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

Rapport Credit Union Limited
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For the year ended January 31, 2020

Management’s Responsibility

To the Members of Rapport Credit Union Limited:

The accompanying financial statements of Rapport Credit Union Limited (“Rapport”) are the responsibility of management and have been approved by the Board of Directors.

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

In discharging its responsibilities for the integrity and fairness of the 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 financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of Rapport’s external auditors.

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

March 16, 2021

E-SIGNED by Kim Leak

CEO

E-SIGNED by Ryan Lim

CFO

Independent Auditor's Report

MNP LLP

To the Members of Rapport Credit Union Limited:

Opinion

We have audited the accompanying financial statements of Rapport Credit Union Limited ("Rapport"), which comprise the statement of financial position as at December 31, 2020, the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Rapport 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 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 Rapport'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 Rapport or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Rapport'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.

- 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 Rapport's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Rapport’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 Rapport 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.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

March 16, 2021 — Licensed Public Accountants

Rapport Credit Union Limited
Statement of Financial Position

As at December 31, 2020

(CDN dollars in thousands)

In $	***2020***	*2019*
Assets		
Cash	**14,169**	24,700
Investments *(Note 8)*	**34,819**	19,408
Member loans *(Note 9)*	**245,805**	234,985
Other assets *(Note 10)*	**1,347**	1,975
Income taxes receivable	**-**	10
Right-of-use assets *(Note 12)*	**498**	594
Property and equipment *(Note 11)*	**13,662**	13,452
	310,300	295,124
Liabilities		
Member deposits *(Note 13)*	**282,118**	266,024
Other liabilities *(Note 14)*	**2,694**	3,133
Lease liabilities (Note 12)	**556**	647
Deferred income tax liabilities (Note 15)	**974**	1,020
	286,342	270,824
Commitments *(Note 20)*		
Members' Equity		
Retained earnings	**21,975**	22,129
Membership shares *(Note 16)*	**804**	883
Class B shares - Patronage *(Note 16)*	**1,179**	1,288
	23,958	24,300
	310,300	295,124

Approved on behalf of the Board

E-SIGNED by Murray Lindo

Director

E-SIGNED by Rox-Anne Moore

Director

The accompanying notes form part of the financial statements

Rapport Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2020
(CDN dollars in thousands)

In $	***2020***	*2019*
Interest income		
Member loans	**9,192**	9,028
Investments	**348**	839
	9,540	9,867
Interest expense		
Member deposits	**2,888**	3,378
Net interest income	**6,652**	6,489
Provision for (recovery of) loan losses *(Note 9)*	**286**	(61)
Net interest income after provision for (recovery of) loan losses	**6,366**	6,550
Other income	**3,076**	3,398
Net interest and other income	**9,442**	9,948
Operating expenses		
Deposit insurance premium	**282**	275
Depreciation *(Note 11)*	**585**	557
Depreciation of right of use asset *(Note 12)*	**181**	261
General and administrative	**1,939**	2,269
Marketing	**351**	524
Occupancy expenses	**584**	563
Personnel expenses	**5,720**	5,455
	9,642	9,904
(Loss) income before income taxes	**(200)**	44
Income tax expense (recovery) *(Note 15)*		
Deferred	**(46)**	13
Net (loss) income and comprehensive income	**(154)**	31

The accompanying notes form part of the financial statements

Rapport Credit Union Limited
Statement of Changes in Members' Equity

For the year ended December 31, 2020
(CDN dollars in thousands)

In $	Member shares	Class B shares - Patronage	Retained earnings	Total
Balance, January 31, 2019	952	1,425	22,098	24,475
Net income	-	-	31	31
Shares from liabilities	-	15	-	15
Issued shares	29	-	-	29
Redeemed shares	(98)	(152)	-	(250)
Balance, December 31, 2019	**883**	**1,288**	**22,129**	**24,300**
Net loss	-	**-**	**(154)**	**(154)**
Shares from liabilities	-	**12**	**-**	**12**
Issued shares	**14**	**-**	**-**	**14**
Redeemed shares	**(93)**	**(121)**	**-**	**(214)**
Balance, December 31, 2020	**804**	**1,179**	**21,975**	**23,958**

The accompanying notes form part of the financial statements

Rapport Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2020
(CDN dollars in thousands)

In $	***2020***	*2019*
Cash provided by (used for) the following activities		
Operating activities		
Net (loss) income for the year	**(154)**	31
Adjustments for:		
Interest revenue	**(9,540)**	(9,867)
Interest expense	**2,888**	3,378
Depreciation and amortization	**766**	818
Provision for income taxes	**(46)**	13
Net change in other assets	**779**	(1,032)
Net change in other liabilities	**28**	(163)
Net change in member loans	**(10,820)**	(9,477)
Net change in member deposits	**16,094**	20,088
Interest received on member loans	**9,118**	9,012
Interest received on investments	**281**	837
Interest paid on member deposits	**(3,355)**	(2,546)
Net income taxes received	**-**	10
Rent paid recorded as a reduction to lease liabilities	**(200)**	(234)
Interest expense on lease liabilities	**24**	26
	5,863	10,894
Investing activities		
Purchase of property and equipment	**(795)**	(130)
Net change in investments	**(15,411)**	(1,233)
	(16,206)	(1,363)
Financing activities		
Net change in membership shares	**(188)**	(206)
Net change in cash during the year	**(10,531)**	9,325
Cash, beginning of year	**24,700**	15,375
Cash, end of year	**14,169**	24,700

The accompanying notes form part of the financial statements

1. Reporting entity information

Rapport Credit Union Limited (Rapport) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 (Ontario), (the "Act") and operates in accordance with this statute and the accompanying regulations. Rapport is a member of Central 1 Credit Union ("Central 1") and prescribed level of deposits are insured by the regulator, Financial Services Regulatory Authority of Ontario ("FSRA"). Rapport provides financial services including lending and deposit taking to its members. The registered office of Rapport is at 18 Grenville Street, Suite One, Toronto, Ontario.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board and adopted by the International Accounting Standards Board ("IASB"). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2020.

3. Basis of preparation

These financial statements for the year ended December 31, 2020 were approved and authorized for issue by the Board of Directors on March 9, 2021.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 6.

Functional and presentation currency

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

4. Changes in accounting policies

Rapport adopted the following new standards, effective January 1, 2020.

IFRS 9 Financial Instruments (Amendment)

In September 2019, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 Financial Instruments, which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in November 2019. The amendments provide temporary relief from applying specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from interest rate benchmark reform.

The amendments are effective for annual periods beginning on or after January 1, 2020. Adoption of these amendment did not have a material impact on the financial statements.

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

In October 2018, the International Accounting Standards Board (IASB) issued amendments to IAS 8 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2019. The amendments clarify the definition of material and how it should be applied, as well as align the definition of material across IFRS standards and other publications.

The amended definition of material states:
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. Adoption of the amendment did not significantly impact the financial statements.

5. Significant accounting judgements, estimates and assumptions

The preparation of Rapport's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

During the current period, the global COVID 19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgements used in the measurement of the allowance for loan losses. For the year ended December 31, 2020, Rapport has included all information available to the date of these financial statements and prepared estimates based on management's best knowledge of current events and actions that Rapport may undertake in the future. These 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 if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The situation remains fluid and certain impacts continue to remain unknown and may reasonably require adjustments within the next twelve months.

Allowance for impaired loans

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrower's 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, Rapport develops a number of assumptions as follows:

- The period over which Rapport 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. Rapport 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
- Oil price
- Housing starts

5. Significant accounting judgements, estimates and assumptions (continued)

Allowance for impaired loans (continued)

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. Rapport uses judgment to weight these scenarios.

The judgements related to whether or not there is a significant increase in credit risk results in loans moving between stages and, therefore, being subject to the changes in the economic variables and assumptions in the expected credit loss model. Due to the ongoing pandemic, Rapport has implemented programs to allow for the deferral of payments on loans to members in certain circumstances. With respect to these loans where the member has taken advantage of the loan deferral programs, Rapport has assessed whether this is indicative of a significant increase in credit risk, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan.

Financial instruments not traded on active markets

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

6. Significant accounting policies

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

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Financial assets

Recognition and initial measurement

Rapport 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 subsequent measurement

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

6. Significant accounting policies (continued)

Financial assets (continued)

Debt instruments are classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.
- Fair value through other comprehensive income – Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest 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.
- 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.
- Designated at fair value through profit or loss – On initial recognition, Rapport may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

Rapport measures all equity investments at fair value. Changes in fair value are recorded in profit or loss except where the entity has irrevocably elected initial recognition to present in other comprehensive income the fair value gains and losses of an equity investment that is neither held for trading nor contingent consideration acquired in a business combination. In such cases, the cumulative gains and losses recognized in other comprehensive income are not reclassified to profit or loss on derecognition of the investment.

Business model assessment

Rapport 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, Rapport considers factors that would alter the timing amount of cash flows such as prepayment and extension features, terms that might limit Rapport's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

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

6. Significant accounting policies (continued)

Financial assets (continued)

Impairment

Rapport 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, as well as financial guarantee contracts and loan commitments not 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 loans and mortgages Rapport records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period ("Stage 1"), unless there has been a significant increase in credit risk since initial recognition ("Stage 2"). For those financial assets for which Rapport assessed that a significant increase in credit risk has occurred, Rapport records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

Rapport assesses whether a financial asset is credit-impaired at the reporting date ("Stage 3"). Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, Rapport continues to recognize a loss allowance equal to lifetime expected credit losses with interest being recorded on the net carrying value of the asset.

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 facilities with both a drawn and undraw component where Rapport 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:
- For debt instruments measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the statement of financial position.

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

Refer to Note 20 for additional information about Rapport's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

Rapport applies its accounting policies for the derecognition of a financial asset only when:

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

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

Rapport 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 Rapport 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.

6. Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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

Modification of financial assets

Rapport 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 Rapport'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, Rapport continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

Rapport recognizes financial liabilities when it becomes party to the contractual provisions of the instrument. At initial recognition, Rapport 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.

Subsequent to initial recognition, all financial liabilities measured at amortized cost using the effective interest rate method include member deposits, lease liabilities, accounts payable and accrued liabilities, accrued interest and certified cheques. Interest relating to these financial liabilities are recognized in profit or loss.

Derecognition of financial liabilities

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

Derivative financial instruments

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income.

Derivatives financial instruments include foreign exchange forward contracts, index-linked contracts and interest rate swap.

Interest

Interest income and expense are 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.

6. Significant accounting policies (continued)

Interest (continued)

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.

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

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

Investments

Central 1 liquidity reserve deposits and shares are measured at fair value, with adjustments to fair value recognized in profit or loss.

Term deposits are carried at amortized cost.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Depreciation is provided using the methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Life/Rate
Building	straight-line	80 years
Furniture and equipment	straight-line	4-10 years
Computer Hardware	straight-line	4-10 years
Computer software	straight-line	4-7 years
Leasehold improvements	straight-line	Lesser of useful life and term of lease

The residual value, useful life, and depreciation method applied to each class of assets are reassessed at each reporting date. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in current period income.

Assets under construction are accounted for at cost and only amortized once the asset construction has been completed.

Computer software

Computer software, an intangible asset, is carried at cost less accumulated amortization. Amortization of computer software is amortized to the income statement on a straight-line basis over its expected useful life between 4 to 7 years. The expected useful life of computer software is 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 current period income.

6. Significant accounting policies *(continued)*

Leases

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

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

Where Rapport is a lessee in a contract that contains a lease component, Rapport allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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

After the commencement date, Rapport measures all right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether Rapport expects that the ownership of the underlying asset will transfer to Rapport by the end of the lease term or if the cost of the right-of-use asset reflects that Rapport will exercise a purchase option.

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

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

6. Significant accounting policies *(continued)*

Impairment of non-financial assets

At the end of each reporting period, Rapport reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Rapport estimates the recoverable amount of the cash generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are 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 to sell 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 current period income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount should 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 current period income.

Member 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 Rapport's board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments.*

Revenue recognition

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

Interest income is recognized in profit or loss for all financial assets measured at amortized cost using the effective interest rate method.

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

Other income is recognized when services are provided and collection is reasonably assured.

6. Significant accounting policies (continued)

Income taxes

Current and deferred taxes are recognized in net income, other comprehensive income or equity, depending on where the related income or expense is recorded.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities where Rapport operates and generates income. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities generally arise where the carrying amount of an asset or liability differs from its tax base.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of Rapport at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are included in income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

7. Standards and interpretations issued but not yet effective

Rapport has not yet applied the following amendment to the standard that was issued as at December 2020 but not yet effective. Rapport does not plan to early adopt the amended standard.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment)

In May 2020, the International Accounting Standards Board (IASB) issued amendments to update IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Accounting Standards Board (AcSB) completed its endorsement process and incorporated the amendments into Part I of the CPA Canada Handbook – Accounting in September 2020.

The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

These amendments are effective for annual periods beginning on or after January 1, 2022. Rapport is assessing the impact of the amendment on its financial statements.

(CDN dollars in thousands unless otherwise stated)

8. Investments

In $	***2020***	*2019*
Amortized Cost		
Term deposits	**15,143**	184
Fair value through profit or loss		
Central 1 liquidity reserve deposit	**18,454**	17,974
Central 1 Class A shares	**99**	99
Central 1 Class E shares	**234**	234
Central 1 Class F shares	**889**	917
	19,676	19,224
	34,819	19,408

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, Rapport is required to maintain on deposit in Central 1 an amount equal to 6% of Rapport's total assets updated at each month end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by Rapport on ninety days notice. Subsequent to year end, the mandatory liquidity pool was segregated as described in Note 22.

9. Member loans

In $	**2020**	*2019*
Residential	**176,055**	170,507
Personal	**13,406**	16,911
Commercial	**56,805**	47,885
	246,266	235,303
Allowance for loan losses	**(461)**	(318)
	245,805	234,985

The loan classifications set out above are as defined in the regulations to the Act.

Residential mortgage loans are repayable in blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of up to thirty-five years. Commercial mortgage loans are repayable in blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of twenty-five years.

Personal loans are repayable in blended principal and interest instalments, over a maximum amortization period of seven years. Personal loans are open and may be repaid at any time. Business loans are repayable in blended principal and interest instalments, over a maximum amortization period of ten years. All loans are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained such as vehicles; deposits and marketable securities; mortgage charges; fixed, floating or specific general security agreements and personal guarantees.

Line of credit loans are repayable on a revolving credit basis and require monthly payments of interest.

(CDN dollars in thousands unless otherwise stated)

9. Member loans (continued)

Reconciliation of the loss allowance

Loans with an acceptable credit risk consistent with that upon origination of the loan are considered to be Stage 1. 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 increase in credit risk designates the loans to be Stage 2.

Rapport identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Loans greater than 90 days past due are considered credit impaired. Credit impaired loans are classified as Stage 3.

The following tables show a reconciliation of the opening to the closing balance of the loss allowance based on expected credit losses ("ECL") by class of financial instrument.

Loss allowance 2020 Personal	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	**40**	**4**	**173**	**217**
Transfer to stage 1	**-**	**-**	**-**	**-**
Transfer to stage 2	**-**	**(3)**	**3**	**-**
Transfer to stage 3	**4**	**11**	**(15)**	**-**
New financial assets originated [(1)]	**6**	**-**	**1**	**7**
Financial assets that have been derecognised [(2)]	**(6)**	**(1)**	**(101)**	**(108)**
Changes in model inputs	**(23)**	**(11)**	**106**	**72**
Other (ie change in loan balance, change in credit				**-**
score that doesn't affect staging)	**(1)**	**-**	**1**	**-**
Loss allowance as at December 31, 2020	**20**	**-**	**168**	**188**

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

[(1)] The gross carrying amount of new personal loans to members originated during fiscal 2020 amounted to $2,290 as at December 31, 2020.

[(2)] The gross carrying amount of personal loans to members derecognized during fiscal 2020 amounted to $2,823 as at December 31, 2020

Loss allowance 2019 Personal	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2019	46	172	199	417
Transfer to stage 1	-	-	-	-
Transfer to stage 2	42	(46)	4	-
Transfer to stage 3	10	-	(10)	-
New financial assets originated [(1)]	12	-	-	12
Financial assets that have been derecognised [(2)]	(115)	(19)	(20)	(154)
Changes in model inputs	3	-	-	3
Other (ie change in loan balance, change in credit				-
score that doesn't affect staging)	42	(103)	-	(61)
Loss allowance as at December 31, 2019	40	4	173	217

(CDN dollars in thousands unless otherwise stated)

9. Member loans (continued)

Reconciliation of the loss allowance (continued)

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

(1) The gross carrying amount of new personal loans to members originated during fiscal 2019 amounted to $4,635 as at December 31, 2019.

(2) The gross carrying amount of personal loans to members derecognized during fiscal 2019 amounted to $3,114 as at December 31, 2019

Loss allowance 2020 Residential	**Stage 1** **12-month** **ECL**	**Stage 2** **Lifetime** **ECL**	**Stage 3** **Lifetime** **ECL**	**Total**
Loss allowance as at January 1, 2020	**19**	**-**	**-**	**19**
Transfer to stage 1	**-**	**-**	**-**	**-**
Transfer to stage 2	**-**	**-**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**
New financial assets originated (1)	**4**	**-**	**-**	**4**
Financial assets that have been derecognised (2)	**(3)**	**-**	**-**	**(3)**
Changes in model inputs	**9**	**-**	**-**	**9**
Other (ie change in loan balance, change in credit score that doesn't affect staging)	**1**	**-**	**-**	**-** **1**
Loss allowance as at December 31, 2020	**30**	**-**	**-**	**30**

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

(1) The gross carrying amount of new residential loans to members originated during fiscal 2020 amounted to $34,279 as at December 31, 2020.

(2) The gross carrying amount of residential loans to members derecognized during fiscal 2020 amounted to $22,559 as at December 31, 2020

Loss allowance 2019 Residential	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2019	28	-	-	28
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
New financial assets originated (1)	8	-	-	8
Financial assets that have been derecognised (2)	(3)	-	-	(3)
Changes in model inputs	10	-	-	10
Other (ie change in loan balance, change in credit score that doesn't affect staging)	(24)	-	-	- (24)
Loss allowance as at December 31, 2019	19	-	-	19

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

(1) The gross carrying amount of new residential loans to members originated during fiscal 2019 amounted to $40,707 as at December 31, 2019.

(2) The gross carrying amount of residential loans to members derecognized during fiscal 2019 amounted to $19,716 as at December 31, 2019

(CDN dollars in thousands unless otherwise stated)

9. Member loans (continued)

Reconciliation of the loss allowance (continued)

Loss allowance 2020 Commercial	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	**74**	**8**	**-**	**82**
Transfer to stage 1	**(1)**	**1**	**-**	**-**
Transfer to stage 2	**-**	**-**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**
New financial assets originated [1]	**31**	**-**	**-**	**31**
Financial assets that have been derecognised [2]	**(23)**	**-**	**-**	**(23)**
Changes in model inputs	**136**	**18**	**-**	**154**
Other (ie change in loan balance, change in credit score that doesn't affect staging)	**-**	**(1)**	**-**	**-** **(1)**
Loss allowance as at December 31, 2020	**217**	**26**	**-**	**243**

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

[1] The gross carrying amount of new commercial loans to members originated during fiscal 2020 amounted to $18,897 as at December 31, 2020.

[2] The gross carrying amount of commercial loans to members derecognized during fiscal 2020 amounted to $14,618 as at December 31, 2020

Loss allowance 2019 Commercial	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2019	83	-	-	83
Transfer to stage 1	(2)	2	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
New financial assets originated [1]	20	-	-	20
Financial assets that have been derecognised [2]	(39)	-	-	(39)
Changes in model inputs	(2)	-	-	(2)
Other (ie change in loan balance, change in credit score that doesn't affect staging)	14	6	-	- 20
Loss allowance as at December 31, 2019	74	8	-	82

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance:

[1] The gross carrying amount of new commercial loans to members originated during fiscal 2019 amounted to $13,033 as at December 31, 2019.

[2] The gross carrying amount of commercial loans to members derecognized during fiscal 2019 amounted to $24,445 as at December 31, 2019

The principal collateral and other credit enhancements Rapport holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. In some cases Rapport's security is subordinate to another creditor. Valuations of collateral are updated periodically depending on the nature of the collateral. Rapport has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

(CDN dollars in thousands unless otherwise stated)

10. Other assets

In $	***2020***	*2019*
Accounts receivable	**59**	69
Accrued interest	**574**	434
Prepaid expenses	**673**	1,420
Index-linked deposit contracts (Note 13)	**41**	52
	1,347	1,975

11. Property and equipment

In $	Land (Note 13)	Building (Note 13)	Computer hardware and software	Furniture and equipment	Leasehold improvements	***2020 Total***
Cost						
Opening balance	**8,811**	**3,408**	**2,963**	**222**	**608**	**16,012**
Additions	**-**	**-**	**135**	**42**	**618**	**795**
Disposals	**-**	**(20)**	**(287)**	**(161)**	**-**	**(468)**
	8,811	**3,388**	**2,811**	**103**	**1,226**	**16,339**
Accumulated depreciation						
Opening balance	**-**	**(714)**	**(1,212)**	**(150)**	**(484)**	**(2,560)**
Depreciation	**-**	**(58)**	**(366)**	**(37)**	**(124)**	**(585)**
Disposals	**-**	**20**	**287**	**161**	**-**	**468**
	-	**(752)**	**(1,291)**	**(26)**	**(608)**	**(2,677)**
Net book value	**8,811**	**2,636**	**1,520**	**77**	**618**	**13,662**

In $	Land	Building	Computer hardware and software	Furniture and equipment	Leasehold improvements	*2019 Total*
Cost						
Opening balance	8,811	3,420	2,956	270	601	16,058
Additions	-	-	97	25	8	130
Disposal	-	(12)	(90)	(73)	(1)	(176)
	8,811	3,408	2,963	222	608	16,012
Accumulated depreciation						
Opening balance	-	(667)	(919)	(180)	(413)	(2,179)
Depreciation		(59)	(383)	(43)	(72)	(557)
Disposals	-	12	90	73	1	176
	-	(714)	(1,212)	(150)	(484)	(2,560)
Net book value	8,811	2,694	1,751	72	124	13,452

(CDN dollars in thousands unless otherwise stated)

12. Leases

Rapport leases several buildings that serve as branches and the corporate office. The average lease term is 4.7 years. Rapport's obligations are secured by the lessors' title to the leased assets for such leases.

Right-of-use assets

The following table illustrates the changes to the right-of-use assets during the year:

	2020	*2019*
Balance at January 1	**594**	**480**
Additions	**85**	**375**
Depreciation	**(181)**	**(261)**
Balance at December 31	**498**	**594**

Lease liabilities

The following illustrates the changes to the lease liabilities during the year.

	2020	*2019*
Balance at January 1	**647**	**480**
Additions	**85**	**414**
Payments and interest	**(176)**	**(247)**
Balance at December 31	**556**	**647**

Rapport has recognized the following amounts in the statement of comprehensive income.

	2020	*2019*
Depreciation charge for right-of-use assets	**181**	**261**
Interest expense on lease liabilities	**24**	**26**

The statement of cash flows recognizes the cash outflow for the leases of $200 (2019 - $234)

Minimum annual payments due under the lease liability are as follows:

2021	$	141
2022		88
2023		66
2024		59
2025		56
Thereafter		202
Imputed interest		(56)
	$	556

(CDN dollars in thousands unless otherwise stated)

13. Member deposits

In $	***2020***	*2019*
Chequing	**69,258**	54,224
Demand deposits	**79,187**	67,751
Term deposits	**51,407**	62,993
Registered retirement plans	**82,266**	81,056
	282,118	266,024

Demand deposits

Demand deposits are at variable rates of interest.

Term deposits

Term deposits pay interest at rates that are fixed for periods of 30 days to five years.

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the CEO to impose a waiting period.

Registered retirement plans

Registered deposits are at variable rates of interest and at rates which are fixed for periods from 30 days to five years. Concentra Financial is the trustee for RRSP/RRIF plans and RESP offered to the members. Rapport acts as a depository for TFSAs offered to members.

Index-linked deposits

Rapport has issued and outstanding $571 (2019 - $699) of index-linked registered savings plan and term deposit products to its members. These term deposits have maturities of 3 and 5 years and pay interest to the depositors, at the end of the respective terms, based on the performance of the S&P / TSX 60 Index.

The deposit is recorded at a discount to reflect the fair value of the index-linked derivative contract with the member. The discount accretes the interest expense over the life of the deposit at the effective yield. The derivative contract with the member is carried in other liabilities at its fair value.

In order to hedge the exposure to changes in the index, Rapport has entered into agreements with Central 1 under which Rapport will receive amounts comparable to those due to members on their deposits at maturity. These derivative contracts are carried at their fair value in other assets.

14. Other liabilities

In $	***2020***	*2019*
Accounts payable and accrued liabilities	**627**	557
Accrued interest	**1,138**	1,605
Index-linked derivative contracts (Note 13)	**41**	52
Class B shares - Patronage	**131**	143
Co-op deposit	**757**	776
	2,694	3,133

(CDN dollars in thousands unless otherwise stated)

14. Other liabilities (continued)

Co-op deposit

In May 1995, Rapport agreed to lease its land at 18 Grenville Street, Toronto, Ontario, to Peregrine Co-operative Housing (the "Co-op", an unrelated third party) for a term of 65 years. As part of the lease agreement, Rapport received $1.25 million from the Co-op. This deposit is being amortized into income over the term of the lease on a straight-line basis. Amortization for 2020 was $19 ($20 in 2019).

15. Income tax

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

In $	***2020***	*2019*
Combined federal and provincial statutory income tax rates	**26.5%**	26.5%
Rate reduction for Credit Unions	**(8.3%)**	**(8.0%)**
Non-deductible, non-taxable and other items	**4.8%**	11.0%
	23.0%	29.5%

The tax effects of temporary differences which give rise to the deferred tax asset (liability) reported on the statement of financial position results from differences between amounts deducted for accounting and income tax purposes. The net deferred income tax asset (liability) is comprised of the following:

In $	***2020***	*2019*
Allowance for impaired loans	**84**	27
Property and equipment	**(1,245)**	(1,269)
Prepaid rent	**66**	71
Lease liabilities/Right of use asset	**11**	10
Deferred loan fee revenue	**28**	-
Loss carryforward balance	**82**	141
	(974)	(1,020)

16. Member shares

In $	***2020***	*2019*
Membership shares	**804**	883
Class B shares - Patronage	**1,179**	1,288

Authorized share capital

The authorized share capital of Rapport consists of the following:

i) Rapport is authorized to issue an unlimited number of membership shares. In accordance with the by-laws of Rapport, every member is required to hold five shares, with a par value of $10.00 per share; and

ii) Rapport is authorized to issue an unlimited number of non-cumulative, non-voting, non-participating, non-transferable special shares ("Class B shares - Patronage") with an issue price of $1.00 each; and

16. Member shares (continued)

iii) Membership shares rank junior to Class B shares - Patronage for priority of payment in the event of liquidation, dissolution or the winding-up of Rapport. Both classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the by-laws of Rapport, and subject to certain restrictions which are set out in governing legislation. Both classes of shares are not covered by insurance provided by the Deposit Insurance Corporation of Ontario.

Issued and outstanding

a) *Membership shares*

The Membership shares are repayable on demand subject to the discretion of the Board of Directors, who may require notice, and subject to Rapport meeting capital adequacy requirements. Membership shares qualify as capital for regulatory purposes. These shares are classified as equity on the statement of financial position since they have all the features and meet all of the conditions set out in the applicable paragraphs of IAS 32 and IFRIC 2 regarding liquidation and redemption.

b) *Class B shares - Patronage*

The Patronage shares are redeemable at the issue price upon termination of membership or after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Class B shares - Patronage outstanding at the end of immediately preceding fiscal year. Class B shares - Patronage qualify as capital for regulatory purposes.

Ninety percent of these shares are classified as equity on the statement of financial position since they have all the features and meet all of the conditions set out in the applicable paragraphs of IAS 32 regarding liquidation and redemption.

The remaining 10% of the total Class B shares - Patronage outstanding at the end of the previous fiscal year can be redeemed within the next 12 months at the member's request. As a result, that same 10% of these shares are reclassified to liabilities since they no longer meet the redemption features of IAS 32 and IFRIC 2 for classification as equity.

17. Pension plan

Rapport maintains a defined contribution plan for its current and retired employees. The total expense recognized in the statement of comprehensive income for the defined contribution plan is $168 ($223 in 2019), which represents the total cash amount paid or payable by Rapport to the plan during the year.

18. Capital management

Rapport is subject to the capital requirements set out in the Act. The Act prescribes capital adequacy measures and minimum capital requirements. Rapport must comply with a leverage ratio of eligible capital to total assets. The Act also requires a risk weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk adjusted capital and risk-weighted assets 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 regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by the Act.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at Rapport includes retained earnings, membership shares and the non-redeemable portion of Class B Investment shares. Tier 2 capital of Rapport includes eligible accumulated other comprehensive income, the collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets and the redeemable portion of Class B Investment shares. For eligible capital purposes, Tier 2 capital cannot exceed Tier 1 capital.

(CDN dollars in thousands unless otherwise stated)

18. Capital management (continued)

Rapport has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The regulatory standards are as follows:

	Regulatory standards
Risk-weighted assets ratio	8.0%
Leverage ratio	4.0%

As at December 31, 2020, Rapport is in compliance with the minimum statutory requirements for eligible capital.

In $	***2020***	*2019*
Tier 1 capital		
Membership shares	**804**	883
Retained earnings	**21,975**	22,129
Class B shares - Patronage	**1,179**	1,288
After - tax fair value gain on own-use property on conversion to IFRS	**(8,987)**	(8,987)
	14,971	15,313
Tier 2 capital		
Class B shares - Patronage, redeemable portion	**131**	143
Stages 1 and 2 loss allowance	**293**	145
	424	288
Total eligible capital	**15,395**	15,601

Capital tests		
Total eligible capital to risk-weighted assets	**10.48%**	11.45%
Total eligible capital to total assets	**5.11%**	5.45%

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. Rapport uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which Rapport must comply.

The primary capital policies and procedures include the following:

i. Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
ii. Co-ordinate strategic risk management and capital management;
iii. Develop financial performance targets/budgets/goals;
iv. Administer a patronage program that is consistent with capital requirements;
v. Administer an employee incentive program that is consistent with capital requirements;
vi. Develop a planned growth strategy that is coordinated with capital growth; and
vii. Update plans that consider the strengths, weaknesses, opportunities and threats to Rapport.

19. Related party transactions

Related parties include the key management personnel ("KMP"), which incorporates senior management and directors of Rapport as well as each of their spouses, their children and any entities they control.

Management of Rapport are Chief Executive Officer, EVP Sales and Member Relations, EVP Credit and Operation, Director of Wealth Management, Chief Financial Officer and Director of Marketing.

(CDN dollars in thousands unless otherwise stated)

19. Related party transactions (continued)

Loans made to related parties are approved under the same lending criteria applicable to all members and under substantially the same terms and conditions as with other members.

There are no loans that are impaired in relation to loan balances with related parties.

The following tables reflect balances with related parties at year end and the value of interest income and expenses recorded in relation to them during the year.

Member loans to related parties:

In $	***2020***	*2019*
Loans to related parties	**360**	320
Approved but unadvanced lines of credit	**926**	865
	1,286	1,185

Member deposits and share holdings by related parties:

In $	***2020***	*2019*
Chequing and savings deposits	**438**	710
Term and registered deposits	**715**	359
Membership and Class B Investment shares	**3**	3
	1,156	1,072

Interest income and expense recorded with related parties:

In $	***2020***	*2019*
Interest and other revenue earned on loans	**13**	19
Interest paid on deposits	**8**	7

Aggregate compensation of KMP during the year consisted of:

In $	***2020***	*2019*
Salary and short-term benefits	**600**	654
Post-employment benefits	**43**	54

Total honorarium paid to Directors and Committee members during the year was $28 (2019 - $36). Other Board and Committee expense relating to meetings, training and travel during the year totalled $6 (2019 – $41).

The only employee of Rapport requiring disclosure under section 140(5) of the Act is the Chief Executive Officer, P.K. Leak. Total salary and the value of benefits received during 2020 amounted to $201 and $34, respectively.

20. Financial instrument risk management

Rapport, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

Rapport has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, Rapport follows a risk management policy approved by its Board of Directors.

Rapport's risk management policies and procedures include the following:

i. Ensure all activities are consistent with the mission, vision and values of Rapport;
ii. Balance risk and return;
iii. Manage credit, market and liquidity risk through preventative and detective controls;
iv. Ensure credit quality is maintained;
v. Ensure credit, market, and liquidity risk is maintained at acceptable levels;
vi. Diversify risk in transactions, member relationships and loan portfolios;
vii. Price according to risk taken; and
viii. Using consistent credit risk exposure tools.

In addition to the Board of Directors, the Audit Committee is involved in financial instrument risk management oversight. There have been no significant changes from the previous year in the exposure to financial instrument risks nor Rapport’s policies, procedures and methods used to measure and manage those risks.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to Rapport. Credit risk primarily arises from Rapport's lending activities. The stages of the loan portfolio may get affected by COVID-19 and will be adjusted as Rapport progresses through the pandemic.

Risk management process

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

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

Rapport's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

20. Financial instrument risk management (continued)

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.

Rapport considers members' 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 Rapport's internal credit risk management practices and has been selected because it most closely aligns the definition of default to Rapport'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 Rapport.

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. Rapport takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort in making this assessment. Rapport considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

Measurement of expected credit losses

Rapport measures expected credit losses for members' loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans), geographic region of the borrower and industry of the business. Otherwise, expected credit losses are measured on an individual basis.

Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

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

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. Rapport 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 an asset has been written off but is still subject to enforcement activity, asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating Rapport will receive funds, such amounts are recognized at their fair value.

(CDN dollars in thousands unless otherwise stated)

20. Financial instrument risk management (continued)

Credit risk (continued)

Exposure to credit risk

	ECL Staging			**2020**
Personal loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit grading:				
Standard monitoring	**12,903**	**-**	**-**	**12,903**
Under 30 days past due	**210**	**-**	**-**	**210**
Greater than 30 days past due, but not in default	**-**	**12**	**-**	**12**
Increase in credit risk	**-**	**57**	**18**	**75**
Default	**-**	**-**	**206**	**206**
Gross carrying amount	**13,113**	**69**	**224**	**13,406**
Loss allowance	**(20)**	**-**	**(168)**	**(188)**
Carrying amount	**13,093**	**69**	**56**	**13,218**

	ECL Staging			2019
Personal loans	Stage 1	Stage 2	Stage 3	Total
Credit grading:				
Standard monitoring	16,192	-	-	16,192
Under 30 days past due	336	-	-	336
Greater than 30 days past due, but not in default	-	65	-	65
Increase in credit risk	-	113	-	113
Default	-	-	205	205
Gross carrying amount	16,528	178	205	16,911
Loss allowance	(40)	(4)	(173)	(217)
Carrying amount	16,488	174	32	16,694

	ECL Staging			**2020**
Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit grading:				
Standard monitoring	**173,069**	**-**	**-**	**173,069**
Under 30 days past due	**1,377**	**-**	**-**	**1,377**
Greater than 30 days past due, but not in default	**-**	**68**	**-**	**68**
Increase in credit risk	**-**	**977**	**452**	**1,429**
Default	**-**	**-**	**112**	**112**
Gross carrying amount	**174,446**	**1,045**	**564**	**176,055**
Loss allowance	**(30)**	**-**	**-**	**(30)**
Carrying amount	**174,416**	**1,045**	**564**	**176,025**

(CDN dollars in thousands unless otherwise stated)

20. Financial instrument risk management (continued)

Credit risk (continued)

Exposure to credit risk (continued)

	ECL Staging			2019
Residential mortgages	Stage 1	Stage 2	Stage 3	Total
Credit grading:				
Standard monitoring	165,727	-	-	165,727
Under 30 days past due	2,930	-	-	2,930
Greater than 30 days past due, but not in default	-	70	-	70
Increase in credit risk	-	1,577	-	1,577
Default	-	-	203	203
Gross carrying amount	168,657	1,647	203	170,507
Loss allowance	(19)	-	-	(19)
Carrying amount	168,638	1,647	203	170,488

	ECL Staging			**2020**
Commercial loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit grading:				
Standard monitoring	**52,211**	**-**	**-**	**52,211**
Under 30 days past due	**1,456**	**-**	**-**	**1,456**
Greater than 30 days past due, but not in default	**-**	**-**	**-**	**-**
Increase in credit risk	**-**	**3,138**	**-**	**3,138**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**53,667**	**3,138**	**-**	**56,805**
Loss allowance	**(217)**	**(26)**	**-**	**(243)**
Carrying amount	**53,450**	**3,112**	**-**	**56,562**

	ECL Staging			2019
Commercial loans	Stage 1	Stage 2	Stage 3	Total
Credit grading:				
Standard monitoring	44,223	-	-	44,223
Under 30 days past due	1,306	-	-	1,306
Greater than 30 days past due, but not in default	-	-	-	-
Increase in credit risk	-	2,356	-	2,356
Default	-	-	-	-
Gross carrying amount	45,529	2,356	-	47,885
Loss allowance	(74)	(8)	-	(82)
Carrying amount	45,455	2,348	-	47,803

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being located in the same geographical region, and indicate the relative sensitivity of Rapport's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for Rapport due to its primary service area being the Greater Toronto Area, in particular.

20. Financial instrument risk management (continued)

Credit risk (continued)

Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of Central 1 shares best represent Rapport's maximum exposure to credit risk for those items. Rapport holds no collateral or other credit enhancements on these balances.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, Rapport participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. 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.

Rapport makes the following instruments available to its members:

a) guarantees and standby letters of credit representing irrevocable assurances that Rapport will pay if a member cannot meet their obligations to a third party;
b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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

As at year-end, Rapport had the following outstanding financial commitments subject to credit risk:

In $	***2020***	*2019*
Unadvanced lines of credit and overdraft	**37,516**	32,656
Guarantees and standby letters of credit	**1,535**	939
Commitments to extend credit	**21,320**	18,863

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 rate, equity prices and credit spreads. Rapport's exposure changes depending on market conditions. Market risks that have a significant impact on Rapport include fair value risk and interest rate risk.

Rapport's market risk management policy defines and establishes limits for the types and concentrations of market exposures which Rapport is authorized to assume. The policy also establishes criteria for the identification, measurement and regular reporting to the Board of Directors of impairments and fluctuations in market values, and defines prudent levels of decision making authorities.

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on Rapport's earnings when foreign currency exposures are not being hedged.

It is the policy of Rapport to mitigate exposure to foreign currency rate fluctuations by regularly balancing foreign currency assets and liabilities, including the use of foreign exchange forward contracts. Exposure to foreign currency risk is maintained within limits established in Rapport's market risk management policy. The foreign currency exposure at year end is not significant

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. Rapport incurs fair value risk on its loans, term deposits and investments held.

(CDN dollars in thousands unless otherwise stated)

20. Financial instrument risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of financial instruments 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. Rapport incurs interest rate risk on its loans and other interest bearing financial instruments.

Contractual re-pricing and maturity

All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date. The schedule does not identify management's expectation of future events where re-pricing and maturity dates differ from contractual dates.

The table below summarizes amounts by maturity dates and effective interest rates for the following significant financial instruments:

In $	Variable rate	Less than one year	One to five years	Non-interest sensitive	***2020***	**Effective yield**
Assets						
Cash	**13,573**	**-**	**-**	**596**	**14,169**	**0.76%**
Investments	**4,214**	**27,829**	**1,500**	**1,276**	**34,819**	**0.95%**
Member loans	**61,319**	**36,036**	**148,450**	**-**	**245,805**	**3.23%**
Other Assets	**-**	**-**	**-**	**615**	**615**	**0.00%**
Total	**79,106**	**63,865**	**149,950**	**2,487**	**295,408**	
Liabilities						
Member deposits	**104,096**	**57,168**	**44,149**	**76,705**	**282,118**	**0.80%**
Other liabilities	**-**	**-**	**-**	**2,694**	**2,694**	**0.00%**
Total	**104,096**	**57,168**	**44,149**	**79,399**	**284,812**	

In $	Variable rate	Less than one year	One to five years	Non-interest sensitive	*2019*	Effective yield
Assets						
Cash	23,229	-	-	1,471	24,700	1.64%
Investments	6,214	5,786	6,000	1,408	19,408	1.84%
Member loans	59,408	22,047	153,530	-	234,985	4.67%
Other Assets	-	-	-	486	486	0.00%
Total	88,851	27,833	159,530	3,365	279,579	
Liabilities						
Member deposits	94,365	70,458	42,562	58,639	266,024	1.31%
Other liabilities	-	-	-	3,133	3,133	0.00%
Total	94,365	70,458	42,562	61,772	269,157	

(CDN dollars in thousands unless otherwise stated)

20. Financial instrument risk management (continued)

Contractual re-pricing and maturity (continued)

Based on the current financial instruments, management estimates that a 0.5% increase in the prime interest rate would increase net interest income by approximately $310, and a 0.25% decrease in the prime interest rate would decrease net interest income by approximately $70.

Liquidity risk

Liquidity risk is the risk that Rapport will be unable to meet a demand for cash or fund its obligations as they come due. Rapport's management oversees Rapport's liquidity risk to ensure Rapport has access to enough readily available funds to cover its financial obligations as they come due. Rapport's business requires such liquidity for operating and regulatory purposes.

Rapport’s liquidity management policy defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; mandatory lines of credit with Central 1; and regular reporting of actual liquidity levels against policy minimums to the Board of Directors.

Rapport has available a credit facility with Central 1, totalling $5,300, consisting of clearing facility of CAD $5,000 and USD 200, and $100 capital markets line. The facility is secured by a general security agreement and an assignment of book debts covering all assets of Rapport. At December 31, 2020, the facility was not utilized.

At January 31, 2020, liquid assets amount to 16.9% (2019 – 16.1%) of deposits and borrowings and consist of the following:

In $	***2020***	*2019*
Cash and current deposits qualifying for liquidity	**14,169**	24,516
Liquidity reserve deposit with Central 1	**18,454**	17,974
Other term deposits	**15,143**	184
	47,766	42,674

21. Fair value of financial instruments

Fair value measurements

Rapport 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 asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require Rapport to develop its own assumptions.

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

Rapport considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

(CDN dollars in thousands unless otherwise stated)

21. Fair value of financial instruments (continued)

Financial assets and financial liabilities measured at fair value

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

				2020
In $	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash	**14,169**	**14,169**	**-**	**-**
Investments	**19,676**	**-**	**18,454**	**1,222**
Other assets	**41**	**-**		**41**
Total financial assets	**33,886**	**14,169**	**18,454**	**1,263**
Financial liabilities				
Other liabilities	**41**	**-**	**-**	**41**

				2019
In $	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Cash	24,700	24,700	-	-
Investments	19,224	-	17,974	1,250
Other assets	52	-	-	52
Total financial assets	43,976	24,700	17,974	1,302
Financial liabilities				
Other liabilities	52	-	-	52

(CDN dollars in thousands unless otherwise stated)

21. Fair value of financial instruments (continued)

Financial instruments not measured at fair value

The estimated fair value, and categorization into the fair value hierarchy, of all other financial assets and financial liabilities held by Rapport and not measured at fair value on the statement of financial position are as follows:

				2020
In $	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Member loans	**245,653**	**-**	**245,653**	**-**
Investment	**15,215**	**-**	**15,215**	**-**
Other assets	**633**	**-**	**633**	**-**
Total financial assets	**261,501**	**-**	**261,501**	**-**
Financial liabilities				
Member deposits	**283,426**	**-**	**283,426**	**-**
Other liabilities	**1,896**	**-**	**1,896**	**-**
Total financial liabilities	**285,322**	**-**	**285,322**	**-**

				2019
In $	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Member loans	239,415	-	239,415	
Other assets	503	-	503	-
Total financial assets	239,918	-	239,918	-
Financial liabilities				
Member deposits	267,541	-	267,541	-
Other liabilities	2,305	-	2,305	-
Total financial liabilities	269,846	-	269,846	-

(CDN dollars in thousands unless otherwise stated)

21. Fair value of financial instruments (continued)

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

Line item	Valuation technique	Inputs
Member loans	Discounted cashflows	Observable market interest rates for like instruments
Investments - amortized cost	Discounted cashflows	Observable market interest rates for like instruments
Investments - FVTPL	Redemption value	Instrument terms; and observable transactions
Other assets	Discounted cashflows	Observable market interest rates for like instruments
Member deposits	Discounted cashflows	Observable market interest rates for like instruments
Other liabilities	Discounted cashflows	Observable market interest rates for like instruments
Member shares	Redemption value	Instrument terms; and observable transactions

22. Subsequent event

In January 2021, Central 1 segregated the Mandatory Liquidity Pool (“MLP”) from its operations and former liquidity reserve deposits were replaced with high quality liquid assets worth $18,546. These financial instruments mature between January 2021 and December 2025. Rapport’s objective is to hold to earn interest income while holding these instruments to maturity. The instruments are expected to be carried at amortized cost.

Subsequent to the segregation of the mandatory liquidity pool, Central 1 Class F shares were redeemed at their carrying amount.

23. Commitment

Rapport has expressed an interest in the Payment Services and in order to obtain the services, Rapport has entered into an agreement to continue to use the Central 1 Payments Services, as it does presently, for seven (7) years, commencing on the first day of the month following the date on which Central 1 executes the Fiserv Agreement. Rapport has committed to pay an upfront fee of $414 to Central 1 for the term of the agreement, as a cost share amount for the initiative to avoid financing charges of 3.5%.

24. Comparative figures

Some prior year figures have been reclassified to conform with current year presentation.