Financial statements of

PATHWISE CREDIT UNION LIMITED

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Members of
PATHWISE CREDIT UNION LIMITED

We have audited the accompanying financial statements of Pathwise Credit Union Limited ("the Credit Union"), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income, members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 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.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

TORONTO, Ontario
March 30, 2022

Licensed Public Accountants

PATHWISE CREDIT UNION LIMITED
Statement of Financial Position

As at December 31	**2021**	2020
Assets		
Cash and cash equivalents (note 6)	**$ 10,216,984**	$ 28,150,824
Investments (note 7)	**35,332,969**	31,324,394
Income taxes receivable	**114,304**	-
Loans and advances to members (note 9)	**343,308,097**	367,204,239
Pension asset (note 12)	**1,998,500**	198,900
Deferred income tax asset (note 20)	**849,382**	1,409,455
Other assets	**1,798,873**	2,263,494
Property and equipment (note 11)	**4,593,201**	4,151,819
	$ 398,212,310	$ 434,703,125
Liabilities, Member Entitlements and Members' Equity		
Liabilities		
Accounts payable and other liabilities	**$ 3,148,987**	$ 6,090,275
Income taxes payable	**-**	47,302
Obligation for post-employment benefits other than pensions (note 13)	**3,734,300**	3,971,800
Mortgage securitization liabilities (note 15)	**12,334,106**	35,340,229
	19,217,393	45,449,606
Member entitlements		
Members' accounts and deposits (note 14)	**348,738,093**	360,717,123
Members' share capital (note 16)	**2,492,251**	2,658,157
Accrued member interest, dividends and patronage return	**1,362,167**	1,944,433
	352,592,511	365,319,713
Members' equity		
Members' share capital (note 16)	**8,005,730**	7,937,444
Retained earnings	**22,507,132**	21,618,440
Accumulated other comprehensive loss	**(4,110,456)**	(5,622,078)
	26,402,406	23,933,806
	$ 398,212,310	$ 434,703,125

Commitments (note 18)

See accompanying notes to financial statements.

On behalf of the Board:

DocuSigned by: AP DeMan
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Director — Arnold DeMan, Audit Committee Chair

DocuSigned by: Loreen Potter
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Director — Loreen Potter, Board Chair

PATHWISE CREDIT UNION LIMITED
Statement of Comprehensive Income

Year ended December 31		2021		2020 (note 24)
Interest income				
Loan interest	$	**12,285,199**	$	13,296,571
Investment interest and dividends		**370,515**		543,943
		12,655,714		13,840,514
Interest on members' accounts and deposits (note 14)		**3,321,367**		4,089,069
Interest expense - other		**658,794**		901,930
Provision for impairment losses on member loans		**-**		206,000
		3,980,161		5,196,999
Financial margin		**8,675,553**		8,643,515
Other income (note 21)		**1,909,628**		2,544,598
		10,585,181		11,188,113
Expenses				
Salaries, employee benefits and personnel		**5,156,716**		5,355,830
Operations		**1,804,219**		1,695,161
Information technology		**990,411**		804,608
Depreciation		**570,215**		485,548
Business development		**312,162**		472,752
Governance		**299,265**		237,770
Charity		**61,267**		43,566
		9,194,255		9,095,235
Net income before member distributions and provision for income taxes		**1,390,926**		2,092,878
Deduct: Dividends and patronage return (note 16)		**25,980**		24,983
Net income before provision for income taxes		**1,364,946**		2,067,895
Provision for current income taxes		**254,468**		405,176
Provision for deferred income taxes		**57,802**		141,552
Net income for the year	$	**1,052,676**	$	1,521,167
Other comprehensive loss, net of tax				
Actuarial gains (losses) on employee future benefits	$	**1,549,072**	$	(519,365)
Unrealized losses on investments measured at FVOCI		**(37,450)**		-
Total other comprehensive income (loss)		**1,511,622**		(519,365)
Net comprehensive income for the year	$	**2,564,298**	$	1,001,802

See accompanying notes to financial statements.

PATHWISE CREDIT UNION LIMITED

Statement of Members' Equity

	FVOCI investments	Employee future benefits	Accumulated other comprehensive income (loss)	Members' shares	Retained earnings	Total
Balance on December 31, 2019	**$ -**	**$ (5,102,713)**	**$ (5,102,713)**	**$ 7,687,354**	**$ 20,257,184**	**$ 22,841,825**
Net income for the year	-	-	-	-	1,521,167	1,521,167
Distributions to members	-	-	-	-	(159,911)	(159,911)
Net change in members' shares	-	-	-	250,090	-	250,090
Net loss from employee future benefits		(519,365)	(519,365)	-	-	(519,365)
Balance on December 31, 2020	**$ -**	**$ (5,622,078)**	**$ (5,622,078)**	**$ 7,937,444**	**$ 21,618,440**	**$ 23,933,806**
Net income for the year	-	-	-	-	**1,052,676**	**1,052,676**
Distributions to members	-	-	-	-	**(163,984)**	**(163,984)**
Net change in members' shares	-	-	-	**68,286**	-	**68,286**
Change in unrealized losses on FVOCI investments	**(37,450)**	-	**(37,450)**	-	-	**(37,450)**
Net loss from employee future benefits		**1,549,072**	**1,549,072**	-	-	**1,549,072**
Balance on December 31, 2021	**$ (37,450)**	**$ (4,073,006)**	**$ (4,110,456)**	**$ 8,005,730**	**$ 22,507,132**	**$ 26,402,406**

See accompanying notes to financial statements.

PATHWISE CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31		**2021**		2020 (note 24)
Cash provided (used) by operating activities				
Interest received on loans	**$**	**12,553,075**	$	13,146,127
Interest received on investments		**348,415**		545,420
Interest paid on member deposits		**(3,908,788)**		(4,146,660)
Other income received		**1,909,628**		2,544,598
Recoveries on loans previously written off		**4,144**		6,181
Payments to employees and suppliers		**(11,199,067)**		(5,729,173)
Income taxes paid		**(380,078)**		(246,300)
Adjustments for net changes in operating assets and liabilities:				
Change in members' loans and advances (net)		**23,814,864**		(16,807,013)
Change in member deposits (net)		**(12,195,710)**		37,433,096
Net cash provided by operating activities		**10,946,483**		26,746,276
Cash used by investing activities				
Redemption of investments (net)		**(4,008,574)**		(3,523,673)
Purchase of property and equipment		**(1,011,597)**		(1,075,798)
Net cash used by investing activities		**(5,020,171)**		(4,599,471)
Cash provided (used) by financing activities				
Change in member share capital (net)		**(97,621)**		141,337
Dividends and interest rebates paid on member deposits & capital accounts		**(220,805)**		(273,126)
Interest paid on external borrowings		**(658,794)**		(849,243)
Proceeds from mortgage securitizations		**5,937,834**		5,206,727
Principal repayments on mortgage securitizations		**(28,820,766)**		(7,699,374)
Net cash used by financing activities		**(23,860,152)**		(3,473,679)
Net increase (decrease) in cash and cash equivalents		**(17,933,840)**		18,673,126
Cash and cash equivalents, January 1		**28,150,824**		9,477,698
Cash and cash equivalents, December 31	**$**	**10,216,984**	$	28,150,824

See accompanying notes to financial statements.

1 Nature of business

Pathwise Credit Union Limited (the "Credit Union") is a multi-branch financial institution incorporated under the Credit Unions and Caisses Populaires Act, 1994 (the "Act") of Ontario. The Credit Union is regulated by the Financial Services Regulatory Authority of Ontario ("FSRA") and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit cards, Internet banking and telephone banking. The Credit Union head office is located at 322 King Street West, Oshawa, Ontario.

2 Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

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

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. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in the financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Details of the Credit Union's accounting policies are included in note 5.

These financial statements have been authorized for issue by the Board of Directors on March 30, 2022.

3 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

Classification of financial assets

The Credit Union assesses the business model within which the assets are held and whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, as described in note 5.

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 22.

3 Critical accounting estimates and judgments (continued)

Impairment of financial instruments

The Credit Union assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates forward-looking information in the measurement of expected credit loss ("ECL"), as described in note 10.

Pension plan and post-employment future benefits

The accrued pension obligation and obligation for post-employment future benefit plan costs, assets and obligations depend on factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, the rate of return on plan assets, wage escalation, inflation rates, health care costs and demographic factors such as retirement age, mortality and employee turnover. Any change in these assumptions will have an impact on the costs, assets and/or obligations relating to these plans, but the discount rate and the return on assets have the greatest impact and are subject to greater volatility. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further information regarding employee future benefits is presented in notes 12 and 13.

The Credit Union establishes the discount rate as at each reporting date. This rate is used to determine the present value of future cash flows related to the defined benefit obligation. To determine this rate, the Credit Union uses the interest rate of corporate bonds with a maturity similar to that of the benefit obligation and market conditions.

A decrease of 1% in the discount rate as at the end of the period would have an impact of a $1,513,600 (2020 - $1,977,400) increase on the present value of the defined benefit obligation and a $566,800 (2020 - $559,900) increase in the present value of the obligation for post-employment benefits (other than pensions).

An increase of 1% in the discount rate as at the end of the period would have an impact of a $1,247,500 (2020 - $1,593,600) decrease on the present value of the defined benefit obligation and a $459,100 (2020 - $452,700) decrease in the present value of the obligation for post-employment benefits (other than pensions).

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters. Any differences will be accounted for in the year of settlement.

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

4 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for financial instruments recorded at fair value through profit and loss (FVTPL), financial assets recorded at fair value through other comprehensive income (FVOCI) and the net defined benefit (asset) liability recorded at fair value of plan assets less the present value of the defined benefit obligation, as disclosed in note 22.

5 Significant accounting policies

The Credit Union has consistently applied the following accounting policies to all periods presented in these financial statements.

Revenue recognition

(i) Interest

Effective interest rate

Interest income and expense are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, 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 loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

(ii) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognized using the effective interest method are included with loan balances on the balance sheet.

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

5 Significant accounting policies (continued)

Revenue recognition (continued)

(ii) Fees and commission (continued)

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Gains (losses) from other financial instruments at fair value through profit or loss (FVTPL)

Gains (losses) from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and non-trading assets that are mandatory to be measured at FVTPL. This includes fair value changes, interest, dividends and foreign exchange differences.

(iv) Dividend income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net income for the year.

Financial assets and financial liabilities

(i) Recognition and initial measurement

The Credit Union initially recognizes loans and advances, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

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

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

The Credit Union classifies its loans to members and investments in third-party mortgages as amortized cost.

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

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

The Credit Union classifies its debt securities and equity instruments as FVOCI.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis.

The Credit Union classifies its cash and cash equivalents as FVTPL.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets (continued)

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, '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 and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets (e.g. non- recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets (continued)

Reclassifications

Financial assets are not reclassified subsequent to initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to the Credit Union's business model during the current or prior year.

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

(iii) Derecognition

Financial assets

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investments designated as FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage Housing Corporation that issue bonds to third party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program. Through the program, the Credit Union issues securities backed by residential mortgages that are insured against borrower’s default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union’s securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received.

Financial liabilities

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

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, the gain or loss is presented as interest income.

Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in net income for the year.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Credit Union of similar transactions.

(vi) Impairment

The Credit Union recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investments that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since initial recognition.

The Credit Union considers a debt security to have low credit risk when the credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlated in defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Credit-impaired financial assets (continued)

In making an assessment of whether an investment in debt securities is credit-impaired, the Credit Union considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL on the balance sheet

Loss allowances for ECL are presented on the balance sheet as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Derivatives held for risk management purposes and hedge accounting

The Credit Union has not designated any derivatives held for risk management as hedging instruments.

Non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognized immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment is carried out on the asset's cash generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has one cash-generating unit, the land and building, for which impairment testing is performed.

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

5 Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash is classified as FVTPL and is carried at fair value.

Investments

Investments include:

- Central 1 liquidity and deposit notes initially measured at fair value plus incremental direct transaction costs, and subsequently at amortized cost using the effective interest method;
- Third-party mortgages initially measured at fair value plus incremental direct transaction costs, and subsequently at amortized cost using the effective interest method;
- debt securities at FVOCI; and
- equity securities designated as at FVOCI.

The Credit Union elects to present in OCI changes in the fair value of certain investments in equity securities that are not held for trading. The election is made on an instrument- by-instrument basis on initial recognition and is irrevocable. At December 31, 2021, no equity securities have been classified as FVOCI.

Gains and losses on such equity securities are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

Loans and advances to members

Loans and advances are initially measured at fair value, net of loan origination fees and inclusion of transaction costs incurred. Loans and advances are subsequently measured at amortized cost, using the effective interest rate method.

Pension plan

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

The defined benefit pension plan has been frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015.

5 Significant accounting policies (continued)

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses, with the exception of land which is not amortized.

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss is not reversed if the fair value of the capital asset subsequently increases. As at December 31, 2021, no such impairment exists.

Amortization is provided over the estimated useful life of assets as follows:

Building	5 to 30 years
Equipment	2 to 10 years
Parking area	20 years
Enterprise software	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Post-employment future benefits

The Credit Union sponsors a defined benefit pension plan and other post-employment benefits to retired employees and their spouses. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The benefits include medical services, life insurance and extended health care benefits. The benefit plans are further described in notes 12 and 13. This non-pension post-employment benefit plan is not funded.

The Credit Union accrues its obligations under a defined benefit employee pension plan and the related costs, net of plan assets. The cost of the defined benefit pension and the other post-employment benefits that relate to employees' current service is charged to income annually. The cost is computed at each reporting date by an independent actuary using the projected unit credit cost method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, the assets are valued at fair market value.

The discount rate used to measure the interest cost on the accrued future employee benefit obligation is set with reference to market interest rates on high-quality debt instruments. The discount rate is actuarially determined and reviewed for reasonability by management.

Recognition of securitization arrangements

The Credit Union enters into mortgage securitization arrangements as part of its program of liquidity, capital, and interest rate risk management. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the secured assets. The determination of the requirements for continued recognition requires significant judgment.

Further details of securitization arrangements are disclosed in note 15.

5 Significant accounting policies (continued)

Deposits and members' share capital

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, as described in note 16. The Credit Union's Class A patronage shares and membership shares are classified as liabilities and the Class C investment shares are classified as equity. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, the shares are classified as equity, as per IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Borrowings and deposits and members' share capital that are classified as liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and subsequently measured at amortized cost using the effective interest method.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Leases

Definition of a lease

The Credit Union determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee accounting

For all leases (except as noted below), the Credit Union:

- Recognizes right-of-use assets and lease liabilities on the balance sheet, initially measured at the present value of lease payments;
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Credit Union has opted to recognize a lease expense on a straight-line basis. This expense is presented within other (non-interest) expenses in the statement of comprehensive income.

Lessor accounting

The Credit Union is not a lessor in any lease transactions.

5 Significant accounting policies (continued)

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the assets / liabilities are settled.

Members' dividends

Dividends to members are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the re-translation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net comprehensive income.

5 Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective

New standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Credit Unions future financial statements are as follows. The Credit Union intends to adopt these standards when they become effective.

- The AcSB endorsed IASB’s final amendments of IAS 1, Presentation of Financial Statement, in April 2020 and February 2021. The April 2020 amendments clarified the criteria for the classification of a liability as either current or non-current by clarifying that the classification of a liability as either current or non-current is based on the entity’s rights at the end of the reporting period and making clear the link between the settlement of the liability and the outflow of resources from the entity. The amendments apply retrospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2023, with earlier application permitted. The February 2021 amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosure. The amendments apply to annual financial statements relating to fiscal years beginning on or after January 1, 2023, with earlier application permitted.
- The AcSB endorsed IASB’s final amendments of IAS 8, Presentation of Financial Statements, in February 2021. The amendments assist entities to distinguish accounting policies from accounting estimates. The amendments apply to annual financial statements relating to fiscal years beginning on or after January 1, 2023, with earlier application permitted.

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

6 Cash

Cash consists of cash on hand and amounts on deposit in Central 1 in Canadian current accounts totaling $10,088,263 yielding 0.40% (2020 - $26,810,793 yielding 0.40%) and USD current accounts totaling $105,127 yielding 0.00% (2020 - $299,941 yielding 0.00%).

7 Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

As at December 31,	2021	2020
Investments measured at FVOCI - debt securities	$ 26,956,226	$ -
Investments measured at amortized cost - third-party mortgages	5,583,817	-
Investments measured at amortized cost - deposit instruments	1,566,875	28,924,425
Investments measured at FVOCI - equity securities	1,226,051	2,399,969
	$ 35,332,969	$ 31,324,394

The following tables summarizes the composition of investments by classification category:

As at December 31,	2021	2020
Investments measured at FVOCI - debt securities		
Bonds, maturing within one year	$ 8,161,815	$ -
Bonds, maturing later than one year	16,684,098	-
Treasury bills, maturing within one year	2,082,972	-
Cash	27,341	-
	$ 26,956,226	$ -

As at December 31,	2021	2020
Investments measured at amortized cost - deposit instruments		
Central 1 fixed rate USD deposit note, maturing within one year	$ 752,100	$ 201,225
Central 1 fixed rate USD deposit note, maturing later than one year	814,775	1,073,200
Central 1 fixed rate liquidity note, maturing within one year	-	3,927,710
Central 1 fixed rate liquidity note, maturing later than one year	-	4,604,000
Central 1 floating rate liquidity note, maturing later than one year	-	17,118,290
Central 1 fixed rate deposit note, maturing within one year	-	2,000,000
	$ 1,566,875	$ 28,924,425

As at December 31,	2021	2020
Investments measured at FVOCI - equity securities		
Central 1 Credit Union shares - Class A	$ 133,735	$ 132,337
Central 1 Credit Union shares - Class E	985,400	985,400
Central 1 Credit Union shares - Class F	-	1,215,516
Other equity securities	106,916	66,716
	$ 1,226,051	$ 2,399,969

7 Investments (continued)

Significant terms and average annual yields on Central 1 investments and other investments are as follows:

As at December 31		**2021**	2020
Investments measured at FVOCI - debt securities			
Bonds, maturing within one year			
Yield		**0.51%**	NA
Interest		**1.75% to 3.15%**	NA
Maturity dates	from	**Jun 2, 2022**	NA
	to	**Dec 15, 2022**	NA
Bonds, maturing later than one year			
Yield		**0.99%**	NA
Interest		**0.35% to 8.50%**	NA
Maturity dates	from	**Jan 27, 2023**	NA
	to	**Sept 15, 2026**	NA
Treasury bills, maturing within one year			
Yield		**0.73%**	NA
Interest		**0.00%**	NA
Maturity dates	from	**Jan 6, 2022**	NA
	to	**Dec 8, 2022**	NA
Investments measured at amortized cost - deposit instruments			
Central 1 fixed rate USD deposit notes, maturing within one year			
Yield		**0.71%**	2.18%
Interest		**0.16% to 2.37%**	2.18%
Maturity dates	from	**Mar 15, 2022**	May 25, 2021
	to	**May 24, 2022**	
Central 1 fixed rate USD deposit notes, maturing later than one year			
Yield		**2.56%**	2.53%
Interest		**1.93% to 2.68%**	1.93% to 2.67%
Maturity dates	from	**Nov 20, 2023**	May 24, 2022
	to	**May 30, 2024**	May 30, 2024
Central 1 fixed rate liquidity notes, maturing within one year			
Yield		**NA**	0.20%
Interest		**NA**	0.20% to 0.21%
Maturity dates		**NA**	Jan 4, 2021
Central 1 fixed rate liquidity notes, maturing later than one year			
Yield		**NA**	1.32%
Interest		**NA**	1.32%
Maturity date		**NA**	May 19, 2022
Central 1 floating rate liquidity notes, maturing later than one year			
Yield		**NA**	0.50%
Interest		**NA**	0.42% to 0.53%
Maturity dates	from	**NA**	Jun 30, 2022
	to	**NA**	Dec 15, 2022
Central 1 fixed rate deposit note, maturing within one year			
Yield		**NA**	1.05%
Interest		**NA**	1.05%
Maturity date		**NA**	May 25, 2021

7 Investments (continued)

Central 1 liquidity notes

The Credit Union was required to maintain a liquidity reserve deposit with Central 1 equal to 6% of the Credit Union's total assets. On January 4, 2021, the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized. The deposits held in the mandatory liquidity pool by the Credit Union were disposed of and a portfolio of high quality liquid assets ("HQLAs") were acquired and invested through the Credit Union's Trust. The category of investment assets within the HQLA portfolio determines the inclusion rate for purposes of determining the amount of the Credit Union's liquid assets and liquidity coverage ratio.

Investments measured at FVOCI - debt securities

The portfolio of HQLA's is held in the following types of securities:

As at December 31	**2021**	2020
Federal government issued securities	**$ 15,456,106**	$ -
Provincial government issued securities	**7,237,235**	-
Corporate bonds	**1,912,516**	-
Mortgage backed securities, guaranteed	**1,403,688**	-
Municipal government issued securities	**542,773**	-
Mortgage backed securities, not guaranteed	**376,567**	-
Cash	**27,341**	-
	$ 26,956,226	$ -

Central 1 Credit Union shares

The Credit Union has designated its investment in Central 1 equity securities as at FVOCI. The FVOCI designation was made because the shares in Central 1 are required as a condition of membership in Central 1. There is no active market for these shares as they are issued only by virtue of membership in Central 1. The shares are redeemable upon withdrawal of membership or at the discretion of the Board of directors of Central 1. In addition, the member credit unions are subject to additional capital calls as determined by the Central 1 Board of Directors.

Dividends are at the discretion of Central 1. Dividends received on these shares in 2021 amounted to $41,321 (2020 - $92,740).

The Central 1 Class A and Class F shares are subject to periodic rebalancing and the redemption value is equal to par value. Accordingly, the fair value is considered to be equivalent to par value or redemption value. The Central 1 Class E shares are not subject to rebalancing and the redemption value is not equal to par value.

During the year the Central 1 Class F shares were redeemed at par.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Investments measured at amortized cost - third party mortgages

As part of its liquidity management program, the Credit Union invests in third-party mortgages and mortgage pools originated by other financial institutions. The weighted average interest rate for third-party mortgages and mortgage pools as at December 31, 2021 is 3.50%.

8 Derivatives

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Credit Union are generally not collateralized. The Credit Union has credit risk, which arises from the possibility that its counterparty to a derivative contract could default on their obligation to the Credit Union.

For information on the Credit Union's financial risk management framework, see note 23.

Notional amounts are used as a basis for calculating cash flows to be exchanged under derivative contracts and are generally not actually exchanged between the Credit Union and its counterparties. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure. The credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose the Credit Union to credit loss where there is a favourable change in market rates from the Credit Union's perspective and the counterparty fails to perform. The Credit Union only enters into derivative contracts with a counterparty that the Credit Union has determined to have high creditworthiness.

As at December 31	**2021**		2020	
	Notional amount	**Fair value**	Notional amount	Fair value
Equity index-linked deposits				
Derivative assets	**$ 1,881,120**	**$ 339,833**	$ 5,144,104	$ 216,993
Derivative liabilities	**$ 1,818,344**	**$ 339,833**	$ 4,652,170	$ 216,993

The Credit Union has outstanding $1,818,344 (2020 - $4,652,170) in index-linked products to its members. The index-linked products are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The Credit Union has purchased index-linked options agreements with Central 1 to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from Central 1 payments equal to the amount that will be paid to depositors based on the performance of the underlying indices. The fair value of these index-linked option contracts is $339,833 (2020 - $216,993).

9 Loans and advances to members

As at December 31, 2021	**Gross carrying amount**	**ECL allowance**	**Transaction costs**	**Carrying amount**
Residential mortgage loans	**$298,294,528**	**$ (346,703)**	**$ 227,894**	**$298,175,719**
Personal loans	**3,811,111**	**(415,203)**	**-**	**3,395,908**
Commercial loans and syndicated	**42,862,556**	**(1,126,086)**	**-**	**41,736,470**
	$344,968,195	**$ (1,887,992)**	**$ 227,894**	**$343,308,097**

As at December 31, 2020	Gross carrying amount	ECL allowance	Transaction costs	Carrying amount
Residential mortgage loans	$310,921,685	$ (524,112)	$ 305,028	$310,702,601
Personal loans	3,848,628	(228,431)	-	3,620,197
Commercial loans and syndicated	54,012,746	(1,131,305)	-	52,881,441
	$368,783,059	$ (1,883,848)	$ 305,028	$367,204,239

Transaction costs represent the unamortized portion of fees paid to mortgage brokers. These costs are amortized to income over the term of the residential mortgage loans through reducing the effective yield.

Interest income on member loans receivable are summarized as follows:

For the year ended December 31	**2021**	2020
Residential mortgage loan interest	**$ 9,935,471**	$ 10,843,412
Personal loan interest	**214,642**	299,918
Commercial loan interest	**2,135,086**	2,153,241
	$ 12,285,199	$ 13,296,571

Terms and conditions

Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years. Residential and commercial mortgage loans bear interest at fixed (not in advance) and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years based on a maximum amortization of thirty years. Line of credit loans bear interest at variable rates and are repayable at a minimum of interest only, not in advance, subject to annual review.

9 Member loans receivable (continued)

Terms and conditions (continued)

Commercial and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest installments over a maximum of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments.

All loans are open and, at the option of the borrower, may be repaid at any time without notice or penalty, with the exception of commercial and residential loans and mortgages with a term exceeding one year.

Average yields to maturity

Member loans bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2021	**Principal**	**Yield**
Variable rate	**$ 47,591,975**	**4.50%**
Fixed rate due less than one year	**57,082,142**	**3.55%**
Fixed rate due between one and five years	**240,294,078**	**3.17%**
	$ 344,968,195	

2020		
Variable rate	$ 61,734,691	4.03%
Fixed rate due less than one year	78,807,322	3.62%
Fixed rate due between one and five years	228,241,046	3.60%
	$ 368,783,059	

Fair value

The fair value of member loans at December 31, 2021 was $334,859,663 (2020 - $379,909,000).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis.

The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

10 Expected credit losses

For information on the Credit Union's financial risk management framework, see note 23.

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 23.

	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**2021 Total**	2020 Total
Loans and advances to members at amortized cost:					
Low - fair risk	**$ 311,366,013**	**$ -**	**$ -**	**$ 311,366,013**	$ 355,215,016
Doubtful	**-**	**1,025,270**	**-**	**1,025,270**	10,094,303
Loss	**-**	**-**	**32,576,912**	**32,576,912**	3,473,740
	311,366,013	**1,025,270**	**32,576,912**	**344,968,195**	368,783,059
Expected credit loss	**(1,799,978)**	**(43,158)**	**(44,856)**	**(1,887,992)**	(1,883,848)
Carrying amount	**$ 309,566,035**	**$ 982,112**	**$ 32,532,056**	**$ 343,080,203**	$ 366,899,211

There is no expected credit loss on investments in third party mortgages.

ii. Collateral held and other credit enhancements

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

As at December 31	**2021**	2020
Unsecured loans	**$ 1,810,111**	$ 2,546,306
Residential mortgages insured - other	**29,153,900**	39,443,108
Residential mortgages insured by government	**16,635,350**	23,127,667

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail members by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on most recent collateral appraisals.

As at December 31,	**2021**	2020
LTV ratio:		
Less than 40%	**$ 70,952,844**	$ 56,622,524
40 - 60%	**69,385,130**	69,577,079
60 - 80%	**138,008,679**	150,876,310
80 - 95%	**17,575,352**	33,449,672
More than 95%	**2,372,523**	396,100
Total	**$ 298,294,528**	$ 310,921,685

10 Expected credit losses (continued)

ii. Collateral held and other credit enhancements (continued)

Commitments to advance residential mortgage loans

As at December 31,		2021		2020
LTV ratio:				
Less than 40%	**$**	**65,000**	$	50,000
40 - 60%		**704,715**		466,000
60 - 80%		**1,446,000**		280,000
80 - 95%		**876,350**		-
More than 95%		**-**		-
Total	**$**	**3,092,065**	$	796,000

Loans and advances to commercial members

As at December 31,		2021		2020
LTV ratio:				
Less than 40%	**$**	**5,714,013**	$	6,042,063
40 - 60%		**12,397,518**		15,315,440
60 - 80%		**23,070,467**		32,623,457
80 - 95%		**1,173,676**		351,327
More than 95%		**506,882**		-
Total	**$**	**42,862,556**	$	54,332,287

The general creditworthiness of a commercial member tends to be the most relevant indicator of credit quality of a loan (see note 23). However, collateral provides additional security and the Credit Union generally requests that corporate borrowers provide it. The Credit Union may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Credit Union's focus on commercial members' creditworthiness, the Credit Union does not routinely update the valuation of collateral held against all loans to commercial members. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Credit Union obtains appraisals of collateral because it provides input into determining the management credit risk actions.

iii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in note 5.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment and including forward-looking information.

10 Expected credit losses (continued)

iii. Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Generating the term structure of PD

The Credit Union collects performance and default information about its credit risk exposures analyzed by region and by type of product and borrower.

The Credit Union employs statistical models to analyzed the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Credit Union considers the following factors when determining if there is an increase in credit risk:

- non-sufficient funds activity, loss of employment, gambling activity, late payments, unsustainable lifestyle, potential victimization, escalating unsecured debt, minimal estate value, uninsurable, marital breakdown, illness, declining credit score, title issues and covenant breaches

Using its expert credit judgment and, where possible, relevant historical experience, the Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise by fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Credit Union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Credit Union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, member retention and other factors not related to a current or potential credit deterioration of the member. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in note 5.

10 Expected credit losses (continued)

iii. Amounts arising from ECL (continued)

Modified financial assets (continued)

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Definition of default

The Credit Union considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Credit Union. Overdrafts are considered as being past due once the member has breached an advanced limit or been advised of a limit smaller than the current amount outstanding;
- the Credit Union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
- the Credit Union has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the Credit Union considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Credit Union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and the significance of the inputs may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Credit Union for regulatory capital purposes.

Incorporation of forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a base case of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the following ranges of Canadian key indicators.

10 Expected credit losses (continued)

iii. Amounts arising from ECL (continued)

Incorporation of forward-looking information (continued)

	2021	2020
Unemployment rates	Base 6.6% Range between 4.8% and 8.6%	Base 9.4% Range between 4.8% and 10.4%
Interest rates	Base 0.25% Range between 0.25% and 3.8%	Base 0.25% Range between 0.24% and 3.4%
GDP growth	Base 4.7% Range between 3.7% and 21.8%	Base -4.1% Range between -4.8% and 10.5%
House prices	Base 18.8% growth Range between increase of 13.7% and increase of 39.5%	Base 10.9% growth Range between reduction of 8.9% and increase of 27.4%

The Credit Union's policy is to use the average of the range when assessing the ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large commercial counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

10 Expected credit losses (continued)

iii. Amounts arising from ECL (continued)

Measurement of ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Credit Union measures ECL considering the risk of default over the maximum collateral period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Credit Union considers a longer period. The maximum contractual period extends to the date at which the Credit Union has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts that include both a loan an an undrawn commitment component, the Credit Union measures ECL over a period longer than the maximum contractual period when the Credit Union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Credit Union can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Credit Union becomes aware of an increase in credit risk management actions that the Credit Union expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Expected credit loss

The following table reconciles the opening to the closing balance of the allowance for impairment by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5.

				2021
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance at January 1	**$ 1,448,569**	**$ 224,039**	**$ 211,240**	**1,883,848**
Transfer to 12-month ECL	**170,528**	**-**	**(170,528)**	**-**
Transfer from lifetime ECL not credit-impaired	**180,881**	**(180,881)**	**-**	**-**
Provision for impairment losses on member loans	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written off	**-**	**-**	**4,144**	**4,144**
Balance at December 31	**$ 1,799,978**	**$ 43,158**	**$ 44,856**	**$ 1,887,992**

10 Expected credit losses (continued)

iii. Amounts arising from ECL (continued)

Expected credit loss (continued)

				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at January 1	$ 1,320,951	$ 95,550	$ 255,166	1,671,667
Transfer to 12-month ECL	50,107	-	(50,107)	-
Transfer to lifetime ECL not credit-impaired	(128,489)	128,489	-	-
Provision for impairment losses on member loans	206,000	-	-	206,000
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	6,181	6,181
Balance at December 31	$ 1,448,569	$ 224,039	$ 211,240	$ 1,883,848

The Credit Union monitors concentrations of credit risk by sector. An analysis of concentration of credit risk from loans and advances to members is shown below.

As at December 31	**2021**	2020
Concentration by sector		
Commercial:		
Real estate	**$ 34,135,146**	$ 41,821,577
Construction	**5,381,837**	8,655,079
Accommodation	**904,021**	2,905,445
Other	**2,441,552**	630,645
	$ 42,862,556	$ 54,012,746
Retail:		
Mortgages and home equity lines of credit	**$ 298,294,528**	$ 310,921,685
Personal loans	**3,811,111**	3,848,628
	$ 302,105,639	$ 314,770,313

Concentration by location for loans and advances, loan commitments and financial guarantees, is based on the member's residential address.

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11 Property and equipment

	Land	Building	Enterprise software	Equipment and leaseholds	Parking area	Total
Cost						
Balance at January 1, 2020	**$ 266,132**	**$ 7,541,032**	**$ 6,166**	**$ 1,140,707**	**$ 197,157**	**$ 9,151,194**
Additions	-	416,430	696,757	(37,389)	-	1,075,798
Disposals	-	-	-	-	-	-
Balance on December 31, 2020	**266,132**	**7,957,462**	**702,923**	**1,103,318**	**197,157**	**10,226,992**
Additions	-	209,101	767,692	34,804	-	1,011,597
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	**$ 266,132**	**$ 8,166,563**	**$ 1,470,615**	**$ 1,138,122**	**$ 197,157**	**$ 11,238,589**
Accumulated depreciation						
Balance at January 1, 2020	**$ -**	**$ 4,804,950**	**$ 6,166**	**$ 709,083**	**$ 69,425**	**$ 5,589,624**
Depreciation expense	-	334,322	-	132,105	19,122	485,549
Balance on December 31, 2020	**-**	**5,139,272**	**6,166**	**841,188**	**88,547**	**6,075,173**
Depreciation expense	-	317,408	104,130	129,511	19,166	570,215
Disposals	-	-	-	-	-	**-**
Balance on December 31, 2021	**$ -**	**$ 5,456,680**	**$ 110,296**	**$ 970,699**	**$ 107,713**	**$ 6,645,388**
Net book value						
December 31, 2020	$ 266,132	$ 2,818,190	$ 696,757	$ 262,130	$ 108,610	$ 4,151,819
December 31, 2021	**$ 266,132**	**$ 2,709,883**	**$ 1,360,319**	**$ 167,423**	**$ 89,444**	**$ 4,593,201**

12 Employee pension plan

The Credit Union is the sponsor of a contributory, registered pension plan that covers substantially all of its employees and provides benefits on a defined benefit basis based on length of service and rates of pay. The Credit Union, as the legal administrator of the Plan and has retained the services of CUMIS as a third party administrator.

Assets of the pension fund are held by CUMIS and invested in a Deposit Administration Fund, operated by CUMIS, and in a balanced fund, operated by McLean Budden and Philips Hagar North.

The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

As outlined in note 5, the defined benefit plan was frozen as of August 28, 2015 and a defined contribution plan was established as of August 29, 2015. Contributions by the Credit Union to the defined contribution plan during the year were $190,219 (2020 - $202,887).

An actuarial valuation for funding purposes was performed as at December 31, 2020 and the results have been extrapolated to December 31, 2021 for accounting purposes.

The changes in the defined benefit plan during the year are as follows:

(a) Elements of the defined benefit pension expense recognized in the year:

	2021	2020
Expected return on assets	**$ (311,500)**	$ (410,000)
Interest cost on accrued pension obligations	**306,600**	395,100
Settlement loss (recovery)	**(2,500)**	209,400
	$ (7,400)	$ 194,500

(b) Plan assets:

	2021	2020
Fair value, beginning of the year	**$ 13,558,800**	$ 14,216,900
Employer contributions	**-**	45,300
Benefits paid	**(1,161,000)**	(2,025,400)
Expected return on assets	**311,500**	410,000
Actuarial gain	**1,075,200**	912,000
Fair value, end of the year	**$ 13,784,500**	$ 13,558,800

The fair value of plan assets as at December 31 is categorized by type of asset as follows:

	2021	2020
Equities	**60%**	54%
Fixed term	**36%**	42%
Short term	**4%**	4%

12 Employee pension plan (continued)

(c) Accrued pension obligations:

	2021	2020
Obligation, beginning of year	**$ 13,359,900**	$ 13,654,500
Settlement loss (recovery)	**(2,500)**	209,400
Interest cost on plan obligation	**306,600**	395,100
Benefits paid	**(1,161,000)**	(2,025,400)
Actuarial (gain) loss	**(717,000)**	1,126,300
Obligation, end of year	**$ 11,786,000**	$ 13,359,900

(d) Reconciliation of funded status to the amount recorded in the statement of financial position:

	2021	2020
Fair value of plan assets	**$ 13,784,500**	$ 13,558,800
Accrued pension obligation	**(11,786,000)**	(13,359,900)
Plan surplus	**$ 1,998,500**	$ 198,900

(e) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2021	2020
Discount rate	**2.90%**	2.40%
Expected return on plan assets	**2.90%**	2.40%
Expected rate of compensation increases	**NA**	NA

13 Post-employment benefits - non-pension

The changes in the defined benefit plan during the year are as follows:

(a) Elements of the post-retirement non-pension expense recognized in the year:

	2021	2020
Current service cost	**$ 41,200**	$ 36,000
Interest cost on accrued obligations	**95,100**	107,600
	$ 136,300	$ 143,600

13 Post-employment benefits - non-pension (continued)

(b) Accrued benefit obligations:

	2021	2020
Obligation, beginning of year	**$ 3,971,800**	$ 3,501,900
Current service cost	**41,200**	36,000
Retiree premiums	**-**	7,500
Interest cost on plan obligation	**95,100**	107,600
Benefits paid	**(105,000)**	(141,400)
Actuarial loss	**(268,800)**	460,200
Obligation, end of year	**$ 3,734,300**	$ 3,971,800

(c) Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the Credit Union's accrued benefit obligation are as follows:

	2021	2020
Discount rate	**2.90%**	2.40%

14 Members' accounts and deposits

As at December 31	2021	2020
Demand deposits	**$ 164,688,212**	$ 145,792,816
Term deposits	**68,246,191**	97,831,833
Registered savings plans	**38,600,811**	43,451,471
Registered income funds	**22,524,909**	22,642,094
Tax free savings accounts	**54,691,655**	51,072,119
	348,751,778	360,790,333
Less: Transaction costs	**(13,685)**	(73,210)
	$ 348,738,093	$ 360,717,123

Transaction costs represent the unamortized portion of fees paid to deposit brokers. These costs are amortized to expense over the term of the deposit through increasing the effective rate paid on the deposit.

Interest expense on members' accounts and deposits are summarized as follows:

For the year ending December 31	2021	2020
Demand deposits	**$ 180,380**	$ 189,826
Term deposits	**1,432,189**	2,043,186
Registered savings plans	**618,148**	714,200
Registered income funds	**379,754**	420,310
Tax free savings accounts	**710,896**	721,547
	$ 3,321,367	$ 4,089,069

14 Members' accounts and deposits (continued)

Terms and conditions

Chequing accounts and demand savings accounts are due on demand and bear interest at variable rates which depend upon the type of account and the balance maintained.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity.

Registered plans and tax free savings accounts consist of fixed rated deposits and variable rate deposits.

Average yields to maturity

Members' accounts and deposits bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2021	**Principal**	**Yield**
Variable rate	**$ 217,540,872**	**0.28%**
Fixed rate due less than one year	**78,836,060**	**1.61%**
Fixed rate due between one and five years	**52,374,846**	**1.63%**
	$ 348,751,778	
2020		
Variable rate	$ 193,669,413	0.35%
Fixed rate due less than one year	107,355,956	1.71%
Fixed rate due between one and five years	59,764,964	2.04%
	$ 360,790,333	

Fair value

The fair value of member deposits at December 31, 2021 was $349,474,178 (2020 - $361,988,000).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

15 Mortgage securitizations and transfers

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all of the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

During the year, the Credit Union securitized residential mortgages of $5,758,822 (2020 - $5,231,233). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities.

The following summarizes the carrying value of assets of the Credit Union that have been securitized and sold by the Credit Union to third parties as well as the carrying value of the corresponding mortgage securitization liability:

Year-ended December 31	**2021**	2020
Securitized mortgages (included in member loans), beginning of year	**$ 35,842,508**	$ 38,310,649
Add: securitizations during the year	**5,758,822**	5,231,233
Less: principal repayments	**(28,820,766)**	(7,699,374)
Total designated assets, end of year	**$ 12,780,564**	$ 35,842,508
Mortgage securitization liabilities	**$ 12,937,321**	$ 35,020,753
Amount held in trust for CMHC	**(556,905)**	(399,750)
Less: Transaction costs	**(46,310)**	(80,274)
Net amount	**$ 12,334,106**	$ 34,540,729

Mortgage securitization liabilities come due on dates ranging from March 1, 2022 to August 1, 2026 (2020 - September 1, 2021 to October 1, 2025).

16 Members' share capital

The authorized share capital of the Credit Union consists of the following:

(i) an unlimited number of Class A Patronage Shares;
(ii) an unlimited number of Class B special shares, issuable in series ("Class B Life Shares");
(iii) an unlimited number of Class C special shares, issuable in series ("Class C Investment Shares");
(iv) an unlimited number of Class D special shares, issuable in series ("Class D Foundation Shares"); and
(v) an unlimited number of Membership Shares.

For payment of dividend or in the event of the liquidation, dissolution or winding up of the Credit Union the shares rank in terms of priority as follows:

Class D Foundation Shares
Class C Investment Shares
Class B Life Shares
Class A Patronage Shares
Membership Shares

The issued share capital consists of the following:

As at December 31	**2021**		2020	
	Equity	**Liability**	Equity	Liability
Class A Patronage shares	**$ -**	**$ 2,395,251**	$ -	$ 2,556,164
Class C Investment shares	**8,005,730**	**-**	7,937,444	-
Membership shares	**-**	**97,000**	-	101,993
	$ 8,005,730	**$ 2,492,251**	$ 7,937,444	$ 2,658,157

Terms and conditions

(a) Class A Patronage Shares

Class A Patronage Shares result from patronage rebates or dividends. The holders of Class A Patronage Shares are entitled to non-cumulative dividends, to be declared by the Board at a rate determined by the Credit Union's dividend policy from time to time.

Class A Patronage Shares are redeemable upon termination of membership in the Credit Union, or at any time after the death of a shareholder.

The Credit Unions and Caisses Populaires Act, 1994 permits the redemption of patronage shares of the Credit Union if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption. Redemptions in any fiscal year may not exceed 10% of the total Class A Patronage Shares outstanding at the beginning of that fiscal year.

(b) Class C Special Shares

The holders of Class C Special Shares are entitled to receive dividends, when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act, which are described in note 17.

The Series 96 Class C Special Shares are redeemable at the sole and absolute discretion of the Board of Directors after five years from the date of issuance or at any time after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Series 96 Class C Special Shares outstanding at the beginning of that fiscal year.

The Credit Union has the option to purchase for cancellation all or any part of the outstanding Series 96 Class C Special Shares at any time after the expiry of five years from the issue date.

16 Members' share capital (continued)

(c) Membership Shares

Each member is required as a condition of membership to hold 2 (2020 - 2) Membership Shares, which are issued at $5 per share.

The Credit Unions' and Caisses Populaires Act, 1994 permits the redemption of Membership Shares if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption.

Distributions to members for each class of shares is as follows:

	2021		2020	
	Net income	**Equity**	Net income	Equity
Class A Patronage Shares	**$ 25,980**	**$ -**	$ 24,983	$ -
Class C Investment Shares	**-**	**199,980**	-	195,013
Less: related income taxes	**-**	**(35,996)**	-	(35,102)
	$ 25,980	**$ 163,984**	$ 24,983	$ 159,911

17 Capital and liquidity management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union considers its capital to include membership shares (member shares, patronage shares, investment shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to each asset class, operational and interest rate risk criteria. The prescribed risk weightings are dependant on the degree of inherent risk in the asset.

As at December 31, 2021, the Credit Union met the capital requirements of the Act which require a calculated members' capital ratio of 4% and a risk weighted asset ratio of 8%.

Regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2021	2020
Tier 1 capital		
Class A Patronage shares	**$ 2,395,251**	$ 2,556,164
Class C Investment shares	**8,005,730**	7,937,444
Less: Redeemable Class C Investment shares	**(800,573)**	(793,744)
Membership shares	**97,000**	101,993
Retained earnings	**22,507,132**	21,618,440
less: Pension asset	**(1,998,500)**	(198,900)
	30,206,040	31,221,397
Tier 2 capital		
Redeemable portion of Class C Investment shares	**800,573**	793,744
Expected credit loss - stage 1 and stage 2	**1,843,136**	1,672,608
Accumulated other comprehensive income - employee future benefits	**(4,073,006)**	(5,622,078)
	(1,429,297)	(3,155,726)
Total regulatory capital	**$ 28,776,743**	$ 28,065,671
% of total assets	**7.26%**	6.46%
% of total risk weighted capital	**17.05%**	15.79%

The Act also requires that the Credit Union maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs. In connection with the transition to HQLA, FSRA issued revised guidance in 2021 in regards to assets qualifying for liquidity and introduced a liquidity coverage ratio ("LCR") effective June 1, 2021.

17 Capital and liquidity management (continued)

Assets qualifying for liquidity comprise:

	2021	2020
Cash	$ 10,216,984	$ 28,150,824
Investments measured at FVOCI - debt securities	26,956,226	-
Investments measured at amortized cost - deposit instruments	1,566,875	28,924,425
	$ 38,740,085	$ 57,075,249
% of member deposits	11.11%	15.82%

18 Commitments

(a) Credit facilities

The Credit Union maintains clearing facilities totaling $1,000,000 CDN (2020 - $1,000,000 CDN) and $200,000 US (2020 - $200,000 US). The Credit Union also has available a demand loan facility for $9,500,000 CDN (2020 - $12,500,000), a core notice facility for $5,500,000 CDN (2020 - $4,000,000) and a capital markets line for $800,000 (2020 - $800,000 CDN) for total facilities of $17,000,000 (2020 - $18,500,000) at Central 1.

The CDN clearing facility bears interest at the Bank of Canada's overnight bank rate plus 95 basis points (2020 - plus 95 basis points). The overnight bank rate as at December 31, 2021 was 0.25% (2020 - 0.25%).

The US clearing facility bears interest at the U.S. Base Rate, currently 3.75% (2020 - 3.75%).

If the balance outstanding on the line of credit is less than 3.0% of the Credit Union's net assets, interest is calculated at the Bank of Canada's 3-month Canadian dollar offered rate (3M CDOR) plus 50 basis points (2020 - any balance Bank of Canada's 3M CDOR plus 50 basis points). For outstanding balances greater than 3.0% of the Credit Union's net assets, interest is calculated at the Bank of Canada's 3M CDOR plus 55 basis points (2020 - plus 55 basis points).

The core notice facility bears interest at the Bank of Canada's 3M CDOR plus 50 basis points for up to three months and cost of funds if over three months (2020 - Bank of Canada's 3M CDOR plus 50 basis points for up to three months and cost of funds if over three months).

The facilities are renewable annually and are secured by an assignment of book debts and a General Security Agreement and is renewable annually. As at December 31, 2021 the Credit Union has not drawn on these facilities.

18 Commitments (continued)

(b) Loans and advances to members

The Credit Union has the following commitments to its members as at December 31, 2021 on account of unadvanced loans, unused lines of credit, and unadvanced letters of credit:

	2021	2020
Unused lines of credit	$ 65,096,534	$ 65,244,094
Letters of credit	387,755	287,992
Unadvanced residential mortgages and home equity lines of credit	3,092,065	746,000
Unadvanced personal loans and lines of credit	-	50,000
	$ 68,576,354	$ 66,328,086

When the loans are advanced, they are subject to the same terms and conditions as described in note 9.

(c) Service contracts

The Credit Union has entered into a number of commitments with third party service providers expiring within three to ten years. Payment under these service contracts are expected to total approximately $1,585,675 (2020 - $2,458,000).

19 Restricted party transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority or responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

(a) Compensation

	2021	2020
Salaries and other short-term employee benefits	$ 462,541	$ 524,663
Director remuneration	63,818	51,109
	$ 526,359	$ 575,772

The Act requires credit unions to disclose remuneration paid during the year to the officers and employees of the Credit Union whose total remuneration for the year exceeds $150,000. The summary below provides this information for the current year:

	Salary	Bonus	Benefits	Total
Chris Inniss (Chief Executive Officer)	$ 120,962	$ 13,600	$ 19,110	$ 153,672
Dan Komorowski (Chief Financial Officer)	$ 140,767	$ 15,355	$ 18,110	$ 174,232

(b) Loans and deposits

Under the Credit Union's policy for lending, loans to staff and directors are eligible for a lending discount of 0.75% from the rates that apply to members for a mortgage up to the median price for a single detached home in Durham Region of $994,500 (2020 - $699,900). For amounts greater than the median price for a single detached home in Durham Region the interest rate charged will be a blended rate with the lower rate on the first $994,500 (2020 - $699,900). The minimum floor rate is the Canada Revenue Agency (CRA) prescribed interest rate.

19 Related party transactions (continued)

(b) Loans and deposits (continued)

Prior to October 2020, loans to staff and directors are eligible for a lending discount of 2.00% from the rates that apply to members for a mortgage up to $400,000. For amounts greater than $400,000, a rate reduction of 1.00% applies which is blended with the lower rate on the first $400,000. The minimum floor rate is 2.50%.

All loans conform to the Credit Union's policies with respect to term, interest rates and limits and have been approved by the Board of Directors. None of the loans to restricted parties were impaired as at December 31, 2021 and accordingly, there is no allowance for impaired loans required.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

	2021	2020
Loans to key management personnel:		
Aggregate value of loans advanced	**$ 1,635,941**	$ 1,801,177
Interest received on loans advanced	**33,753**	49,906
Total value of lines of credit advanced	**201,610**	114,834
Interest received on lines of credit advanced	**5,816**	6,792
Unused value of lines of credit	**403,390**	521,166
Deposits from key management personnel:		
Aggregate value of term and savings deposits	**$ 472,450**	$ 518,120
Total interest paid on term and savings deposits	**4,024**	4,149

20 Income taxes

The reconciliation of the income tax computed at the statutory rates to income tax expense is as follows:

	2021	2020
Net income before income taxes	**$ 1,364,946**	$ 2,067,895
Statutory income tax rate	**26.50%**	26.50%
Expected income tax provision	**361,711**	547,992
Increase (decrease) in taxes resulting from:		
Small business and credit union deduction	**(105,783)**	(171,635)
Deferred tax rate adjustment	**153,202**	170,371
Other	**(96,860)**	-
Provision for income taxes	**$ 312,270**	$ 546,728
Comprised of:		
Current provision	**$ 254,468**	$ 405,176
Deferred provision	**57,802**	141,552
	$ 312,270	$ 546,728

20 Income taxes (continued)

The movement in 2021 deferred tax assets are:

	Opening Balance at January 1, 2021	Recognize in net income	Recognize in OCI	Closing Balance at December 31, 2021
2021				
Deferred tax assets				
Property and equipment	**$ 128,502**	**$ (37,179)**	**$ -**	**$ 91,323**
Expected credit losses	**380,466**	**(1,703)**	**-**	**378,763**
Step deposits	**8,695**	**(8,695)**	**-**	**-**
Unrealized loss on investments measured at FVOCI	**-**	**-**	**9,657**	**9,657**
Employee future benefits	**891,792**	**(10,225)**	**(511,928)**	**369,639**
Deferred tax asset	**$ 1,409,455**	**$ (57,802)**	**$ (502,271)**	**$ 849,382**

The movement in 2020 deferred tax assets are:

	Opening Balance at January 1, 2020	Recognize in Net Income	Recognize in OCI	Closing Balance at December 31, 2020
2020				
Deferred tax assets				
Property and equipment	$ 231,679	$ (103,177)	$ -	$ 128,502
Allowance for impaired loans	372,725	7,741	-	380,466
Step deposits	15,260	(6,565)	-	8,695
Employee future benefits	776,208	(39,551)	155,135	891,792
Deferred tax asset	$ 1,395,872	$ (141,552)	$ 155,135	$ 1,409,455

21 Other income

	2021	2020
Commissions and fees	**$ 1,186,762**	$ 1,145,052
Gain on interest rate swap	**-**	827,151
Mortgage discharge penalties	**808,726**	543,308
Foreign exchange gain (loss)	**(85,860)**	29,087
	$ 1,909,628	$ 2,544,598

22 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between the line items on the statement of financial position and categories of the carrying amount by classification.

December 31, 2021	**Mandatory at FVTPL**	**Designated as at FVTPL**	**FVOCI - debt securities**	**FVOCI - equity instruments**	**Amortized cost**	**Total carrying amount**
Cash and cash equivalents	$ -	$ 10,216,984	$ -	$ -	$ -	$ 10,216,984
Investments	-	-	26,956,226	1,226,051	7,150,692	35,332,969
Loans and advances to members	-	-	-	-	343,308,097	343,308,097
Other assets	-	-	-	-	425,764	425,764
Total financial assets	$ -	$ 10,216,984	$ 26,956,226	$ 1,226,051	$ 350,884,553	$ 389,283,814
Accounts payable and other liabilities	$ -	$ -	$ -	$ -	$ 3,148,987	$ 3,148,987
Accrued member interest, dividends and patronage return	-	-	-	-	1,362,167	1,362,167
Mortgage securitization liabilities	-	-	-	-	12,334,106	12,334,106
Members' accounts and deposits	-	-	-	-	348,738,093	348,738,093
Member's share capital	-	-	-	-	10,497,981	10,497,981
Total financial liabilities	$ -	$ -	$ -	$ -	$ 376,081,334	$ 376,081,334

December 31, 2020	Mandatory at FVTPL	Designated as at FVTPL	FVOCI - debt securities	FVOCI - equity instruments	Amortized cost	Total carrying amount
Cash and cash equivalents	$ -	$ 28,150,824	$ -	$ -	$ -	$ 28,150,824
Investments	-	-	-	2,399,969	28,924,425	31,324,394
Loans and advances to members	-	-	-	-	367,204,239	367,204,239
Other assets	-	-	-	-	1,575,301	1,575,301
Total financial assets	$ -	$ 28,150,824	$ -	$ 2,399,969	$ 397,703,965	$ 428,254,758
Accounts payable and other liabilities	$ -	$ -	$ -	$ -	$ 6,090,275	$ 6,090,275
Accrued member interest, dividends and patronage return	-	-	-	-	1,944,433	1,944,433
Mortgage securitization liabilities	-	-	-	-	35,340,229	35,340,229
Members' accounts and deposits	-	-	-	-	360,717,123	360,717,123
Member's share capital	-	-	-	-	10,595,601	10,595,601
Total financial liabilities	$ -	$ -	$ -	$ -	$ 414,687,661	$ 414,687,661

22 Financial assets and financial liabilities (continued)

Fair value hierarchy

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and liabilities approximate carrying value. These include cash and cash equivalents, accrued interest receivable, accounts payable and other liabilities and accrued interest, dividends and patronage return payable. The fair values disclosed do not include the value of assets that are not considered financial instruments.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

	Level 1	Level 2	Level 3
December 31, 2021			
Investments measured at FVOCI - equity securities	**$ -**	**$ 1,226,051**	**$ -**
Investments measured at FVOCI - debt securities	**26,956,226**	**-**	**-**
Financial assets for which fair value is disclosed			
Loans and advances to members	**$ -**	**$ -**	**$ 334,859,663**
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	**$ -**	**$ -**	**$ 349,474,178**

	Level 1	Level 2	Level 3
December 31, 2020			
Investments measured at FVOCI - equity securities	$ -	$ 2,399,969	$ -
Financial assets for which fair value is disclosed			
Loans and advances to members	$ -	$ -	$ 379,909,000
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	$ -	$ -	$ 361,988,000

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2020 and December 31, 2021.

23 Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. Additionally, the Board of Directors receives quarterly reports summarizing the Credit Union's exposure and response to credit, liquidity, interest, currency and equity risk.

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the members' character, ability to pay, and value of collateral available to secure the loan.

Objectives, policies and procedures

The Credit Union's risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Processes for measuring ECL, including initial approval, regular validation and back-testing of the models used and incorporation of forward-looking information; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

During the year, the Credit Union granted loan deferrals to its members to provide relief during the COVID-19 pandemic. As at December 31, 2021, the carrying values of these loans is $nil (2020 - $45,589,787).

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken. Additional security is taken in the form of mortgage insurance from the government and Genworth as disclosed in note 9.

There have been no significant changes from the previous year in the exposure to risk relating to policies, procedures and methods used to measure the risk.

23 Financial instrument risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of The Credit Unions and Caisses Populaires Act, 1994 require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 8% and a minimum of 6% of assets in its liquidity securities portfolio at all times.

The Credit Union manages liquidity risk by:

- Continuously monitoring 30-day net cash inflows and outflows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

23 Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset / liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the FSRA as required by Credit Union Regulations. For the year-ended December 31, 2021, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

(Thousands)	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	$ 76,583	3.83	$ 241,675	0.42	$ (165,092)
4 - 12 months	54,916	3.06	58,952	1.64	(4,036)
1 - 2 years	54,571	3.26	25,211	1.61	29,360
2 - 5 years	203,222	2.97	35,814	1.48	167,408
Interest sensitive	$ 389,292		$ 361,652		$ 27,640
Non-interest sensitive					
0 - 3 months	$ 1,239	-	$ 14,439	-	$ (13,200)

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.00% (2020 - 0.25%) could result in an increase to net income of $560,000 (2020 - $56,000) while a decrease in interest rates of 0.25% could result in an increase to net income of $6,000 (2020 - decrease to net income of $165,000).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

23 Financial instrument risk management (continued)

Market risk (continued)

Currency risk

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

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $500,000 in U.S. funds.

The Credit Union has the following balances denominated in U.S. dollars:

As at December 31	**2021**	2020
Cash on hand and on deposit	**$ 162,397**	$ 336,638
Term deposit - USD	**1,250,000**	950,000
Member accounts and deposits	**(1,435,076)**	(1,275,989)
Net exposure	**$ (22,679)**	$ 10,649

As at December 31, 2021 the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Union's portfolio does not include significant equity holdings and is therefore not subject to significant equity risk.

24 Comparative figures

Certain comparative figures have been recast to conform with the financial statement presentation adopted in the current year.