INNOVATING FOR THE FUTURE

Financial Statements
December 31, 2021

Cambrian Credit Union

Independent auditor's report

To the Members of Cambrian Credit Union Limited

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cambrian Credit Union Limited (the Credit Union) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Credit Union's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

pwc

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 16, 2022

Cambrian Credit Union Limited

Statement of Financial Position

As at December 31

(in thousands of dollars)

	2021 $	2020 $
Assets		
Cash on hand	5,444	5,138
Investments and deposits (note 6)	1,060,816	982,330
Loans outstanding – net of allowance for loss (notes 7 and 8)	3,526,745	3,366,733
Other assets (note 9)	4,349	4,362
Deferred income tax asset (note 13)	2,026	2,038
Investment property	584	584
Property, equipment and intangible asset (note 10)	23,530	21,495
	4,623,494	4,382,680
Liabilities		
Savings and deposits (note 11)	4,234,569	4,031,785
Members' shares (note 14)	333	328
Accounts payable and accrued liabilities	14,215	11,645
Mortgage securitization liability (note 17)	36,827	22,633
Lease liability (note 12)	7,288	6,342
	4,293,232	4,072,733
Members' Equity		
Retained earnings	330,262	309,947
	4,623,494	4,382,680

Approved by the Board of Directors

(signed) "Judy Mathieson" Director *(signed) "Guy Whitehill"* Director

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

Cambrian Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended December 31

(in thousands of dollars)

	2021 $	2020 $
Interest income		
Members' loans	98,686	106,956
Investments and deposits	13,516	13,077
	112,202	120,033
Interest expense		
Savings and deposits and other	58,410	70,017
Secured borrowing	335	155
	58,745	70,172
Net interest income	53,457	49,861
Provision for loan loss (note 8)	806	6,372
Other income	22,135	21,459
Net interest and other income after provision for loan loss	74,786	64,948
Operating expenses		
Salaries and employee benefits	22,555	21,326
Administration	8,970	8,205
Premises	5,196	4,871
Member security	3,626	3,250
Organizational	1,788	1,924
	42,135	39,576
Income before refunded service fees and income taxes	32,651	25,372
Refunded service fees (note 15)	(6,542)	(6,304)
Net income before income taxes	26,109	19,068
Provision for income taxes (note 13)	(5,794)	(3,349)
Net income and comprehensive income for the year	20,315	15,719

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

Cambrian Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31

(in thousands of dollars)

	Members' equity $
Retained earnings balance at January 1, 2021	309,947
Net income and comprehensive income	20,315
Retained earnings balance at December 31, 2021	330,262
Retained earnings balance at January 1, 2020	294,228
Net income and comprehensive income	15,719
Retained earnings balance at December 31, 2020	309,947

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

Cambrian Credit Union Limited

Statement of Cash Flows

For the year ended December 31, 2021

(in thousands of dollars)

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	20,315	15,719
Items not affecting cash		
Depreciation	3,756	3,382
Deferred income tax	12	(1,577)
Provision for loan loss	806	6,372
	24,889	23,896
Net changes in non-cash working capital		
Loans outstanding – net of repayments	(160,818)	(43,437)
Savings and deposits – net of withdrawals	202,784	371,958
Net increase in investments and deposits	(78,486)	(370,207)
Net increase in members’ shares	5	3
Net increase in accounts payable and accrued liabilities	2,570	3,039
Net decrease (increase) in other assets	13	(1,801)
	(33,932)	(40,445)
Cash used in operating activities	(9,043)	(16,549)
Investing activities		
Property, equipment and intangible asset acquisitions	(5,791)	(3,984)
Lease acquisitions	1,765	-
Principal payments of lease liabilities	(819)	(817)
Cash used in investing activities	(4,845)	(4,801)
Financing activities		
Mortgage securitization	14,194	21,367
Cash provided by financing activities	14,194	21,367
Net increase in cash during the year	306	17
Cash – beginning of year	5,138	5,121
Cash – end of year	5,444	5,138

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

1 General information

Cambrian Credit Union Limited (the Credit Union) is incorporated under the Credit Union Incorporation Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (the Act). The Credit Union serves members, providing retail banking, commercial banking, small business banking and investment services. The Credit Union's registered office is 225 Broadway, Winnipeg, Manitoba, Canada.

These financial statements were approved for issue by the Board of Directors on March 16, 2022.

2 Basis of presentation

The Credit Union prepares its financial statements in accordance with generally accepted accounting principles in Canada (GAAP) as set out in the Chartered Professional Accountants of Canada (CPA Canada) Handbook, Part 1, which consists of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI).

The financial statements' values are presented in Canadian dollars, which is the functional and presentation currency of the Credit Union.

The Credit Union presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the year-end date (current) and more than 12 months after the year-end date (non-current), presented in the notes. The Credit Union classifies its expenses by the nature of expenses.

The following are current balances: cash on hand, investments and deposits, loans outstanding due within one year, other assets, savings and deposits, due on demand or within one year, mortgage securitization liabilities due within one year, accounts payable and accrued liabilities, leases payable within one year and current income taxes recoverable.

The following are non-current balances: long-term portion of loans outstanding, property, equipment and intangible asset, investment property, long-term portion of mortgage securitization liability, long-term portion of accounts payable and accrued liabilities, long-term portion of lease payable, deferred taxes and non-current savings and deposits.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are the measurement of the expected credit loss allowance disclosed in note 5.

3 Summary of significant accounting policies

Classification and measurement of financial instruments

All financial assets are measured either at amortized cost, FVOCI or FVTPL based on their contractual cash flow characteristics and the business model for managing the financial assets. All financial instruments are initially measured at fair value. They are recognized at the trade date, when the Credit Union becomes a party to the contractual provisions of the instrument, and are initially measured at fair value.

Transaction costs on financial instruments classified as FVTPL are expensed as incurred. For all other classifications of financial instruments, initial transaction costs are capitalized.

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset at amortized cost, the cash flow for the asset must be solely payment of principal and interest (SPPI) on the principal amount outstanding. Principal is defined as the fair value of the asset at initial recognition. Interest payments can include for the time value of money as well as credit and liquidity risks and certain profit margin.

The Credit Union's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how the Credit Union manages its financial assets in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence available at the date of the assessment.

The Credit Union's business models are defined as follows:

- held to collect contractual cash flows;
- held to collect contractual cash flows and sell; and
- other business models: the objective is not consistent with any of the above-mentioned business models and represents business objectives where assets are managed on a fair value basis.

Financial assets are not reclassified following their recognition, unless the business model for management of those financial assets changes.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held within the held to collect contractual cash flows business model and their contractual cash flows pass the SPPI test. The assets are initially recognized at fair value, which is the cash consideration to originate or purchase the asset, including any transaction costs, and is subsequently measured at amortized cost using the effective interest rate method. Financial assets measured at amortized cost are reported in the statement of financial position as cash on hand, shares in and term deposits held at Credit Union Central of Manitoba (Central), loans outstanding and other assets. Interest is included in the statement of income and comprehensive income as a part of interest income.

For loans outstanding, allowance for loss is presented as a deduction in the loan's carrying value and is recognized in the statement of income and comprehensive income as provision for loan loss.

Financial assets measured at fair value through other comprehensive income

Financial assets with the held to collect contractual cash flows and sell business model, where contractual cash flows meet the SPPI test, are measured at FVOCI. Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income (OCI). Financial assets measured at FVOCI include shares in Wyth Financial (formerly Concentra Bank) and are reported in the statement of financial position as investments and deposits. There are no active markets for these shares, therefore the Credit Union has determined that the carrying amount is indicative of fair value.

Financial assets measured at fair value through profit or loss

The financial assets at FVTPL comprise two sub-categories: financial assets required to be measured at fair value as a result of the business model for managing those assets and financial assets designed by the Credit Union as FVTPL on initial recognition.

Equity instruments are measured at FVTPL. Fair value changes are recorded as part of other income in the statement of income and comprehensive income. Equity instruments include the Credit Union's investment in shares of Central.

Financial liabilities measured at amortized cost

Financial liabilities not classified as FVTPL fall into this category and include savings and deposits, mortgage securitization liability and accounts payable and accrued liabilities. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Modifications and recognition

A modification occurs when a loan's original terms, payment schedule, interest rate and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows. A modification is calculated by taking the net present value of the new contractual cash flows, discounted at the original effective interest rate, less the current carrying value, with the difference recognized as a gain or loss. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

Impairment of financial assets

The Credit Union records an allowance for loss for all financial assets that are measured at amortized cost or at FVOCI. Equity investments are not subject to impairment as they are measured at FVTPL. Impairment losses are measured based on the estimated amount and timing of future cash flows, and collateral values.

For loans carried at amortized cost, impairment losses are recognized as an allowance for loss on the statement of financial position, and as a provision for loan loss on the statement of income and comprehensive income. Losses are based on a three-stage impairment model outlined below.

For financial assets measured at FVOCI, the calculated allowance for loss does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, the allowance is recognized in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Measurement of allowance for loss

The Credit Union recognizes an allowance for loss based on an impairment model that comprises three different stages:

- Stage 1: for financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, an allowance for loss amounting to 12-month expected credit losses is recognized.

- Stage 2: for financial instruments that have had a significant increase in credit risk since initial recognition but are not considered credit-impaired financial assets, an allowance for loss amounting to lifetime expected credit losses is recognized.

- Stage 3: for financial instruments considered credit impaired, an allowance for loss amounting to the lifetime expected credit losses continues to be recognized.

Stages 1 and 2 are considered to be performing loans and Stage 3 consists of impaired loans. Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to the current reporting date.

Significant increase in credit risk

Movement in the stages relies on judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instruments level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

- contractual cash flow obligations are more than 30 days past due; or

- an adverse change in the borrower's situation indicates that their ability to fulfill their contractual cash flow obligations has been reduced; or

- forward-looking information indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

Forward-looking information

Forward-looking information is incorporated into the measurement of allowance for loss. The Credit Union performs historical analysis and identifies the key economic variables impacting credit risk and expected credit losses for each loan type. Forecasts of these economic variables are based on data from economic experts and consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relevant probabilities of each outcome.

As with any economic forecasts, the projection and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Credit Union considers these forecasts to represent its best estimate of the possible outcomes and analyzes the non-linearities and asymmetries within the Credit Union's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Default

The Credit Union has defined credit instrument default as meeting at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption; and

- less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach of covenant.

An instrument is considered to no longer be in default when it no longer meets any of the default criteria. The Credit Union's definition of credit impaired loans is aligned with the definition of default.

Derecognition of financial instruments

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or substantially all the risks and rewards of the assets have been transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the financial asset, it will assess whether it has retained control over the asset. If the Credit Union determines that control has not been retained, it will derecognize the transferred asset.

Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

Writeoffs

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: ceasing enforcement activity and where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery in full. The Credit Union may write off financial assets that are still subject to enforcement activity. The Credit Union still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

Derivative financial instruments

The Credit Union uses derivative financial instruments such as swaps in its management of interest rate exposure. Derivative financial instruments are not used for trading or speculative purposes but rather as economic hedges, some of which qualify for hedge accounting. The Credit Union applies the hedge accounting requirements of International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement as permitted by IFRS 9, Financial Instruments (IFRS 9).

All derivatives are carried at fair value and are reported on the statement of financial position as other assets where they have a positive fair value and as liabilities where they have a negative fair value. Gains and losses arising from changes in the fair value of a derivative are recognized in the statement of income unless the derivative is a hedging instrument in a qualifying hedge.

The Credit Union's over-the-counter derivatives subject to International Swaps and Derivatives Association's (ISDA) master netting agreements do not meet the criteria for offsetting in the statement of financial position as they give a right to set off that is enforceable only in the event of difficulty, insolvency or bankruptcy.

Hedge accounting

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation with the effectiveness range being defined at 0.80 to 1.25. Hedge ineffectiveness, if any, may be as a result of differences in maturities and prepayment frequency between hedging instruments and hedged items.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but it does result in recognizing changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognized in the statement of income. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the net amount (hedge ineffectiveness) is recorded in other income in the statement of income. Ineffectiveness results to the extent that the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash of the hedged item.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the statement of income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustment for the impact of the designated risk are immediately recognized in other income in the statement of income.

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line basis annually over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and fixtures	5 to 10 years
Security equipment	10 years
Leasehold improvements	10 to 30 years

Right-of-use assets are accounted for under IAS 16, Property, Plant and Equipment. Right-of-use assets have the same accounting policies as directly owned assets, meaning the right-of-use assets are depreciated over the lease term, as applicable.

Land is not subject to depreciation and is carried at cost. The residual value, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Investment property

Properties that are held for capital appreciation are classified as investment properties. Investment property consists of land and is measured at cost, including transaction costs.

Intangible assets

Intangible assets consist of certain acquired and internally developed computer systems. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably.

Intangible assets are amortized over their useful lives on a straight-line basis annually at a rate of 3 to 10 years. The method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Leases and right-of-use assets

The Credit Union leases various buildings. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right-of-use asset and corresponding lease liability at the date on which the leased asset is available for use by the Credit Union.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase or extension option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Variable lease payments that are not based on an index or rate, such as those that are based on usage, have been excluded from measurement under IFRS 16, Leases (IFRS 16) and will continue to be recorded as an operating expense. Several of the Credit Union's agreements include extension options. The Credit Union reviewed each option and included the extension option in the calculation of the lease liability when appropriate. If the Credit Union exercises an extension option in the future that was not assumed to be exercised on lease inception, the Credit Union will record a right-of-use asset and a lease liability at that time. The lease agreements do not impose any covenants and leased assets may not be used as security for borrowing purposes. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the statement of income and comprehensive income over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Impairment of non-financial assets

Impairment reviews are performed annually and when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment losses are recognized in the statement of income and comprehensive income when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered only to the extent that the original carrying value would have been at that time in the statement of income and comprehensive income.

An item of property and equipment is derecognized on disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income in the period the asset is derecognized.

Provisions

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense of any provision is recognized in the statement of income and comprehensive income. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Mortgage securitization liability

The Credit Union has entered into asset transfer agreements with third parties, which include the securitization of residential mortgages. These transfers do not qualify for derecognition principally because the Credit Union retains significant exposure to prepayment and other risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability at an amount equivalent to the securitization proceeds, inclusive of any premiums or discounts and net of eligible transaction costs. The securitization liabilities are subsequently measured at amortized cost using the effective interest method.

Members' shares

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

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income continues to be recognized using the original effective rate.

Other income

Fees and commissions are recognized when earned, the amounts are fixed or can be determined and the ability to collect is reasonably assured.

Income taxes

Tax expense for the period comprises current and deferred income taxes.

Current income tax expense is calculated on the basis of the Canadian tax laws enacted or substantively enacted at the statement of financial position date.

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

Translation of foreign currencies

Foreign exchange gains and losses are recorded in other income.

4 Accounting standard issued but not yet effective

2018-2020 Annual Improvement Cycle

2018-2020 Annual Improvement Cycle was issued in May 2020 by the IASB and included minor amendments to IFRS 9 and IFRS 16. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2022. The Credit Union is currently evaluating the impact that these amendments will have on its financial statements.

IAS 1 – Presentation of Financial Statements (IAS 1) and IFRS Practice Statement 2, Making Materiality Judgements

In February 2021, the IASB issued amendments to IAS 1 to assist entities in determining which material accounting policies are required to be disclosed. To support the IAS 1 amendment, the IASB has provided guidance to demonstrate the application of materiality in a four-step materiality process described in IFRS Practice Statement 2 to accounting policy disclosures. The amendments issued are effective for annual periods beginning on or after January 1, 2023, but early application is permitted. The Credit Union is currently evaluating the impact that this standard will have on its financial statements.

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

In February 2021, the IASB issued amendments to IAS 8 to help entities distinguish between changes in accounting policies and accounting estimates. The amendments issued are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted. The Credit Union is currently evaluating the impact that this standard will have on its financial statements.

IAS 12 – Income Taxes (IAS 12)

In May 2021, the IASB issued amendments to IAS 12 to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendments issued are effective for annual periods beginning on or after January 1, 2023, but early application is permitted. The Credit Union is currently evaluating the impact that this standard will have on its financial statements.

5 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of change in an accounting estimate is recognized prospectively by including it in the statement of income and comprehensive income in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

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

The Credit Union reviews its loan portfolio to assess the expected credit loss at least on a quarterly basis. The measurement of the expected credit loss for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of expected credit loss;
- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated expected credit loss; and
- establishing groups of similar financial assets for the purposes of measuring expected credit loss.

The judgments, inputs, methodology and assumptions used for estimating the expected credit loss allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The COVID-19 pandemic has continued to evolve and the economic environment in which the Credit Union operates could continue to be subject to sustained uncertainty, which could continue to impact the Credit Union's financial results. While the global economic recovery has continued, momentum has waned amid ongoing uncertainty regarding the extent and duration of the impacts of the COVID-19 pandemic. The current environment requires significant judgment and estimates in certain areas. The Credit Union is closely monitoring the changing conditions and their potential impacts.

6 Investments and deposits

			2021
	FVOCI $000s	**Amortized cost $000s**	**Total $000s**
Central			
Shares			
Current account	62,470	-	62,470
Canadian – 0.25%	-	104,553	104,553
U.S. – 0.00%	-	4,623	4,623
Deposits (due within 1 year) (0.10% – 0.26%)	-	886,498	886,498
	62,470	995,674	1,058,144
Wyth Financial shares	24	-	24
	62,494	995,674	1,058,168
Accrued interest receivable	-	2,648	2,648
	62,494	998,322	1,060,816

			2020
	FVOCI $000s	Amortized cost $000s	Total $000s
Central			
Shares	56,874	-	56,874
Current account			
Canadian – 0.25%	-	183,737	183,737
U.S. – 0.00%	-	7,817	7,817
Deposits (due within 1 year) (0.15% – 0.26%)	-	731,532	731,532
	56,874	923,086	979,960
Wyth Financial shares	24	-	24
	56,898	923,086	979,984
Accrued interest receivable	-	2,346	2,346
	56,898	925,432	982,330

7 Loans outstanding

	2021 $000s	2020 $000s
Consumer		
Loans	130,498	146,231
Mortgages	2,076,158	1,914,880
Lines of credit	108,700	121,585
Commercial		
Loans	19,016	20,566
Mortgages	1,161,594	1,143,082
Lines of credit	36,445	24,781
Accrued interest receivable	3,285	3,908
	3,535,696	3,375,033
Allowance for loss (note 8)	(8,951)	(8,300)
	3,526,745	3,366,733

8 Allowance for loss

The following table contains an analysis of the credit risk exposure of financial instruments for which an expected credit loss allowance is recognized. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

				2021
	Stage 1 $000s	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Consumer				
Loans	129,033	1,227	370	130,630
Mortgages	2,065,336	10,105	1,952	2,077,393
Lines of credit	108,433	192	75	108,700
Commercial				
Loans	18,821	221	-	19,042
Mortgages	1,142,755	20,731	-	1,163,486
Lines of credit	36,195	250	-	36,445
Gross carrying amount	3,500,573	32,726	2,397	3,535,696
Allowance for loss	(5,399)	(2,985)	(567)	(8,951)
Carrying amount	3,495,174	29,741	1,830	3,526,745
Current				1,058,132
Non-current				2,468,613

				2020
	Stage 1 $000s	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Consumer				
Loans	144,644	1,363	416	146,423
Mortgages	1,905,747	8,842	1,963	1,916,552
Lines of credit	121,132	201	252	121,585
Commercial				
Loans	20,392	200	-	20,592
Mortgages	1,124,365	20,735	-	1,145,100
Lines of credit	24,499	282	-	24,781
Gross carrying amount	3,340,779	31,623	2,631	3,375,033
Allowance for loss	(4,497)	(3,178)	(625)	(8,300)
Carrying amount	3,336,282	28,445	2,006	3,366,733
Current				1,083,649
Non-current				2,283,084

The following tables explain the changes in the loss allowance between the beginning and the end of the year:

Consumer	**Stage 1 $000s**	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Allowance for loss at December 31, 2020	2,186	721	625	3,532
Transfers	(281)	168	113	-
Financial assets originated	447	244	6	697
Financial assets derecognized	-	(315)	(68)	(383)
Writeoffs	(28)	(29)	(98)	(155)
Net remeasurement	213	35	(11)	237
Allowance for loss at December 31, 2021	2,537	824	567	3,928
Allowance for loss at December 31, 2019	830	30	501	1,361
Transfers	(805)	674	131	-
Financial assets originated	772	29	-	801
Financial assets derecognized	-	(13)	(14)	(27)
Writeoffs	(16)	-	(101)	(117)
Net remeasurement	1,405	1	108	1,514
Allowance for loss at December 31, 2020	2,186	721	625	3,532

Commercial	**Stage 1 $000s**	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Allowance for loss at December 31, 2020	2,311	2,457	-	4,768
Financial assets originated	402	-	-	402
Financial assets derecognized	-	(32)	-	(32)
Net remeasurement	149	(264)	-	(115)
Allowance for loss at December 31, 2021	2,862	2,161	-	5,023
Allowance for loss at December 31, 2019	683	-	1	684
Transfers	(2,457)	2,457	-	-
Financial assets originated	2,523	-	-	2,523
Net remeasurement	1,562	-	(1)	1,561
Allowance for loss at December 31, 2020	2,311	2,457	-	4,768

All loans were originated in stage 1 and have moved from one impairment model stage to another based on the improvement or deterioration in the credit risk and the level of expected credit losses.

During the years ended December 31, 2021 and December 31, 2020, the Credit Union did not acquire any assets in respect of delinquent loans.

The Credit Union did not hold title to any foreclosed assets at December 31, 2021 (2020 – none).

The fair value of the collateral held by the Credit Union as security for impaired loans as at December 31, 2021 was $1,828,000 (2020 – $2,006,000). The Credit Union estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment.

The Credit Union has performed a sensitivity analysis against several macroeconomic factors including housing prices, unemployment rates and interest rates and determined that there is no material correlation between these factors and an increase or decrease on the provision for expected credit losses.

9 Other assets

	2021 $000s	2020 $000s
Accounts receivable	1,779	2,343
Prepaid expenses	2,570	2,019
	4,349	4,362

All balances are current. The carrying value reasonably approximates fair value at the statement of financial position date due to the relative short-term to maturity.

10 Property, equipment and intangible asset

								2021
	Property and equipment						Intangible asset	Total
	Land $000s	Buildings $000s	Furniture and fixtures $000s	Security equipment $000s	Leasehold improvements $000s	Total $000s	Computer system $000s	$000s
Opening net book value	1,574	11,861	1,494	66	2,581	17,576	3,919	21,495
Additions	-	2,408	166	-	194	2,768	3,023	5,791
Depreciation	-	(1,191)	(357)	(17)	(344)	(1,909)	(1,847)	(3,756)
Closing net book value	1,574	13,078	1,303	49	2,431	18,435	5,095	23,530
Cost	1,574	22,051	7,017	981	6,821	38,444	26,268	64,712
Accumulated depreciation	-	(8,973)	(5,714)	(932)	(4,390)	(20,009)	(21,173)	(41,182)
Net book value	1,574	13,078	1,303	49	2,431	18,435	5,095	23,530

								2020
	Property and equipment						Intangible asset	Total
	Land $000s	Buildings $000s	Furniture and fixtures $000s	Security equipment $000s	Leasehold improvements $000s	Total $000s	Computer system $000s	$000s
Opening net book value	1,574	11,954	1,275	96	2,912	17,811	3,082	20,893
Additions	-	1,057	527	-	42	1,626	2,358	3,984
Depreciation	-	(1,150)	(308)	(30)	(373)	(1,861)	(1,521)	(3,382)
Closing net book value	1,574	11,861	1,494	66	2,581	17,576	3,919	21,495
Cost	1,574	19,643	6,851	981	6,627	35,676	23,245	58,921
Accumulated depreciation	-	(7,782)	(5,357)	(915)	(4,046)	(18,100)	(19,326)	(37,426)
Net book value	1,574	11,861	1,494	66	2,581	17,576	3,919	21,495

The Credit Union had buildings under leases with a cost of $9,962,000 (2020 – $9,764,000) and accumulated depreciation of $3,598,000 (2020 – $4,094,000) as at December 31 (note 12).

11 Savings and deposits

	2021 $000s	2020 $000s
Savings accounts	1,750,061	1,590,666
Chequing accounts	406,879	373,889
Term deposits	1,292,258	1,276,683
Registered deposits	763,236	763,979
Unclaimed accounts	269	272
	4,212,703	4,005,489
Accrued interest	21,866	26,296
	4,234,569	4,031,785
Current	3,388,234	3,042,422
Non-current	846,335	989,363

Savings and deposits amounting to $1,884,095,000 (2020 – $1,889,436,000) are at fixed interest rates and all other savings and deposits amounting to $2,328,608,000 (2020 – $2,116,053,000) are at variable rates.

12 Lease

Right-of-use asset

	2021 $000s	2020 $000s
Opening balance as at January 1	5,515	6,439
Additions	1,794	-
Depreciation	(945)	(924)
Ending balance as at December 31	6,364	5,515

Lease liabilities

	2021 $000s	2020 $000s
Opening balance as at January 1	6,342	7,159
Additions	1,765	-
Principal payments of lease liabilities	(819)	(817)
Ending balance as at December 31	7,288	6,342

Contractual maturities of lease liabilities the Credit Union is committed to future aggregate lease payments are as follows:

	2021 $000s	2020 $000s
Less than 1 year	1,102	891
Between 1 year and 5 years	5,004	3,223
More than 5 years	2,889	3,549
Total lease commitments	8,995	7,663
Total lease liability	8,995	7,663
Impact of discounting at weighted average incremental borrowing rate	(1,707)	(1,321)
Discounted lease liabilities at December 31	7,288	6,342

The Credit Union recognized $945,000 (2020 – $924,000) of depreciation expense on right-of-use assets and $218,000 (2020 – $224,000) of interest on lease liabilities during the year.

13 Income taxes

The significant components of the provision for income taxes included in the statement of income and comprehensive income comprise:

	2021 $000s	2020 $000s
Current income taxes		
Based on current year taxable income	5,782	4,926
Deferred income taxes		
Origination and reversal of temporary differences	12	(1,577)
Provision for income taxes	5,794	3,349

The Credit Union provides for income taxes at statutory rates as determined below:

	2021 %	2020 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
General rate reduction	(13.00)	(13.00)
Blended net federal tax rate	15.00	15.00
General Manitoba rate	12.00	12.00
Manitoba Credit Union rate	(4.80)	(7.20)
Blended net provincial tax rate	7.20	4.80
	22.20	19.80

The Province of Manitoba has eliminated the 1% profits tax subject to credit unions with taxable income over $400,000, effective January 1, 2019. Additionally, the province has introduced a five-year phase out of the special tax deduction that allows the Credit Union to pay a lower rate of tax on its income, also effective January 1, 2019. The Manitoba small business deduction available to credit unions is impacted by growth of members' deposits and members' shares balances. The November 8, 2018 legislation eliminates the Manitoba small business deduction available to credit unions over a period of five years beginning January 1, 2019. The proportion of small business deduction otherwise calculated is as follows for each of the calendar years:

	%
2018 and earlier	100
2019	80
2020	60
2021	40
2022	20
2023 and later	-

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 22.20% (2020 – 19.80%) are as follows:

	2021 $000s	2020 $000s
Net income for the year	26,109	19,068
Expected provision for income taxes at statutory rates	5,796	3,776
Non-deductible portion of expenses	19	14
Impact of change in tax rates	2	(420)
Adjustment recognized for tax of prior periods	(23)	-
Other	-	(21)
Total provision for income taxes	5,794	3,349

Current income taxes payable of $142,000 (2020 – $714,000 recoverable) has been included in accounts payable and accrued liabilities on the statement of financial position.

Components of the deferred tax assets and liabilities are as follows:

	2021 $000s	2020 $000s
Deferred tax assets		
Allowance for loss	2,417	2,272
Lease liability	249	223
Accounts payable and accrued liabilities	917	798
	3,583	3,293
Deferred tax liabilities		
Capital cost allowance in excess of depreciation	(1,557)	(1,255)
Total deferred taxes	2,026	2,038

	2021 $000s	2020 $000s
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	3,583	3,293
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(1,557)	(1,255)
Net deferred tax asset	2,026	2,038

The movement in the deferred tax assets and liabilities is recognized in the statement of income and comprehensive income for the year.

14 Members' shares

Authorized common share capital consists of an unlimited number of common shares with an issue price of $5 and an unlimited number of common shares issued under the refunded service program with an issue price of $0.01.

Each member must purchase one or more common share. As at December 31, 2021, the number of common shares was 66,765 (2020 – 65,773). Each member of the Credit Union has one vote, regardless of the number of shares that member holds.

Common shares are redeemable at the request of the member on closing their account. Common shares issued under the refunded service program can also be redeemed when the member reaches the age of 59. All common shares are therefore classified as liabilities.

	2021 $000s	2020 $000s
Common shares		
Beginning of year	328	325
Issued on application for membership	5	2
Issued based on Refunded Service Fee Program (note 15)	6,542	6,304
Redemption of common shares	(6,542)	(6,303)
Total members' shares – liability	333	328

15 Refunded service fees

In 2021, refunded service fees of $6,542,000 (2020 – $6,304,000) were paid under the refunded service fees program on qualifying service fees in the year to members meeting the requirement of the program. The refunded service fees will result in income tax recoveries in the current year of $1,452,000 (2020 – $1,248,000).

16 Capital disclosures

Regulations to the Act establish the following requirements with respect to capital and liquidity reserves:

Capital requirements

The Credit Union shall maintain a level of capital, which comprises total members' shares and retained earnings, that meets or exceeds the following requirements:

- its total regulatory capital shall not be less than 5% of the book value of its assets;
- its retained earnings shall not be less than 3% of the book value of its assets; and
- a tiered level of capital shall not be less than 8% of the risk-weighted value of its assets as defined in the Regulations to the Act.

The capital requirements as at December 31 are as follows:

	2021 As a % of assets	2020 As a % of assets
Total regulatory capital	7.15%	7.09%
Retained earnings	7.14%	7.07%
Risk weighted capital	16.49%	16.09%

The Credit Union is in compliance with the capital requirements at December 31, 2021 and 2020.

Liquidity reserve

The Credit Union shall maintain in cash and investments in Central not less than 8% of its total savings and deposits. As at December 31, 2021, the Credit Union had liquidity reserves equal to 23.64% (2020 – 23.02%) of its total savings and deposits.

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2021 and 2020.

Capital is managed in accordance with policies established by the Board of Directors and in relation to the capital requirements above. Management regards a strong capital base as an integral part of the Credit Union's strategy. All of the capital requirements are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

17 Mortgage securitization

The Credit Union has determined that an amount of $36,827,000 (2020 – $22,633,000) raised from securitization transactions should be accounted for as a secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The carrying amount, as at December 31, 2021, of the associated residential mortgages held as security, is $37,073,000 (2020 – $22,816,000). As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The Credit Union did not enter into any securitization transactions during the year where all of the risks and rewards of ownership were transferred.

	2021 $000s	2020 $000s
Current	1,200	651
Non-current	35,627	21,982
	36,827	22,633

18 Risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by management who reports to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management. Management reports to the Board of Directors on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains a Risk Management department, which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and variable rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk, which arise from this activity, are interest rate, credit, liquidity, foreign exchange and price risks.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	Risks	Method of managing risks
Investments and deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Monitoring of investment restrictions and counterparty risk
Loans outstanding	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Savings and deposits	Sensitivity to changes in interest rates and liquidity	Asset-liability matching and periodic use of derivatives

Interest rate risk

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

In managing interest rate risk, the Credit Union relies primarily on the use of asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

The Credit Union was party to the following interest rate swap agreements as of December 31, 2021:

	Effective date	Maturity	Notional amount $000s	Settlement	Fixed interest rate paid
Fair value hedges	November 23, 2021	November 23, 2026	50,059	Quarterly	1.98%

There were no swap agreements outstanding as at December 31, 2020.

Sensitivity analysis is used to assess the change in value or cash flows of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a 12-month period. Sensitivity analysis is calculated on a periodic basis and is reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at December 31, 2021, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $492,000 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $2,050,000 over the next 12 months.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates that may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board of Directors.

The following schedules show the Credit Union's sensitivity to interest rate changes:

							2021
	Financial statement amounts				**Interest rate swap agreements**		
Expected repricing or maturity dates	**Assets $000s**	**Interest rate %**	**Liabilities (including members' equity) $000s**	**Interest rate %**	**Assets $000s**	**Liabilities $000s**	**Net asset liability gap $000s**
Variable to 6 months	1,763,229	1.99	2,972,337	0.94	50,059	-	(1,159,049)
6 months to 1 year	359,706	2.94	432,223	1.71	-	-	(72,517)
1 to 2 years	501,945	3.08	375,868	2.46	-	-	126,077
2 to 3 years	452,142	2.91	220,195	2.63	-	-	231,947
3 to 4 years	683,214	2.60	137,133	2.23	-	-	546,081
4 to 5 years	783,695	2.19	103,795	1.72	-	50,059	629,841
Over 5 years	46,776	2.95	400	2.18	-	-	46,376
	4,590,707		4,241,951		50,059	50,059	348,756
Non-interest rate sensitive	32,787		381,543				(348,756)
	4,623,494		4,623,494				-

						2020
Expected repricing or maturity dates	**Assets $000s**	**Interest rate %**	**Liabilities (including members' equity) $000s**	**Interest rate %**	**Asset liability gap $000s**
Variable to 6 months	1,722,787	2.08	2,641,943	1.13	(919,156)
6 months to 1 year	345,422	2.93	416,934	2.02	(71,512)
1 to 2 years	755,156	3.08	397,339	2.55	357,817
2 to 3 years	493,663	3.29	255,556	2.90	238,107
3 to 4 years	392,091	3.19	180,830	2.81	211,261
4 to 5 years	628,409	2.63	123,614	2.29	504,795
Over 5 years	13,690	3.10	617	1.85	13,073
	4,351,218		4,016,833		334,385
Non-interest rate sensitive	31,462		365,847		(334,385)
	4,382,680		4,382,680		-

The Credit Union's major source of income is its financial margin, which is the difference between income earned on investments and loans to members and interest paid to members on their deposits. The objective of asset liability management is to match interest-sensitive assets with interest-sensitive liabilities, thus controlling wide fluctuations of income during periods of changing interest rates. Certain items on the statement of financial position, such as non-interest bearing member deposits and equity, do not create interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive on the schedule. The Credit Union uses interest rate swap agreements to mitigate risks associated with interest rate fluctuations.

Fair value hedges

Fair value hedges modify exposure to changes in a fixed-rate instrument's fair value caused by changes in interest rates. These hedges economically convert fixed-rate assets and liabilities to floating rates; interest rate swaps are used to hedge interest rate risk.

The following table presents the effects of fair value hedges on the statement of financial position and the statement of income:

					2021
	Change in fair value of hedged items $000s	**Change in fair value of hedging instruments $000s**	**Hedge ineffectiveness gain (loss) $000s**	**Carrying amount of hedged items $000s**	**Accumulated amount of fair value hedge adjustments on hedged items $000s**
Interest rate swaps	523	(507)	16	50,404	(507)

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy or deterioration in lending sectors, which represent a concentration within the Credit Union's loan portfolio, may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is an integral part of the

Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans outstanding and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board of Directors.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. The Board of Directors is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and credit scoring system, and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member; an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

In measuring credit risk of loans and advances at a counterparty level, the Credit Union considers three components: (i) the probability of default by the member or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the exposure at default; and (iii) the likely recovery ratio on the defaulted obligations loss given default.

The maximum exposure to credit risk from financial assets, without taking into account any collateral held or other credit enhancements, is as follows:

			2021
Credit risk exposure	**Outstanding $000s**	**Undrawn commitments $000s**	**Total exposure $000s**
Investments and deposits	1,060,816	-	1,060,816
Consumer			
Loans	130,498	-	130,498
Mortgages	2,076,158	37,237	2,113,395
Lines of credit	108,700	355,901	464,601
Commercial			
Loans	19,016	-	19,016
Mortgages	1,161,594	149,675	1,311,269
Lines of credit	36,445	69,483	105,928
Letters of credit	-	1,369	1,369
Accrued interest receivable	3,285	-	3,285
Accounts receivable	1,779	-	1,779
Total exposure	4,598,291	613,665	5,211,956

			2020
Credit risk exposure	**Outstanding $000s**	**Undrawn commitments $000s**	**Total exposure $000s**
Investments and deposits	982,330	-	982,330
Consumer			
Loans	146,231	-	146,231
Mortgages	1,914,880	48,497	1,963,377
Lines of credit	121,585	339,225	460,810
Commercial			
Loans	20,566	-	20,566
Mortgages	1,143,082	109,896	1,252,978
Lines of credit	24,781	86,839	111,620
Letters of credit	-	1,874	1,874
Accrued interest receivable	3,908	-	3,908
Accounts receivable	2,343	-	2,343
Total exposure	4,359,706	586,331	4,946,037

Investments and deposits

Credit risk arises from the investments and deposits in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. Central's investment policy requires that all investments are highly rated (A or higher) and that all of the assets are readily convertible to cash.

Consumer loans, mortgages and lines of credit

Loans outstanding consist of personal loans and lines of credit, which are secured by various types of collateral required in the loans policy approved by the Board of Directors. Unsecured personal loans are only granted on the basis of a properly qualified and documented covenant value.

Residential mortgages to members consist of $454,368,000 (2020 – $453,315,000) in mortgages with an advance ratio of 80% to 95% of the appraised value, which are fully insured by either the Canadian Mortgage Housing Corporation, Canada Guaranty Mortgage Insurance or Sagen MI Canada (formerly Genworth Capital); $1,620,909,000 (2020 – $1,461,462,000) in conventional residential mortgages with an original maximum advance ratio to 80% of the appraised value; and $881,000 (2020 – $103,000) in residential mortgages with an original advance ratio to 85% of the appraised value.

Commercial loans, mortgages and lines of credit

The Credit Union often takes security as collateral in a manner similar to other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral and prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. Collateral may include mortgages over commercial properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral. The Credit Union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Credit Union since the prior period.

The Credit Union manages credit concentration by establishing lending limits for each industry based on risk ratings for the respective industries. As at December 31, 2021, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2021 $000s	2020 $000s
Commercial real estate retail	96,012	97,127
Commercial real estate office	127,730	124,885
Commercial real estate industrial	88,634	69,520
Residential real estate	473,964	478,945
Real estate other	17,446	18,945
Health care	176,003	147,538
Accommodation and food services	24,764	25,186
Retail	2,808	7,288
Construction	58,567	58,037
Entertainment and recreation	18,621	19,314
Other	132,506	141,644
	1,217,055	1,188,429

The credit quality of the commercial loan portfolio for those loans, which are neither past due or impaired, can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of a default using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Commercial loans to members are divided into eight segments and are regularly reviewed and updated as appropriate. Loans with ratings of five or six are not considered to be impaired taking into account the repayment status of the loans and the estimated fair value of the collateral.

	2021 $000s	2020 $000s
Rating 1 – Excellent risk	792	299
Rating 2 – Very good risk	40,584	115,397
Rating 3 – Good risk	478,434	496,478
Rating 4 – Acceptable risk	594,835	470,039
Rating 5 – Caution risk	80,410	72,500
Rating 6 – At risk	1,052	-
Rating 7 – Impaired with no loan loss allowance	-	12,756
Rating 8 – Impaired with loan loss allowance	20,948	20,960
	1,217,055	1,188,429

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. As disclosed in note 16, the Credit Union is required to maintain in cash and investments in Central not less than 8% of its total savings and deposits. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, and asset-liability maturity management. Management monitors forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central in the amount of 10% of member deposits as part of its liquidity management strategy.

The following table summarizes the undiscounted cash flows of financial liabilities by contractual maturity.

		Payable on a fixed date				
	On demand $000s	Less than 1 year $000s	1 to 2 years $000s	2 to 5 years $000s	More than 5 years $000s	Total $000s
Financial liabilities						
Savings and deposits	2,344,341	1,043,893	448,485	442,211	387	4,279,317
Accounts payable and accrued liabilities	-	14,215	-	-	-	14,215
Mortgage securitization liability	-	1,622	1,640	35,073	-	38,335
Lease payable	-	1,102	2,256	2,748	2,889	8,995
	2,344,341	1,060,832	452,381	480,032	3,276	4,340,862

Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risks causing fluctuations in the fair value or future cash flows of a financial instrument. Price risk is not considered significant at this time.

19 Fair value of financial instruments

Differences between book value and fair value of investments and deposits, loans outstanding, savings and deposits and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. Loans outstanding and savings and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates and estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on current market rates for equivalent groups of fixed rate deposits.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 100 basis points then the fair value of loans outstanding and investments and deposits would decrease by approximately $79,437,000 (2020 – $67,218,000) and the fair value of savings and deposits would decrease by approximately $22,761,000 (2020 – $26,371,000). A corresponding decrease of 100 basis points would result in the fair value of loans outstanding and investments and deposits increasing by approximately $82,369,000 (2020 – $64,433,000) and the fair value of savings and deposits would increase by approximately $22,494,000 (2020 – $26,482,000).

The financial assets and liabilities are recognized on the statement of financial position at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments. The carrying values and fair values for each category of financial asset and liability are presented in the table below. The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment.

	Level	FVOCI $000s	Amortized cost $000s	Estimated fair value $000s
2021				
Assets				
Cash on hand		-	5,444	5,444
Investments and deposits	2	62,494	998,322	1,060,831
Loans outstanding	2	-	3,526,745	3,512,761
Accounts receivable	2	-	1,779	1,779
		62,494	4,532,290	4,580,815
Liabilities				
Savings and deposits	2	-	4,234,569	4,242,080
Members' shares	2	-	333	333
Accounts payable and accrued liabilities	2	-	14,215	14,215
Mortgage securitization liability	2	-	36,827	36,940
Lease liability	2	-	7,288	7,288
		-	4,293,232	4,300,856

	Level	FVOCI $000s	Amortized cost $000s	Estimated fair value $000s
2020				
Assets				
Cash on hand		-	5,138	5,138
Investments and deposits	2	56,898	925,432	982,338
Loans outstanding	2	-	3,366,733	3,409,030
Accounts receivable	2	-	2,343	2,343
		56,898	4,299,646	4,398,849
Liabilities				
Savings and deposits	2	-	4,031,785	4,053,909
Members' shares	2	-	328	328
Accounts payable and accrued liabilities	2	-	11,645	11,645
Mortgage securitization liability	2	-	22,633	22,510
Lease liability	2	-	6,342	6,342
		-	4,072,733	4,094,734

Fair value hierarchy

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

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities. There are no assets measured at fair value classified as Level 1.

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

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

20 Transactions with The Deposit Guarantee Corporation of Manitoba, Central, and related parties

The Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (DGCM) was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions/caisses and to ensure credit unions/caisses operate under sound business practices. DGCM provides a safeguard for all savings and deposits of the members of Manitoba credit unions.

Transactions with DGCM included assessments of $3,340,000 (2020 – $3,062,000) and are recorded as member security expenses.

Central

The Credit Union is a member of Central, which acts as a depository for surplus funds, and makes loans to credit unions. Central also acts as a trade association for credit unions.

The Credit Union has in place a line of credit with Central in the amount of 10% of member deposits. The line of credit was not utilized at December 31, 2021. The line of credit with Central is payable on demand with interest payable on a variable rate basis, which at year-end was 2.25% (2020 – 2.25%). As collateral for the line of credit, the Credit Union has pledged its loans outstanding. Interest paid on borrowings from Central during the year amounted to $nil (2020 – $nil).

Transactions with Central included income earned on investments and deposits referred to in note 6 in the amount of $13,514,000 (2020 – $13,076,000) and fees assessed by Central, which include annual affiliation dues in the amount of $1,193,000 (2020 – $1,177,000) recorded as organizational expenses.

Related party transactions

Remuneration and reimbursement of expenses to Directors

The aggregate amount of remuneration paid to all Directors for the year ended December 31, 2021 was $336,000 (2020 – $346,000).

The aggregate amount paid to all Directors as reimbursement of expenses on credit union business for the year ended December 31, 2021 was $6,000 (2020 – $6,000).

The outstanding balances at December 31 for Board of Directors and related expenses and income for the year are as follows:

	2021 $000s	2020 $000s
Loans outstanding	1,509	1,616
Savings and deposits outstanding	2,587	1,520

No allowances have been recognized in respect of loans issued to Directors in the current year.

Compensation of key management personnel

Key management personnel of the Credit Union include all senior management. The summary of compensation for key management personnel consisted of salaries of $3,081,000 (2020 – $4,139,000) and employee benefits of $383,000 (2020 – $378,000) for the year ended December 31, 2021.

The outstanding balances at December 31 for key management personnel and related expense and income for the year are as follows:

	2021 $000s	2020 $000s
Loans outstanding	3,229	1,624
Savings and deposits outstanding	1,398	1,180

No allowances have been recognized in respect of loans issued to senior management in the current year.

Loans to directors, management and employees

All transactions with the Credit Union's Directors, management and employees were in accordance with the statutes, by-laws and policies of the Credit Union.

As at December 31, 2021, outstanding loans to Directors, management and employees totalled 0.1% (2020 – 0.1%), in aggregate, of the assets of the Credit Union.

21 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The assets are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate of 6% of the employee's salary. The expense and payments for the year ended December 31, 2021 were $1,053,000 (2020 – $975,000). The Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members with respect to the defined contribution plan.