union does not, as a rule, occupy repossessed property for its business use. These assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member, and the member's other creditors and may involve the use of realtors and auctioneers.

(f) 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. The recoverable amount is determined as the higher of an asset’s fair value less costs to sell and its value in use. 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 and comprehensive income.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property and Equipment

Land is measured at cost and is not depreciated. Other items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation of other items of property and equipment is calculated at the following annual rates and methods:

Building	4%	Straight-line
Land improvements	8%	Straight-line
Furniture and equipment	10% - 20%	Straight-line
Security equipment	3% - 20%	Straight-line
Computer equipment	30% - 33%	Straight-line

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains and losses on the disposal of 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.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(h) Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 3 to 10 years.

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

(i) Income Taxes

Tax expense for the period is comprised of current and deferred income taxes.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's member loans, and property and equipment. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Member Shares

Member 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.

Common and surplus shares are accounted for in accordance with *IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments* ("IFRIC 2"). Common and surplus shares that are available for redemption are classified as a liability. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends, and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

(k) Pension Plan

The Credit Union offers employees a defined contribution plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary and no further contributions are required once the employee retires or leaves the Credit Union. Obligations for contributions to defined contribution plans are recognized in personnel expense in the statement of net income when they are due.

(l) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Interest income is recognized on the statement of net income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. The amortized cost of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

(ii) Other income is recognized in the fiscal period in which the related service is provided, which includes fees, service charges and commission income.

(m) Dividends

Dividends are accounted for when they have been approved by the Board.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 exchange rates at the statement of financial position date. Translation gains and losses are included in other income.

(o) Change in accounting policies

The Credit Union adopted amendments to the following standards, effective November 1, 2019. Adoption of these amendments had no effect on the Credit Union's financial statements.

- *IFRS 9 Financial Instruments*
- *IFRS 16 Leases*
- *IFRIC 23 Uncertainty over income tax treatments*

(p) Future Accounting Changes

At October 31, 2020 a number of standards, interpretations, and amendments have been issued by the IASB, which are not effective for these financial statements. Those which could have an impact on the Credit Union's financial statements are discussed below:

(i) IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The amendments are effective for annual periods beginning on or after November 1, 2020 and are required to be applied prospectively. The Credit Union has not yet determined the impact of these amendments on its financial statements.

(ii) IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The amendments are effective for annual periods beginning on or after November 1, 2020 and are required to be applied prospectively. The Credit Union has not yet determined the impact of these amendments on its financial statements.

4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting year. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described as follows:

(Continues)

4. USE OF ESTIMATES AND KEY JUDGMENTS (CONTINUED)

(a) Expected Credit Loss Allowance

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investment securities that are determined to have low credit risk at the reporting date and loans and advances where credit risk has not increased significantly since their initial recognition. In particular, management judgement is required in the estimate of whether credit risk of an instrument has increased significantly, inputs into the ECL quantitative model and in the use of forward-looking information.

The Credit Union incorporates forward-looking economic information in its measurement of ECL.

The Credit Union assesses whether credit risk on a financial asset has increased significantly considering reasonable and supportable information since initial recognition in order to determine whether a 12 month ECL or lifetime ECL should be recognized. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment.

See the impairment of loans and advances under the significant accounting policies contained in Note 3 for further discussion of allowance for credit losses.

(b) Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately. The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 21.

(c) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

(d) Income Taxes

Management exercises judgment in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized. This is based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and cash equivalents consist of cash on hand, ATM cash, foreign exchange cash, operating accounts with Central, items in transit and money market term deposits. The average yield on the accounts at October 31, 2020 is 0.25% (2019 - 0.25%).

Term deposits maturing with 90 day terms have interest rates ranging from 0.11% to 0.60% (2019 - 1.65% - 2.55%). Included in cash and cash equivalents is $2,675,979 (2019 - $1,518,012) in U.S. dollars valued at Canadian equivalent.

6. INVESTMENTS

	2020	2019
Measured at fair value through profit or loss		
Credit Union Central of Alberta - shares	**$ 4,500,000**	$ 4,500,000
Concentra Bank - preferred shares	**2,500,000**	2,500,000
	7,000,000	7,000,000
Measured at amortized cost		
Credit Union Central of Alberta - term deposits	**20,353,570**	19,753,700
Term deposits	**12,500,000**	7,300,000
Concentra Bank - non-redeemable deposits	**9,500,000**	2,000,000
Accrued interest	**213,488**	173,363
Mortgage pools	**-**	2,019,265
	42,567,058	31,246,328
Allowance for impaired investments	**(20,938)**	(20,172)
	$ 49,546,120	$ 38,226,156

Term deposits mature within one year with interest rates ranging from 0.89% - 2.35%. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements as described in Note 20.

Concentra Bank, non-redeemable deposits mature between November 2020 and September 2022 with interest rates ranging from 0.5% - 2.38%.

In 2019, the Credit Union held 2.04% (Pool #60) and 0.99% (Pool #61) unit share percentages, respectively, in two residential mortgage pools with Concentra Bank. The Credit Union received its unit share percentage of the return on the mortgage pools, less any fees or charges, on a monthly basis. Pools #60 and #61 earned returns equated to 4.73% and 4.33%. These investments matured in 2020.

7. MEMBER LOANS

(a) Member loans by portfolio at amortized cost

	Principal Performing	Principal Impaired	Allowance for Impaired loans	**2020**
Residential mortgages	$ 130,013,925	$ 449,976	$ (89,664)	**$ 130,374,237**
Consumer loans	51,088,460	31,205	(762,144)	**50,357,521**
Commercial loans	39,048,212	-	(524,527)	**38,523,685**
Commercial mortgages	25,054,344	-	-	**25,054,344**
Agricultural loans	10,652,452	-	(44,916)	**10,607,536**
Agricultural mortgages	1,189,495	-	-	**1,189,495**
	257,046,888	481,181	(1,421,251)	**256,106,818**
Accrued interest	606,886	-	-	**606,886**
	$ 257,653,774	$ 481,181	$ (1,421,251)	**$ 256,713,704**

	Principal Performing	Principal Impaired	Allowance for Impaired loans	2019
Residential mortgages	$ 132,074,555	$ 1,037,357	$ (92,165)	$ 133,019,747
Consumer loans	52,917,621	563,992	(641,414)	52,840,199
Commercial loans	41,039,236	9,300	(179,275)	40,869,261
Commercial mortgages	18,783,979	-	-	18,783,979
Agricultural loans	9,492,376	-	(13,592)	9,478,784
Agricultural mortgages	779,633	-	-	779,633
	255,087,400	1,610,649	(926,446)	255,771,603
Accrued interest	571,703	-	-	571,703
	$ 255,659,103	$ 2,182,352	$ (926,446)	$ 256,343,306

(b) Reconciliation of allowance for expected credit losses

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	**2020**
Balance, Beginning of Year	575,305	115,120	236,021	**926,446**
Charges (recovery) of loan impairment	332,299	158,309	39,780	**530,388**
Loans written off	-	-	(35,583)	**(35,583)**
Balance, end of year	$ 907,604	$ 273,429	$ 240,218	**$1,421,251**

(Continues)

7. MEMBER LOANS (CONTINUED)

(c) Allowance for expected credit loss by portfolio

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	**2020 Allowance for Impaired Loans**
Consumer loans	$ 466,077	$ 57,785	$ 238,282	**$ 762,144**
Commercial loans and mortgages	334,010	190,517	-	**524,527**
Residential mortgages	71,844	15,883	1,937	**89,664**
Agricultural loans and mortgages	35,672	9,244	-	**44,916**
	907,603	273,429	240,219	**1,421,251**
Accrued interest	-	-	-	**-**
	$ 907,603	$ 273,429	$ 240,219	**$ 1,421,251**

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	2019 Allowance for Impaired Loans
Consumer loans	$ 322,078	$ 96,491	$ 222,845	$ 641,414
Commercial loans and mortgages	170,628	4,006	4,641	179,275
Residential mortgages	69,007	14,623	8,535	92,165
Agricultural loans and mortgages	13,592	-	-	13,592
	575,305	115,120	236,021	926,446
Accrued interest	-	-	-	-
	$ 575,305	$ 115,120	$ 236,021	$ 926,446

(d) Credit Quality of Loans

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. The Credit Union has policies in place to monitor the existence of undesirable concentrations 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.

(Continues)

7. MEMBER LOANS (CONTINUED)

(e) Loans Past Due but Not Impaired

A loan is considered past due when a payment has not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at October 31, 2020 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	**2020 Total**	2019 Total
Residential mortgages	$ 719,416	$ 89,800	$ -	**$ 809,216**	$ 293,034
Consumer loans	472,141	102,971	2,427	**577,539**	578,040
Commercial mortgages	32,551	-	-	**32,551**	127,763
Agricultural loans	552,624	2,729	-	**555,353**	26,310
Total	$ 1,776,732	$ 195,500	$ 2,427	**$ 1,974,659**	$ 1,025,147

(f) Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments. As at October 31, 2020, the Credit Union has approximately $58,815,000 (2019 - $51,098,000) of loans that are primarily related to the agriculture, construction and real estate sectors.

There were no individual or related groups of loans to members which exceed 7.75% (2019 - 4.24%) of total assets at October 31, 2020.

The majority of loans are with members located in and around Rocky Mountain House, Alberta. A significant portion of the Credit Union's loan portfolio is secured by residential, commercial and agricultural property in and around Rocky Mountain House, Alberta. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the gas economy and property market be subject to a decline. The risk of loss from loans undertaken is primarily reduced by the nature and quality of the security taken.

8. PROPERTY AND EQUIPMENT

	Land and Land Improvements	Building	Furniture and Equipment	Security Equipment	Computer Equipment	Total
COST:						
Balance at October 31, 2019	$ 763,087	$ 4,020,329	$ 557,784	$ 158,296	$ 144,061	$ 5,643,557
Additions	-	-	6,456	22,044	7,286	35,786
Disposals	-	-	-	-	-	-
Balance at October 31, 2020	**$ 763,087**	**$ 4,020,329**	**$ 564,240**	**$ 180,340**	**$ 151,347**	**$ 5,679,343**
ACCUMULATED DEPRECIATION:						
Balance at October 31, 2019	$ 84,491	$ 1,328,512	$ 453,580	$ 143,701	$ 125,284	$ 2,135,568
Depreciation expense	15,227	161,254	46,904	6,081	13,671	243,137
Disposals	-	-	-	-	-	-
Balance at October 31, 2020	**$ 99,718**	**$ 1,489,766**	**$ 500,484**	**$ 149,782**	**$ 138,955**	**$ 2,378,705**
NET BOOK VALUE:						
October 31, 2020	**$ 663,369**	**$ 2,530,563**	**$ 63,756**	**$ 30,558**	**$ 12,392**	**$ 3,300,638**
October 31, 2019	$ 678,596	$ 2,691,817	$ 104,204	$ 14,595	$ 18,777	$ 3,507,989

9. INTANGIBLE ASSETS

COST:	
Balance at October 31, 2019	$ 789,751
Additions	20,443
Balance at October 31, 2020	**$ 810,194**
ACCUMULATED AMORTIZATION:	
Balance at October 31, 2019	$ 760,260
Amortization expense	13,363
Balance at October 31, 2020	**$ 773,623**
NET BOOK VALUE:	
October 31, 2020	**$ 36,571**
October 31, 2019	$ 29,491

10. OTHER ASSETS

	2020	2019
Prepaid expenses	**$ 185,392**	$ 119,814
Accounts receivable	**11,940**	106,202
	$ 197,332	$ 226,016

11. OTHER INCOME

	2020	2019
Service charges	**$ 557,808**	$ 598,776
Financial planning service fees	**222,617**	268,938
Miscellaneous fees	**211,136**	171,277
NSF charges	**130,151**	159,446
Documentation and admin fees	**127,936**	132,488
Gain on foreign exchange	**36,115**	57,227
ATM, CAFT, and draft fees	**34,160**	40,771
Credit card fees	**31,087**	44,417
Gain on sale of property and equipment	**60**	-
	$ 1,351,070	$ 1,473,340

12. OPERATING DEMAND LOAN AND TERM LOAN

a) The Credit Union has a revolving operating demand loan with Central of $11,000,000 (including a U.S. dollar component equivalent to Canadian $1,450,000) (2019 - $11,000,000). The demand loan bears interest at Central's prime rate for Canadian dollar advances and Central's U.S. base rate on U.S. advances, in both cases plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2020, the Credit Union had $NIL outstanding on its operating demand loan (2019 - $NIL). The demand loan is secured by a General Security Agreement covering accounts and instruments and a Pledge Agreement covering member deposits.

b) The Credit Union has a revolving term loan with Central of $17,000,000 (2019 - $17,000,000). The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate of the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. At October 31, 2020, the Credit Union had $NIL outstanding on its term loan (2019 - $NIL).

13. MEMBER DEPOSITS

	2020	2019
Demand deposits	**$207,083,008**	$194,059,869
Term deposits	**87,013,769**	92,338,074
Registered Retirement Savings Plans ("RRSP")	**15,512,399**	15,642,739
Tax-Free Savings Account ("TFSA")	**11,932,083**	11,169,353
Registered Retirement Income Funds ("RRIF")	**9,407,475**	9,340,192
	330,948,734	322,550,227
Accrued interest payable	**1,180,427**	1,356,052
	$332,129,161	$323,906,279

Concentra Bank is the trustee of the RRSPs, RRIFs and TFSAs offered to members. Under an agreement with Concentra Bank, members' contributions to the plans, as well as income earned, are deposited in the Credit Union.

Deposits are subject to the following terms:

a) Term deposits are subject to fixed and variable rates of interest up to 4.50%, with interest payments due monthly, annually or on maturity.

b) Registered savings plans are subject to fixed and variable rates of interest up to 4.50%, with interest payments due monthly, annually or on maturity.

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13. MEMBER DEPOSITS (CONTINUED)

Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. The majority of member deposits are located in and around Rocky Mountain House, Alberta.

There were no individuals or related groups of members for which deposits exceeded 17.29% (2019 - 16.55%) of total assets at October 31, 2020.

Maturities are as follows:

	On Demand	Within 1 Year	1 to 2 Years	2+ Years	Total
Demand	$207,095,068	$ -	$ -	$ -	**$207,095,068**
Term	-	59,049,707	8,787,981	19,879,513	**87,717,201**
RRSP	3,896,698	8,006,478	1,351,386	2,441,973	**15,696,535**
RRIF	410,853	2,834,012	857,001	5,445,192	**9,547,058**
TFSA	3,184,274	5,101,614	1,388,395	2,399,016	**12,073,299**
	$214,586,893	$ 74,991,811	$ 12,384,763	$ 30,165,694	**$332,129,161**

14. INCOME TAXES

(a) Income Tax Expense

Reasons for the difference between the tax expense for the year and the expected income taxes based on the statutory rate of 24.49% (2019 - 26.66%) are as follows:

	2020	2019
Net income before income taxes	**$ 1,559,972**	$ 2,412,726
Expected provision for income taxes at statutory rates	**$ 382,037**	$ 643,233
Non-deductible expenses	**10,392**	39,099
Origination and reversal of timing differences	**13,088**	(85,772)
Total provision for income taxes	**$ 405,517**	$ 596,560

(Continues)

14. INCOME TAXES (CONTINUED)

(b) Deferred Income Taxes

The deferred income tax asset (liability) is comprised of temporary deductible (taxable) differences between the tax basis and carrying values in the following accounts:

	2020	2019
Property and equipment and intangible assets	**$ 44,417**	$ 34,239
Allowance for impaired loans	**348,064**	246,991
	$ 392,481	$ 281,230

15. MEMBER SHARES, DIVIDENDS AND PATRONAGE DISTRIBUTABLE

The Credit Union's common shares have the following characteristics:

i) an unlimited number may be issued;
ii) a par value of $1, but fractional shares may be issued;
iii) transferable only in restricted circumstances;
iv) non-assessable;
v) redemption of member shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Regulations; and
vi) Common share investment is restricted to a maximum 25,000 common shares.

A membership in the Credit Union requires the purchase of a minimum of five shares. Equity accounts are established as a means of returning excess earnings to the members while maintaining the Credit Union's equity base.

Member shares are not guaranteed by the Corporation. Characteristics include performance, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The Board of Directors declared both a dividend and patronage allocation to be paid to members by way of cash, depending on the balance in the members common share account. The balances of the dividend and patronage allocations was paid November 13, 2020 and is calculated as follows:

	2020	2019
2.15% dividend on common shares calculated on the minimum monthly balance (2019 - 2.75%).	**$ 320,180**	$ 370,519
10.00% patronage rebate on total loan interest paid (2019 - 10.00%), and a 10.00% patronage bonus on deposit interest received (2019 - 10.00%).	**1,076,178**	1,131,390
	$ 1,396,358	$ 1,501,909

16. PENSION PLAN

The Credit Union has a defined contribution pension plan for qualifying employees. The expense and payments for the year ended October 31, 2020 were $140,768 (2019 - $135,665). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

17. RELATED PARTY TRANSACTIONS

Key Management Personnel and Directors

(a) Compensation and dividends

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 comprise members of management responsible for the day-to-day financial and operational management of the Credit Union. The Credit Union's KMP is comprised of 3 individuals (2019 - 4). Salaries and short-term benefits of KMP for the year ended October 31, 2020 is $545,526 (2019 - $591,033) and post-employment benefits of $23,850 (2019 - $23,119). There was no compensation for long-term benefits, or share-based compensation during 2020 and 2019.

As at October 31, 2020, the total members' shares held by KMP were $2,109 (2019 - $62,889) with related dividends paid of $1,695 (2019 - $2,921).

(b) Member loans

There are no loans that are impaired in relation to loan balances with KMP or directors. There are no benefits or concessional terms and conditions applicable to the family members of KMP or directors. Directors and KMP of the Credit Union have loans totaling $1,375,940 (2019 - $1,025,994) which is 0.54% (2019 - 0.40%) of total loans. The Credit Union, in accordance with its policy, grants mortgages to its management and employees at the Credit Union prime less 2% and on consumer loans at prime less 1%, with a 2% floor for all loans. All loans are in good standing. Interest and other revenue earned on member loans are $33,447 (2019 - $28,135).

(c) Member deposits

Directors and KMP have deposits at the Credit Union totaling $556,885 (2019 - $829,269) which is 0.17% (2019 - 0.26%) of total deposits. These accounts are maintained under the same terms and conditions as accounts of other members and are included in member deposits. Management and staff have access to one personal chequing account which does not incur account operating fees. Interest on member deposits is $2,458 (2019 - $9,139).

(d) Directors' remuneration

Amounts paid annually to directors range from $1,415 (2019 - $610) to $3,855 (2019 - $4,235) with an average of $2,645 (2019 - $2,584). In addition, there are meeting, travel and training costs of $19,164 incurred in the current year (2019 - $45,135). Total director remuneration for 2020 was $21,160 (2019 - $20,670).

18. COMMITMENTS

Retail Banking Services Agreement

The Credit Union entered into an *eroWORKS Retail Banking* services agreement with Celero Solutions Inc. The agreement is effective for a ten year term commencing January 1, 2016 and shall be automatically renewed for three years unless terminated by either party. Under the terms of this agreement, the Credit Union is committed to annual operating fees which vary annually based on the projected operating costs for *eroWORKS Retail Banking* for the upcoming year. Currently, the Credit Union's annual operating fee is $177,994 (2019 - $176,653).

19. RISK MANAGEMENT

(a) Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from member loans, investments, securities and derivative instruments with positive market values. The primary credit risk arising from member loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans. Provision for impairment losses are made for losses that are anticipated at the Statement of Financial Position date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities, that result in member loans and advances, and treasury activities that result in investments in cash resources. The overall management of credit risk is centralized in the Credit Committee which reports to the Board.

Concentration of loans is managed by the implementation of sectoral and member specific limits.

The Board Credit Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures. It accomplishes this through review and approval of the Credit Union's lending policies and setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and agricultural property. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool. This rating tool takes into consideration a number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry, and utilizes the experience and judgment of the Credit department. The current risk rating format consists of seven categories reflecting various degrees of risk and the availability of collateral.

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19. RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (Continued)

Significant changes in the gas economy of the Rocky Mountain House area, or deterioration in the residential, agriculture and commercial lending sectors, which represent a concentration within the Credit Union's loan portfolio, may result in losses that are different from those predicted at the Statement of Financial Position date.

(i) Credit risk exposure

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the Statement of Financial Position, the exposure to credit risk is the stated carrying amount. For off balance sheet items, the maximum exposure is the full amount of the undrawn facilities or loan commitment.

	2020	2019
Outstanding		
Cash and cash equivalents *(1)*	**$ 68,205,433**	$ 71,772,608
Investments *(1)*	**49,546,120**	38,226,156
Member loans *(2)*	**256,713,704**	256,343,306
	374,465,257	366,342,070
Undrawn commitments		
Letters of guarantee	**1,100,223**	1,026,773
Commitments to extend credit *(3)*		
Original terms to maturity of one year or less	**24,909,687**	22,578,777
Original terms to maturity of one year or more	**16,171,398**	19,009,692
	42,181,308	42,615,242
Total exposure	**$416,646,565**	$408,957,312

(1) Cash and cash equivalents and investments

Credit risk arises from cash and cash equivalents and investments held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by management who reports to the Board. The managed assets consist of cash and investments held with Central. Central invests on behalf of the Credit Union as per the investment policies recommended for approval by the Audit, Finance and Risk Committee to the Board of Directors of the Credit Union. The investment policy requires that all investments are highly-rated and that all of the assets are readily convertible to cash.

(Continues)

19.RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(i) Credit risk exposure (continued)

(2) Member loans

For the retail loan portfolio (residential and consumer loans), the Credit Union's underwriting methodologies and risk modelling are member-based rather than product-based. The Credit Union reviews the member's capacity to repay the residential mortgages which are fully secured by residential property with 19.86% (2019 - 21.08%) in mortgages insured by Canada Mortgage and Housing Corporation and other mortgage insurance providers and 33.16% (2019 - 33.15%) in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value.

(3) Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out above represent the maximum exposure to the Credit Union should the contracts be fully drawn and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Such commitments are not included on the Statement of Financial Position.

(ii) Concentration of credit risk

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 indicates the sensitivity of the Credit Union to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the Credit Union due to its primary service area being in Rocky Mountain House.

b) Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk, foreign exchange risk, and interest rate risk.

The Credit Union uses various risk management processes to manage market risk.

Management of market risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation monitors standards to which the Credit Union must comply.

(Continues)

19. RISK MANAGEMENT (CONTINUED)

b) Market Risk (Continued)

The primary market risk policies and procedures include the following:

(i) Interest rate risk management framework to measure and control interest rate exposure:

1. Identify significant interest rate risk, including re-pricing risk and interest spread risk;
2. Utilize sensitivity tools to measure various risk positions and evaluate their possible impact;
3. Develop products and services, and related pricing to ensure consistent net interest margins and profitability; and
4. Utilize derivative products to assist in ensuring consistent interest margins.

(ii) Investment and derivative management to measure and control on and off balance sheet assets to ensure investment objectives are met:

1. Established standards for safety, liquidity and yield;
2. Limits on eligible investments;
3. Limits on investment concentrations;
4. Limits on investment term to maturity;
5. Limits on the use of derivative products;
6. Controls on securities dealers utilized;
7. Limits on real property and equipment for the Credit Union's use; and
8. Processes that identify adverse situations and trends

(c) Fair Value Risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its member loans, term deposits and investments. The Credit Union does not hedge its fair value risk. See Note 21 for further information on fair value of financial instruments.

(d) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its member loans and other interest-bearing financial instruments.

To manage the repricing of asset and liability mismatch opportunities, the Credit Union will undertake campaigns to procure deposits or loans that re-price or mature within a specific time period, buy or sell assets that reprice or mature within a specific time period and may purchase derivative instruments. These decisions are based on economic conditions, member behaviour, capital and liquidity levels and compliance with the Credit Union policy.

Based on the current financial instruments, it is estimated that a 1.0% increase in the prime interest rate would increase financial margin by $19,630 (2019 - $112,000). A 1.0% decrease in the prime interest rate would decrease financial margin by $385,990 (2019 - $318,000)

(Continues)

19. RISK MANAGEMENT (CONTINUED)

(d) Interest Rate Risk (Continued)

The following schedule shows the Credit Union's sensitivity to interest changes as at October 31, 2020. Fixed rate assets and liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to the prime rate are reported in the floating rate category. Non-interest bearing assets and liabilities are reported in the non-rate sensitive category.

As at October 31, 2020

	Floating Rate	Within 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Assets					
Cash and cash equivalents	$ 22,171,845	$ 45,294,137	$ -	$ 739,451	**$ 68,205,433**
Effective Yield	*0.25%*	*0.76%*	*0.00%*	*0.00%*	*0.59%*
Investments	-	42,546,120	2,500,000	4,500,000	**49,546,120**
Effective Yield	*0.00%*	*0.95%*	*4.60%*	*0.00%*	*1.05%*
Member loans	51,355,764	48,267,406	157,090,534	-	**256,713,704**
Effective Yield	*3.54%*	*3.29%*	*3.32%*		*3.36%*
Other	-	-	-	4,810,878	**4,810,878**
	73,527,609	136,107,663	159,590,534	10,050,329	**379,276,135**
Liabilities					
Member deposits	181,740,530	73,381,221	44,173,107	32,834,303	**332,129,161**
Effective Yield	*0.25%*	*1.14%*	*2.70%*	*0.00%*	*0.75%*
Other	-	-	-	580,444	**580,444**
Equity	-	-	-	46,566,530	**46,566,530**
	181,740,530	73,381,221	44,173,107	79,981,277	**379,276,135**
Financial Position Statement Gap	$(108,212,921)	$ 62,726,442	$115,417,427	$ (69,930,948)	**$ -**

As at October 31, 2019

	Floating Rate	Within 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Financial Position Statement Gap	$(117,804,850)	$ 63,053,480	$121,008,977	$ (66,257,607)	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of the Credit Union is to intermediate between the expectations of borrowers and depositors.

(Continues)

19. RISK MANAGEMENT (CONTINUED)

(e) Liquidity Risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 20 for further information about the Credit Union's regulatory requirement.

The Credit Union uses various risk management processes to manage liquidity risk.

Management of liquidity risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation monitors standards to which the Credit Union must comply.

The primary liquidity risk and procedures include the following:

Liquidity risk management framework to measure and control liquidity risk exposure;

1. Maintain sufficient liquid assets to meet normal operating requirements;
2. Maintain Corporation regulated liquidity investments;
3. Maintain a line of credit and borrowing facility with Central;
4. Daily management of liquidity, which factors in known and projected inflows/outflows;
5. Maintain sufficient liquid assets that can be readily converted to cash with minimal or no cost;
6. Maintain liquid assets in excess of normal operating requirements;
7. Diversification in investing to ensure various sources of funding liquidity can be maintained; and
8. Liquidity management contingency planning.

The Credit Union enters into transactions to borrow funds from financial institutions or other creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from its accounts payable and member deposits by investing in liquid assets.

On a periodic basis management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta minimum liquidity ratio of 6% of total assets. The Credit Union’s liquidity ratio was 7.97% at October 31, 2020 (2019 – 7.89%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board on a monthly basis. The Audit and Finance Committee ensures that a periodic review is performed to verify compliance with policy and procedures.

(f) Foreign Exchange Risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Net foreign exchange risk is not considered significant as at the date of the Statement of Financial Position, as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

(Continues)

19. RISK MANAGEMENT (CONTINUED)

(g) Price Risk

Price risk arises from changes in market risks, other than the interest rate, credit, liquidity or foreign exchange risk, such as changes in gas commodity prices, where these changes cause fluctuations in the fair value or future cash flows of a financial instrument. The Credit Union is exposed to price risk as members of the Credit Union are employed in the gas and agricultural commodity sectors.

20. CAPITAL MANAGEMENT

The Corporation monitors compliance with legislative capital requirements for capital adequacy and minimum capital as prescribed under the *Credit Union Act*. The capital adequacy rules are based on the Basel III framework, consistent with the financial industry in general. The *Act* also requires a risk-weighted asset calculation for credit and operational risk.

Under the *Act*, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets ("RWA") including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of legislated capital to risk-weighted assets is calculated and compared to the standard outlined by the *Credit Union Act*. Legislative standards require the credit unions to maintain a minimum of the greater of 8% of RWA or 4% of total assets. An additional regulatory requirement of capital equal to 2.5% of RWA is also required.

Also, the Corporation expects all credit unions to hold a self - identified internal capital buffer equal to 2% of RWA in addition to the capital levels previously described.

Primary capital is share capital and retained earnings.

Secondary capital of the Credit Union consists of deferred income taxes payable and the collective allowance for member loans.

The primary capital policies and procedures include the following:

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

(*Continues)*

20. CAPITAL MANAGEMENT (CONTINUED)

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

	Regulatory Standards	**Board minimum limits**
Total eligible capital to risk-weighted assets	8%	15%
Regulatory capital buffer	2.50%	2.50%
Self-identified capital buffer	2%	2%
Total eligible capital to total assets	4%	4%

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

	2020	2019
Capital summary		
Eligible capital		
Primary capital	**$ 45,170,172**	$ 44,629,324
Secondary capital	**1,201,970**	710,596
	46,372,142	45,339,920
Less: intangible assets and deferred income tax asset	**(429,052)**	(310,721)
Total available capital	**$ 45,943,090**	$ 45,029,199
Risk-weighted assets		
Total risk-weighted assets	**$175,873,431**	$171,030,640
Total eligible capital to risk weighted assets	**26.12%**	26.33%
Total assets		
Total assets	**$379,276,135**	$370,754,374
Total eligible capital to total assets	**12.11%**	12.15%

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in the current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates. In addition, the following amounts do not include the fair value of items that are not financial assets, such as property and equipment and intangible assets.

Methods and Assumptions

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

(a) Financial assets

The fair value of financial assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates that it believes to be reasonable.

(b) Member loans

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

(c) Member deposits

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

(d) Derivative instruments

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

The most significant assumption relates to the discount rates utilized. If the shift in interest rates of such instruments would increase by 100 basis points then the fair value of financial assets would decrease by $4,648,540 (2019 - $4,407,058) and the fair value of financial liabilities would decrease by $1,398,337 (2019 - $1,378,708).

(Continues)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below sets out the fair value of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments:

		October 31, 2020			October 31, 2019		
(In thousands)	Levels	Carrying value	Fair value	Change	Carrying value	Fair value	Change
Financial Assets:							
Cash and cash equivalents	1	$ 68,205	$ 68,205	$ -	$ 71,773	$ 71,773	$ -
Investments	3	49,546	49,588	(42)	38,226	38,197	29
Member loans		256,714	252,287	4,427	256,343	250,359	5,984
Accounts receivable		12	12	-	106	106	-
		$ 374,477	$ 370,092	$ 4,385	$ 366,448	$ 360,435	$ 6,013
Financial Liabilities:							
Member deposits		$ 332,129	$ 329,576	$ 2,553	$ 323,906	$ 325,596	$ (1,690)
Accounts payable and accrued liabilities		580	580	-	717	717	-
		$ 332,709	$ 330,156	$ 2,553	$ 324,623	$ 326,313	$ (1,690)

Fair Value Hierarchy

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Assets and liabilities measured at fair value and classified as Level 1 include cash and cash equivalents.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active.

There are no assets measured at fair value and classified as Level 2.

(Continues)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There were no assets measured at fair value classified as Level 3.

Assets measured at fair value and classified as Level 3 include Central shares and Concentra Bank preferred shares.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2020 and 2019.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

23. IMPACT OF COVID-19

On March 17, 2020, the Government of Alberta declared a public health emergency in response to the coronavirus disease 2019 ("COVID-19") pandemic. The measures implemented to combat the spread of the virus have had an impact on the Credit Union; however, at this time an estimate of the financial effect is not feasible.

The Credit Union is closely monitoring the recommendations from public health agencies and government authorities while implementing its new operational plan to reduce any adverse financial impact and continue operations.

For the year ended October 31, 2020; on behalf of the Government of Canada, the Credit Union disbursed 169 Canada Emergency Business Account ("CEBA") interest free loans at $40,000 per loan totaling $6,760,000. These loans are not loans issued from the Credit Union, and as such, are not included in the member loans balances on the Statement of Financial Position.

ROCKY CREDIT UNION LIMITED

Schedule of Operating Expenses **Schedule 1**

For The Year Ended October 31, 2020

	2020	2019
Personnel	**$ 3,259,755**	$ 3,253,445
Occupancy		
Maintenance, utilities and janitorial	**247,828**	123,955
Depreciation	**176,481**	175,998
Property taxes	**33,753**	31,258
Other	**13,471**	10,899
	471,533	342,110
Security		
Deposit guarantee assessment	**162,291**	286,374
Bonding	**38,989**	35,484
Depreciation	**6,081**	6,387
Other	**4,912**	9,279
	212,273	337,524
Organization		
Credit Union Central dues	**102,059**	85,313
Directors and committee remuneration	**21,160**	20,670
Other	**14,289**	40,444
Annual meeting	**5,579**	5,197
Central annual general and other meetings	**3,946**	3,673
Director travel	**929**	1,017
	147,962	156,314
General		
Computer services	**536,344**	478,911
Cash, service charges and other fees	**277,965**	330,852
Advertising and marketing	**203,215**	365,737
Equipment leases, repairs and maintenance	**132,562**	119,316
Consulting and professional fees	**100,836**	110,990
Memberships and subscriptions	**82,161**	69,669
Office and communication	**72,609**	72,188
Depreciation	**60,576**	59,446
Courier and postage	**48,246**	48,969
Other	**29,200**	35,312
Insurance	**27,866**	27,510
Amortization	**13,363**	12,988
Staff travel	**3,410**	18,983
	1,588,353	1,750,871
	$ 5,679,876	$ 5,840,264